

## **List of Attachments for Agenda Item No. 8**

### **– Comprehensive Annual Financial Report (CAFR)**

#### **Attachments:**

- 8-A CAFR for Fiscal Year 2014-15 (*separate item / spiral-bound book*)
- 8-B Single Audit Report for Fiscal Year 2014-15
- 8-C Independent Accountant's Report on Applying Agreed Upon Procedures for Compliance with the Proposition 111 2014-15 Appropriations Limit Increment
- 8-D Bicycle / Pedestrian Projects Financial Statement for Fiscal Year 2014-15
- 8-E Memorandum on Internal Controls and Required Communications for Fiscal Year 2014-15

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015



MILPITAS, CALIFORNIA

**CITY OF MILPITAS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**Prepared by**  
**THE DEPARTMENT OF FINANCIAL SERVICES**



## INTRODUCTORY SECTION

**CITY OF MILPITAS**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2015**

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# CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 [www.ci.milpitas.ca.gov](http://www.ci.milpitas.ca.gov)

November 2, 2015

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, 2015. 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 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. 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.

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, 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, 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 2001 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. Post-recession economic recovery in the last few years was moderate at best. However, in the last twelve months, the labor markets have improved such that this region has added more jobs than many other parts of California. Employment is nearing its pre-recession peak in the Silicon Valley. Growth in the South Bay housing market has also been an important contributor to the strength of the local economy. The lack of available homes continues to push home prices upward. Median home prices in certain parts of the Bay area are hitting an all-time high. 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 1,448 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 113 acres are vacant and available in parcels ranging in size from 3 acres to 35 acres. Included in this acreage total are nine industrial parks and 438 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 apparel stores, restaurants, and electronic equipment, and auto sales. The five largest manufacturing employers are Cisco Systems, Inc., KLA-Tencor Corporation, SanDisk Corporation, Linear Technology, Inc. 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 Milpitas Unified School District and Wal-Mart.

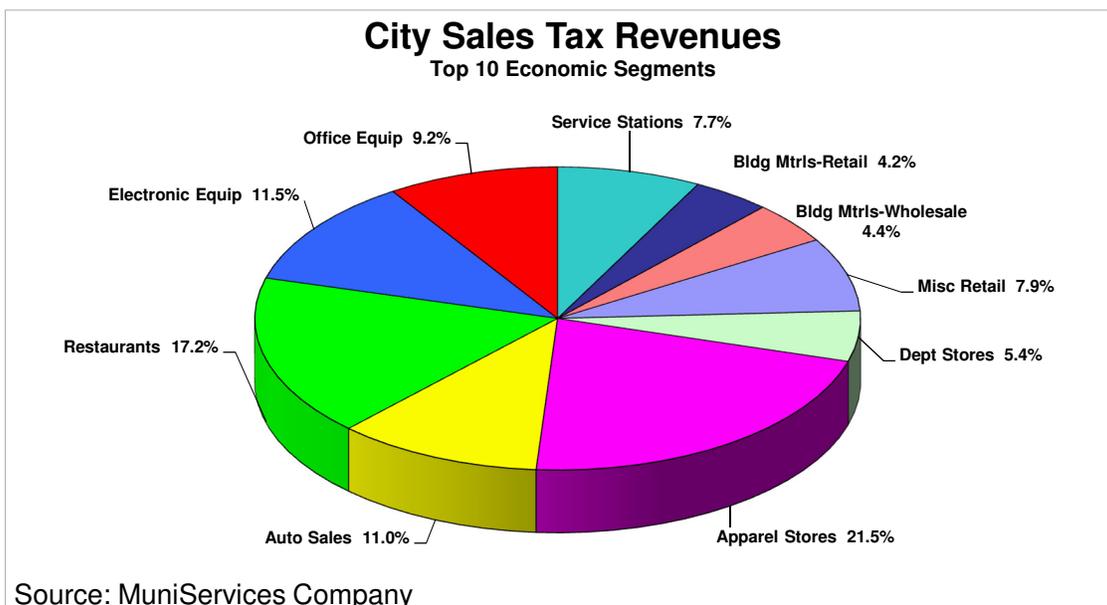
**Consumer Confidence Level**

The latest consumer confidence survey report showed that the U.S. consumer sentiment is still high, despite a slight decrease in March 2015 to 101.3 from a seven year high reached in January 2015 of 103.80. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending drives more than two-thirds of the U.S. Gross Domestic Product, the index is a good indicator that when consumers’ confidence is high, consumers would likely make more purchases thus further boosting the economy.



**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 \$16.5 million, with the top ten economic segments generating about \$14.2 million. Economic segments such as apparel stores, restaurants, and miscellaneous retail increased over a year ago, while electronic equipment, auto sales, and office equipment segments decreased. Many of the major activities initiated in FY14-15 were 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 and the Transit 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 includes completion of the Centria West project for 366 condominium dwelling units. Other development in process includes 200 housing units developed by Shea Homes.

*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. Currently there are about 1,400 housing units in the Transit Area that are under various stages of development.

*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 either under construction or completed and occupied. These projects include Murphy Ranch Townhomes (285 townhomes), Robson Homes (83 units), Orchid (80 single family detached units) and Sinclair Renaissance (80 single family detached units).

*Non-residential Development* – Major commercial construction includes expansion and tenant improvements at the Great Mall. In addition to adding several name brand outlet stores, the Great Mall also added Uniqlo, a Japanese casual wear retail store as an anchor store. Building permits were also issued to Consolidated Electrical Distributors and ePlus Technology which relocated their corporate Offices from neighboring cities. In addition, building permit applications have been submitted by Springhill Suites Hotel and Holiday Inn Hotel for construction of two new hotels located at California Circle, with 124 and 128 hotel rooms, respectively.

## **CITY ANNUAL PERFORMANCE REPORT**

During fiscal year 2014-2015, 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 4,950 emergency incidents with an average response time of 4:32 minutes.
- Presented fire prevention information at over 45 public events.
- Conducted 983 plan reviews, and performed 4,666 fire inspections.
- Certified 230 new “Strategic Actions For Emergencies” (SAFE) team members in various neighborhoods.

## **Police**

- Reduced residential burglaries by 7% in 2014.
- Reduced average emergency response time to 2:37 minutes in 2014.
- Concluded a 4-month investigation of a murder at a local hotel with the arrest of 2 suspects.
- Concluded a 2-year investigation involving an attempted murder of a police officer by arresting 3 suspects including the shooter.

## **Engineering**

- Implemented the Water Shortage Contingency Plan and constructed five recycled water truck fill stations for use at construction sites.
- Achieved the State-mandated goal of 40% reduction of trash and litter in storm drains and creeks.
- Coordinated with regulatory agencies regarding odor complaints; and reviewed and challenged the proposed Newby Island landfill expansion.
- Completed Phase 1 of LED Streetlight Improvement Project.

## **Public Works Maintenance**

- Coordinated water system shutdowns for development and BART construction.
- Investigated 2,800 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**

- Implemented first year of Environmental/CEQA consulting services.
- Completed Housing Element and HCD certification pursuant to State Law.
- Processed over 755 code enforcement service requests and code violations.
- Managed and administered 1,200 affordable Housing units for Milpitas Housing Authority.

## **Recreation**

- Successfully created and implemented a 60<sup>th</sup> Anniversary Calendar of events which were fully funded by sponsorships.
- Brought back the Summer Concert Series and introduced a new Special Event “Pumpkins in the Park” funded by sponsors and partnerships
- Successfully offered a variety of contract classes with an increase of 9% for total revenue collected.
- Created a Pre-K Enrichment program, which resulted in a 41.7% enrollment increase from the previous contract Preschool model.

## **Building & Safety**

- Introduced a combined permit card for all trades to improve efficiency and consistency.
- Introduced online appointment calendar to schedule plan check by appointment.
- Improved and enhanced Code Enforcement procedures.
- Enhanced City’s Building Department’s web page by updating plan check and inspection checklists and submittal requirements to comply with current Building Codes and regulations.

## **Administration**

- Eliminated the General Fund budget structural deficit from \$12 million in fiscal 2012 to a balanced budget in fiscal 2015.
- Implemented financial strategies that ensure cost effective City service delivery while limiting department budget expenses.
- Developed long-term fiscal planning policies.
- Continued to develop the Citywide Strategic Plan to update City's visions, values and goals.

## **City Attorney**

- Advised and drafted the McCandless site sale to MUSD agreement.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Advised management through continuing labor negotiations.
- Represented the City in numerous administrative/court cases.

## **Human Resources and Recreation**

- Successfully completed contract negotiation with all union groups.
- Worked on 43 recruitments on a timely basis for all departments.
- Developed and distributed monthly Human Resources Employee Newsletters as a means of providing ongoing employee information
- Provided ongoing professional workshop trainings to employees i.e., Liebert, Cassidy Whitmore workshops, wellness lunch and learns, and CalPERS webinar trainings.

## **Information Services**

- Completed Finance System upgrade.
- Completed Computer Aided Dispatch system upgrade.
- Completed upgrade of PCs for Police, Fire and Finance.
- Maintained network availability at 99.9% of the time.

## **Finance**

- Completed the Finance and Utility Billing System upgrade.
- Issued Successor Agency 2015 TABS Refunding Bonds and saved the taxing entities approximately \$1.6 million annually (City's share \$256,000).
- Successor Agency received a Finding of Completion on the asset transfer from the State Department of Finance that enables the City to use remaining 2003 TABS bond proceeds for Main Street Reconstruction project.
- 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 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 an assignment 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:	Private-Purpose Trust Fund and 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 position, statement of revenues, expenses, and changes in fund net position, 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 a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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, 2014. 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 principles 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-six of the last twenty-seven years (fiscal years ended 1988-2014). 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 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, CPA  
Assistant City Manager/Director of Financial Services

# DIRECTORY OF OFFICIALS

June 30, 2015

## **City Council**

Mayor	Jose S. Esteves
Vice-Mayor	Carmen Mantano
Councilmember	Debbie Indihar Giordano
Councilmember	Garry Barbadillo
Councilmember	Marsha Grilli

**City Manager**  
Thomas C Williams

**Police Chief**  
Steve Pangelinan

**Assistant City Manager / Director of  
Financial Services**  
Emma Karlen, CPA

**Fire Chief**  
Robert Mihovich

**City Clerk**  
Mary Lavelle

**City Attorney**  
Michael Ogaz

**Chief Information Officer**  
Mike Luu

**Human Resources and Recreation Director**  
Vacant

**Public Works Director/City Engineer**  
Steven Machida

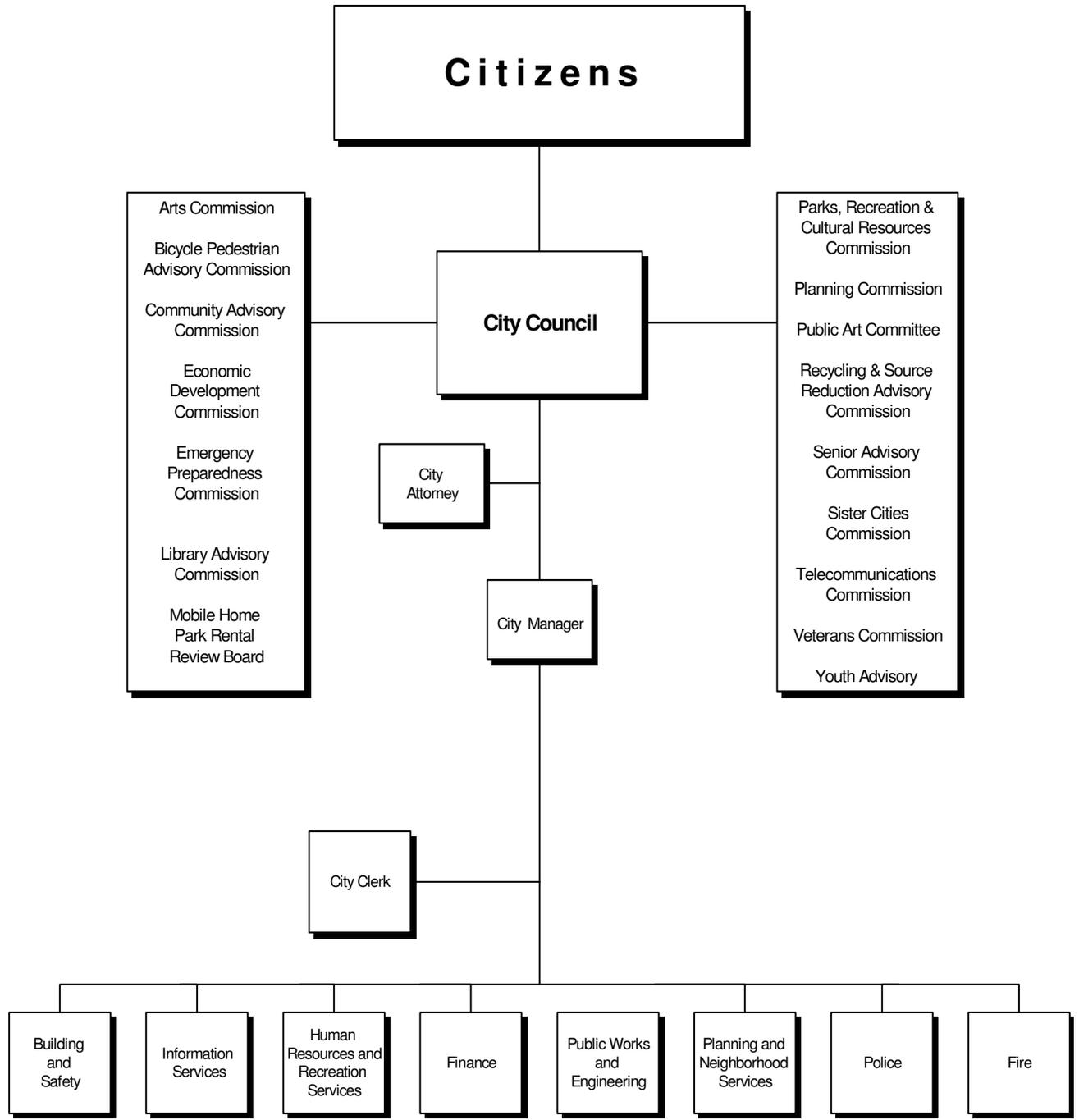
**Planning & Neighborhood Svc Director**  
William Ekern, Interim

**Chief Building Officer**  
Keyvan Irannejad

**Economic Development Manager**  
Edesa Bitbadal

**Recreation Services Manager**  
Renee Lorentzen







Government Finance Officers Association

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, 2014**

Executive Director/CEO

**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

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

### *Report on Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2014, which represent 1.61%, 2.17%, and 1.27% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, 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 the other auditor.

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

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

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

## *Opinions*

In our opinion, 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, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2015, 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.

## *Emphasis of a Matter*

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Note 10E:

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

As discussed in Note 10E, the City restated beginning fund balance in the Housing Authority Special Revenue Fund.

The emphasis of these matters does not constitute a modification of our opinions.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and required supplementary information as listed in the table of contents, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Maye & Associates*

Pleasant Hill, California  
October 28, 2015



## **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, 2015. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL 2015 FINANCIAL HIGHLIGHTS**

The City's revenues in fiscal 2015 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2015 was at 4.0%, an improvement over last year's 5.5%. The property tax revenue has shown substantial recovery due to double digit increase of median home prices. The foreclosures and property tax appeals have been trending downward. Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

Fiscal 2015 financial highlights include the following:

#### *City-wide:*

- The City's total net position was \$476.4 million at June 30, 2015. Of this total, \$310.7 million were Governmental and \$165.7 million were Business-type.
- City-wide revenues include program revenues of \$71.9 million, general revenues and transfers of \$60.0 million, totaling \$131.9 million, a decrease of \$53.3 million from the prior year's total of \$185.2 million.
- Total City-wide expenses were \$113.6 million, a decrease of \$0.6 million from the prior year's \$114.7 million.

#### *Fund Level:*

- Governmental Fund balances were \$156.8 million, an increase of \$10.1 million from fiscal 2014.
- Governmental Fund revenues were \$94.8 million in fiscal 2015, down \$4.8 million from the prior year's \$99.6 million.
- Governmental Fund expenditures were \$90.9 million in fiscal 2015, an increase of \$10.3 million from fiscal 2014's level of \$80.6 million.
- General Fund revenues of \$76.1 million represented a decrease of \$0.7 million from fiscal 2014's revenues of \$76.8 million.
- Net other financing uses of the General Fund were \$7.2 million in fiscal 2015 while fiscal 2014 had a total other financing sources of \$3.1 million.
- General Fund balance of \$49.6 million at the fiscal 2015 year-end was \$0.7 million more than the fund balance at fiscal 2014 year-end.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is in seven 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) Required Supplementary Information,
- 5) Supplementary Information,
- 6) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
- 7) 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 Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities 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 position 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, deferred inflows/outflows of resources 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 is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement 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 21-23 of this report.

All of the City's enterprise activities, including 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 three other separate legal entities, 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 five other Major Governmental Funds in fiscal 2015 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund, and the General Government Project Fund each of which is discussed in detail below.

Both 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. The City has two major Special Revenue Funds, the Economic Development Corporation Fund and the Housing Authority Fund, however, only the Housing Authority adopts an annual budget.

### ***Fiduciary Statements***

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

## CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2014 are presented in table form. Any significant changes are analyzed and discussed.

### *Governmental Activities*

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

	Governmental Activities	
	2015	2014*
Cash and investments	\$116.7	\$106.2
Other assets	67.6	66.5
Capital assets	291.7	298.0
<b>Total assets</b>	<b>476.0</b>	<b>470.7</b>
<b>Deferred Outflows of Resources</b>		
<b>–Related to pensions</b>	<b>8.7</b>	<b>*</b>
Long-term debt outstanding	0.2	6.3
Net Pension Liabilities	119.9	*
Other liabilities	31.3	30.6
<b>Total liabilities</b>	<b>151.4</b>	<b>36.9</b>
<b>Deferred Inflows of Resources</b>		
<b>–Related to pensions</b>	<b>22.6</b>	<b>*</b>
Net position:		
Net investment in capital assets	291.5	291.7
Restricted	103.8	90.8
Unrestricted	(84.6)	51.3
<b>Total net position</b>	<b>\$310.7</b>	<b>\$433.8</b>

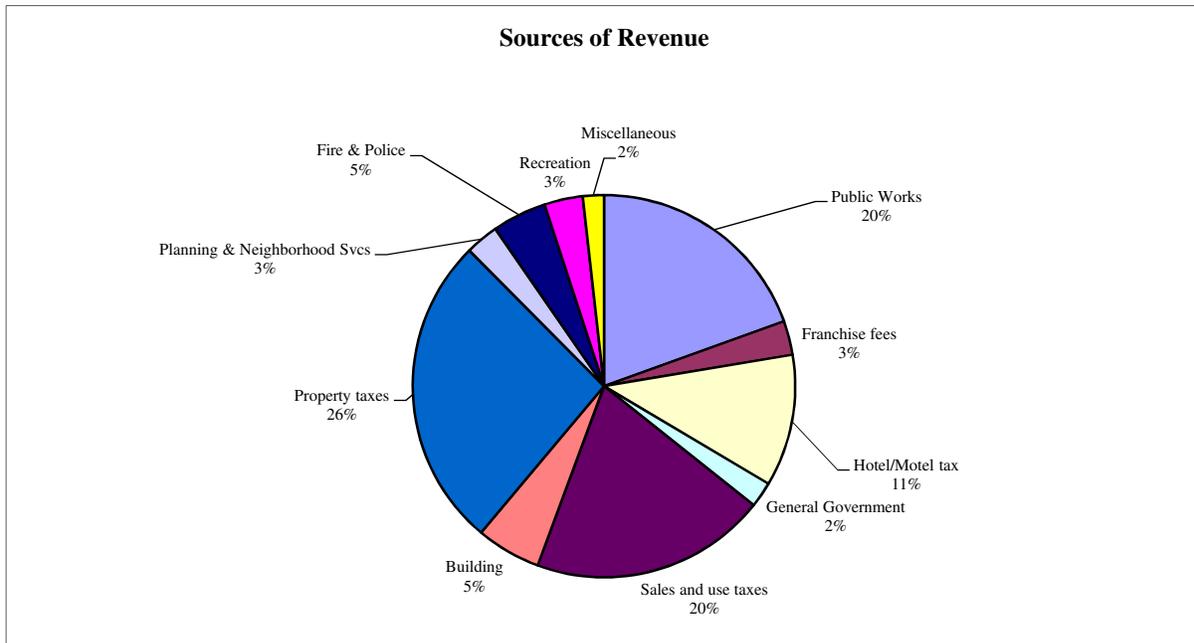
\*Not restated for effects of implementation of GASB Statement No. 68 discussed in Note 11.

The City's governmental net position was \$310.7 million at June 30, 2015, a decrease of \$123.1 million from 2014. This decrease is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

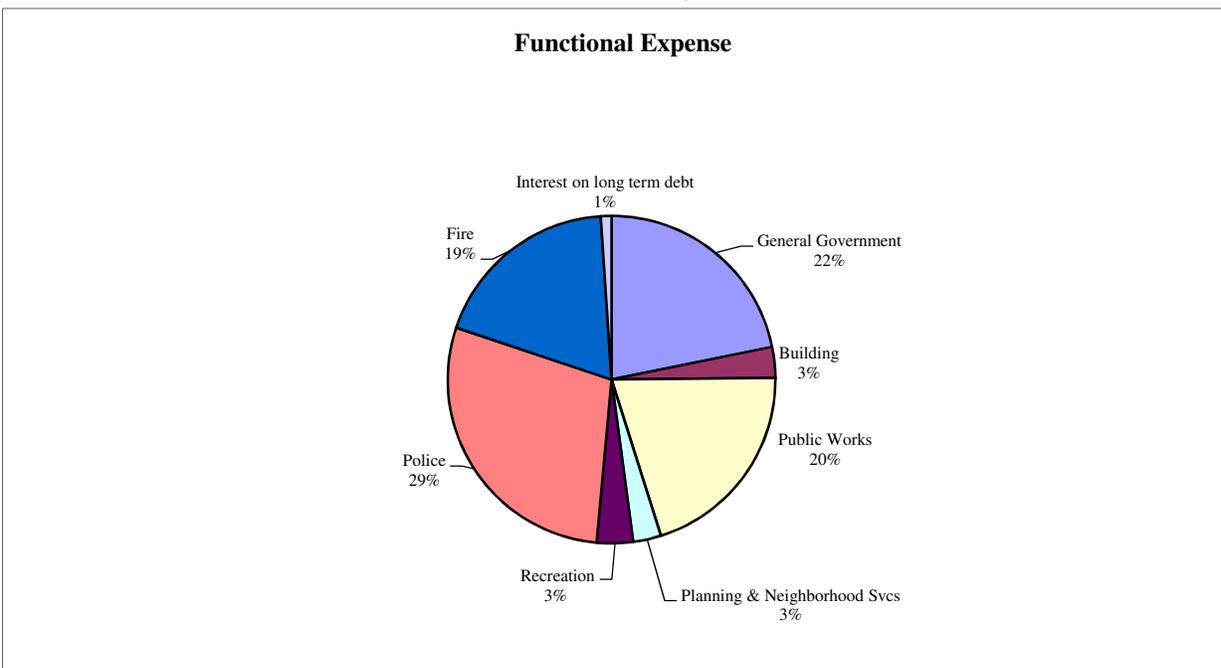
- Cash and investments increased \$10.5 million principally due to increased revenue from property tax and hotel/motel taxes.
- Other assets increased \$1.1 million from last year due to increase in receivables.
- Capital assets decreased \$6.3 million from last year, resulting from \$16.6 million depreciation, offset by \$10.3 million asset additions, net of retirements in fiscal 2015.
- Deferred outflows of resources related to pension of \$8.7 million was added due to the implementation of GASB statement No. 68 in fiscal year 2015 discussed in Note 11.
- Long-term debt decreased \$6.1 million due to scheduled debt repayments.

- Other liabilities and deferred inflows of resources increased \$143.2 million primarily due to the addition of net pension liabilities and related activity from the implementation of GASB Statement No. 68 discussed in Note 11.

**Fiscal Year 2015  
Governmental Activities**



As the Sources of Revenue Chart above shows, \$24.9 million or 26% of the City’s fiscal 2015 governmental activities revenue came from property taxes, while \$18.8 million or 25% 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, 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 2015’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 Position as summarized below.

**Table 2**  
**Changes in Governmental Net Position**  
**(in Millions)**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014**</u>
<b>Expenses</b>		
General Government	\$18.2	\$21.1
Building	2.6	2.7
Recreation	3.1	3.0
Public Works	17.5	18.7
Planning & Neighborhood Svcs	2.3	2.1
Police	24.7	23.4
Fire	16.2	15.1
Interest on long term debt	0.1	0.2
Total expenses	<u>84.7</u>	<u>86.3</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	14.6	16.3
Operating contributions and grants	6.2	6.2
Capital Grants	14.7	15.5
Total program revenues	<u>35.5</u>	<u>38.0</u>
General revenues:		
Taxes:		
Property taxes	24.9	27.6
Sales and uses taxes	18.8	19.0
Hotel/Motel taxes	10.9	9.4
Other taxes	0.7	0.7
Franchise fees	3.7	3.5
Investment earnings	0.4	0.8
Miscellaneous	0.2	0.2
Total general revenues	<u>59.6</u>	<u>61.2</u>
Total Revenues	<u>95.1</u>	<u>99.2</u>
Surplus (Deficit) before transfers	10.4	12.9
<b>Special item</b>	0.0	49.8
Transfers	1.6	3.4
Changes in net position	<u>12.0</u>	<u>66.1</u>
Beginning net position, as restated	<u>298.7*</u>	<u>367.7**</u>
<b>Ending net position</b>	<u><b>\$310.7</b></u>	<u><b>\$433.8</b></u>

\*Restated as discussed in Note 10E

\*\* Not restated for effects of the implementation of GASB Statement No. 68 discussed in Note 11.

Table 2 compares fiscal 2015 expenses and revenues with those of fiscal 2014. Expenses decreased by \$1.0 million in fiscal 2015, due to a \$2.0 million decrease in uninsured claims and \$1.0 million decrease in depreciation expense with an offset of \$2.0 million in operating expenses. Almost all of the program expenses experienced increases due to an increase in salaries and benefits. General Government program expenses decreased \$2.9 million due to a decrease uninsured claims and contractual services.

Table 2 shows that total government revenues decreased \$4.1 million in fiscal 2015. Program revenues decreased \$2.5 million while general revenues decreased \$1.6 million. The decrease in program revenues was due to decreased charges for services and decreased capital grants. The decrease in general revenues was mainly due to property tax revenue. Property tax revenue was \$2.7 million less than last year due to a one-time distribution from the Redevelopment Property Tax Trust Fund (RPTTF) as a result of the lawsuit settlement in fiscal 2014. The settlement of the lawsuit required the City and other entities to remit approximately \$41 million to the County Controller. The proceeds were subsequently distributed to all the taxing entities within the Redevelopment Area. The City is one of the taxing entities and received approximately \$6.3 million from the RPTTF. Sales tax revenue in fiscal 2015 was \$0.2 million less than fiscal 2014, due to decrease in consumer spending. Transient Occupancy Tax increased \$1.5 million in fiscal 2015 reflecting recovery in the economy. The decrease of investment earnings by \$0.4 million in fiscal 2015 was due to a decrease in the return on cash and investments. A special item of \$49.8 million was reported in fiscal 2014 due to the settlement with the Department of Finance and the County of Santa Clara on the previously mentioned lawsuit.

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 increased \$1.4 million. The primary reasons for decreased program revenues were due to a decline in charges for services and a decrease of capital grants.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Net (Expenses) Revenue From Services	
	2015	2014
General Government	\$(16.7)	\$(17.9)
Building	2.5	3.8
Recreation	0.0	1.1
Public Works	0.9	0.5
Planning & Neighborhood Services	0.3	(1.4)
Police	(22.3)	(21.2)
Fire	(14.3)	(13.0)
Interest on long term debt	(0.1)	(0.2)
<b>Totals</b>	<b>\$(49.7)</b>	<b>\$(48.3)</b>

*Business-type Activities*

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

	Business-Type Activities	
	2015	2014*
Cash and investments	\$53.3	\$52.7
Other assets	8.0	7.7
Capital assets	119.7	114.8
<b>Total assets</b>	<b>181.0</b>	<b>175.2</b>
<b>Deferred Outflows of Resources</b>		
– Related to Pensions	<b>0.4</b>	*
Other liabilities	2.4	2.3
Net pension liabilities	5.6	*
Long-term Debt	6.5	6.9
<b>Total liabilities</b>	<b>14.5</b>	<b>9.2</b>
<b>Deferred Inflows of Resources</b>		
– Related to Pensions	<b>1.2</b>	*
Net position:		
Net investment in capital assets	113.2	107.8
Restricted	40.9	37.3
Unrestricted	11.6	20.9
<b>Total net position</b>	<b>\$165.7</b>	<b>166.0</b>

\* Not restated for effects of the implementation of GASB Statement No. 68 discussed in Note 11.

The net position of business-type activities were \$165.7 million in fiscal 2015, a decrease of \$0.3 million from fiscal 2014. Total assets increased \$5.8 million and deferred outflows and inflows increased \$0.4 million and \$1.2 million, respectively, due to the implementation of GASB Statement No. 68 as discussed in Note 11. The decrease in net position was due to the increase from net pension liabilities offset by increased customer service charges and capital contributions for the Water and Sewer Funds.

**Table 5**  
**Changes in Business-Type Net Position**  
**(in Millions)**

	Business-Type Activities	
	2015	2014**
<b>Expenses</b>		
Water Utility	\$18.3	\$17.4
Sewer Utility	10.4	11.0
Total expenses	<u>28.7</u>	<u>28.4</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	35.6	34.1
Operating Grant	0.1	0.1
Capital Grants	0.7	1.4
Total program revenues	<u>36.4</u>	<u>35.6</u>
General revenues:		
Investment earnings	0.3	0.7
Total general revenues	<u>0.3</u>	<u>0.7</u>
Total Revenues	<u>36.7</u>	<u>36.3</u>
Excess before transfers	8.0	7.9
Transfers	<u>(1.6)</u>	<u>(3.4)</u>
Changes in net position	6.4	4.5
Beginning net position, as restated	<u>159.3*</u>	<u>161.5**</u>
<b>Ending net position</b>	<b><u>\$165.7</u></b>	<b><u>\$166.0</u></b>

\*Restated as discussed in Note 10E

\*\* Not restated for effects of the implementation of GASB Statement No. 68 discussed in Note 11.

Table 5 compares fiscal 2015 expenses and revenues with those of fiscal year 2014. Total expenses increased by \$3 million in fiscal 2015 due to increased purchased water costs, salaries and benefits and contractual services with an offset from sewer contributions to the San Jose Waste Water Treatment Plant for the City's share of the operating expenses. Total program revenues increased by \$0.8 million primarily due to increased charges for services. Total general revenue was \$0.3 million from interest earnings, \$0.4 million lower than last year due to lower interest rates. 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)**

	2015	2014 (Restated)
Total assets	\$184.6	\$173.3
Total liabilities	27.8	26.6
Total fund balances	156.8	146.7
Total revenues	94.8	99.6
Total expenditures	90.9	80.6
Total other financing sources	6.3	3.4
Total special items	0.0	27.3

At June 30, 2015, the City's governmental funds reported combined fund balances of \$156.8 million, an increase of \$10.1 million from last year. The fund balances of the Economic Development Corporation and Other Governmental Funds decreased \$4.1 million and \$0.3 million, respectively, while the fund balances of the General Fund, Housing Authority, Street Improvement, Transit Area Impact Fee and General Government Fund increased \$0.7 million, \$0.5 million, \$3.6 million, \$0.7 million and \$9.0 million, respectively.

Revenues at the fund level totaled \$94.8 million, a decrease of \$4.8 million. Revenues for the Street Improvement Fund increased \$1.1 million, while the General Fund, Economic Development Corporation, Housing Authority, Transit Area Impact Fee Fund, General Government and Other Governmental Funds decreased \$0.7 million, \$1.5 million, \$0.3 million, \$2.0 million, \$0.2 million and \$1.2 million, respectively.

Expenditures increased \$10.3 million this year to \$90.9 million from last year's \$80.6 million. The expenditures of the General Fund, Street Improvement Fund, Transit Area Impact Fee Fund and General Government Fund increased \$5.3 million, \$4.3 million, \$6.0 million and \$1.3 million, respectively while the Economic Development Corporation, and Other Governmental Funds decreased by \$4.1 million, and \$2.5 million, respectively. The expenditures of Housing Authority Fund remained at the same level as last year's \$0.4 million.

## ***Analyses of Major Governmental Funds***

### **General Fund**

General Fund revenues decreased to \$76.1 million this fiscal year, down \$0.7 million from the prior fiscal year. Increases came from other taxes, use of money and property, intergovernmental revenue and charges for services categories while decreases came from property tax revenue, sales taxes, and licenses and fines. Property tax revenue decreased \$2.7 million due to a one-time residual distributions from the Redevelopment Property Tax Trust Fund (“RPTTF”) received by the General Fund in fiscal 2014. Approximately \$6.3 million of the 2014 distributions from the RPTTF was one-time due to settlement of a lawsuit. If the one-time RPTTF distributions were not included in the General Fund in fiscal 2014, the property tax revenue would have shown an increase of \$3.6 million in fiscal 2015. The increase is due to recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax decreased by approximately \$0.2 million due to a slight decrease in consumer spending. Other taxes increased by \$2.2 million primarily due to increased Transient Occupancy Tax revenue. Licenses and permits decreased \$1.2 million primarily from the building permit and inspection fees as a result of decreased development activities. Intergovernmental revenue increased by \$.6 million due to the State of California paying prior year receivables. Charges for services also increased by \$0.5 million due to increased revenues for planning and engineering fees received from private developments and increased police, fire, and recreation service charges.

General Fund expenditures increased \$5.3 million to \$68.2 million in fiscal 2015 primarily due to an increase in salaries and benefits.

Net transfers out were approximately \$7.2 million, as compared to net transfers in of \$3.1 million in fiscal 2014. Net transfers consist of \$4.3 million from other funds for operating costs and transfers out of \$11.5 million for funding of future capital projects.

### **Economic Development Corporation**

This fund accounts for the activities of the Economic Development Corporation (“EDC”). 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. In fiscal 2015, the only expenditure of the EDC was \$0.1 million property tax payments on a property located in the Transit Area that was conveyed to the City. Transfers out of approximately \$4.0 million bond proceeds to the Street Improvement Capital Project fund for the reconstruction of Main Street depleted the fund balance. As of June 30, 2015, the EDC had zero assets and liabilities and is considered inactive.

### **Housing Authority**

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$1.0 million in fiscal 2015, comprised of \$0.8 million of interest and rental income and \$0.2 million from repayment of housing loans. Total expenditures were \$0.4 million for administration and operation of the “Silent Second” loan program, management of four affordable housing units and one commercial property with eight tenants.

### **Street Improvement Capital Project**

This Street Improvement Capital Project Fund accounts for the majority of the street capital projects activity in the City that is not developed in the Transit Area. The Fund's revenues were \$2.3 million in fiscal 2015, an increase of \$1.1 million from fiscal 2014. The increase was due to one-time intergovernmental revenues and developer contributions. Fund expenditures were \$5.8 million in fiscal 2015, an increase of \$4.3 million from fiscal 2014, attributed to capital outlay increase. Transfers in of \$7.7 million were from the General Fund, Economic Development Corporation, Gas Tax Special Revenue Fund, Water and Sewer Utilities Fund for capital improvement project funding while a transfer out of \$0.5 million was to the Transit Area Impact Fee Fund for capital improvement project funding.

### **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 2015, fund revenues were \$9.3 million, primarily from fees collected from developers. Expenditures were \$10.6 million, consisted of \$5.9 million capital improvement project expenditures and \$4.7 million for principal payment and accrued interest expenditures on the purchase agreement with Mission West Properties. The transfers in of \$2.2 million from the Street Improvement Fund and the Sewer Utility Fund were used to fund infrastructure near the Transit Area.

### **General Government Capital Project**

The General Government Capital Project Fund accounts for construction and maintenance of general government projects in the City. In fiscal 2015, expenditures were \$1.6 million, consisted of \$1.5 million capital improvement project expenditures and \$0.1 million operating expenditures. The transfer in of \$10.8 million was primarily from the General Fund and the transfer out of \$0.2 million was to the Storm Drain Fund, all for the purpose of capital project funding.

### **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)**

	2015	2014 (Restated)
General Fund		
Nonspendable	\$ 23.3	\$ 23.3
Committed	5.4	5.4
Assigned	7.0	6.7
Unassigned	13.9	13.5
Total	<u>\$49.6</u>	<u>\$48.9</u>
EDC Fund		
Restricted	<u>\$0.0</u>	<u>\$4.1</u>
Housing Authority Fund		
Restricted	<u>\$51.4</u>	<u>\$50.9</u>
Street Improvement Fund		
Restricted	<u>\$11.1</u>	<u>\$7.5</u>
Transit Area Impact Fee Fund		
Unassigned	<u>(\$5.9)</u>	<u>(\$6.6)</u>
General Government Project Fund		
Assigned	<u>\$20.7</u>	<u>\$11.7</u>

At June 30, 2015, the fund balance of the General Fund was \$49.6 million: \$23.3 million was classified as nonspendable, comprised of \$0.6 for prepaid materials and supplies, \$17.6 million of property held for resale, and \$5.0 million for advances to other funds; \$5.4 million for PERS Rate Stabilization was classified as committed; \$7.0 million of the fund balance comprised of \$3.8 million for capital improvement, \$2.8 million for uninsured claims and \$0.4 million for encumbrances, was classified as assigned; \$13.9 million was classified as unassigned.

The fund balance of the Economic Development Corporation Fund was zero as of June 30, 2015 as funding was depleted and the fund became inactive.

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.

The fund balance of the General Government Fund was classified as assigned due to Council's reserve policy.

### ***Analyses of Major Proprietary Funds***

Total operating revenues of Business-type Activities increased \$1.5 million from last year, while operating expenses increased \$0.4 million. Total operating revenues and total operating expenses were \$35.6 million and \$28.5 million respectively. Non-operating revenues were \$0.2 million in fiscal 2015, a decrease of \$0.3 million from the prior year. Capital contributions increased by \$3.8 million while net transfers out increased by \$2.7 million.

#### **Water Utility**

Water fund revenues were \$21.1 million in fiscal 2015, down \$0.3 million from prior year. The decrease in revenues was primarily due to water conservation as a result of the drought. Expenses were \$18.3 million in fiscal 2015, up \$0.9 million from prior year, primarily due to increased purchased water expense. Net position of the Water Utility Fund decreased \$3.1 million in the current year to a total of \$66.9 million. The decrease comprised of \$2.8 million in operating income for the current year, \$0.3 million in non-operating revenues, \$0.3 million capital contributions from developers, offset by net transfers out of \$2.6 million and \$3.8 million restatement of the prior year beginning balance (see note 10E). The transfer out of \$2.6 million was to reimburse \$2.4 million of administration costs incurred by the General Fund and to fund \$0.2 million in capital projects.

This Fund's Net Position includes \$45.7 million invested in capital assets, \$17.6 million in restricted net position, and \$3.6 million in unrestricted net position.

#### **Sewer Utility**

Sewer fund revenues were \$14.5 million in fiscal 2015, up \$1.7 million from the prior year due to increased sewer rates. Expenses were \$10.2 million in fiscal 2015, down \$0.5 million from the prior year due to decreased contribution requirements for the City's share of the operating expenses at the San Jose Waste Water Treatment Plant. Non-operating revenues in fiscal year 2015 consisted of \$0.2 million interest income, and \$0.3 million interest expense. Net position of the Sewer Utility Fund increased \$5.6 million in the current year to a total of \$98.8 million. This increase comprised of \$4.2 million in operating income, \$4.9 million in capital contributions by developers, offset by \$3.5 million net transfers out, and \$2.9 million restatement of the prior year beginning balance (see note 10E). The transfers out of \$3.5 million was to reimburse \$1.5 million administration costs incurred by the General Fund and to fund \$2.0 million in capital projects.

\$8.0 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, \$67.5 million was invested in capital assets and \$23.2 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 2015, 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)**

	2015	2014
<i><b>Governmental Activities:</b></i>		
Land	\$ 57.6	\$ 57.6
Construction in progress	21.0	16.4
Buildings and improvements	162.7	162.7
Other improvements	26.5	26.5
Machinery and equipment	38.8	38.4
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	246.9	241.7
Traffic system	18.9	19.0
Less accumulated depreciation	(384.7)	(368.2)
<b>Totals</b>	<b>\$291.7</b>	<b>\$298.0</b>
<i><b>Business-type Activities:</b></i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	7.1	6.2
Distribution facilities	79.6	79.6
Service lines	13.0	13.0
Sewer lines	81.8	77.4
Capacity rights	50.7	46.4
Less accumulated depreciation	(113.5)	(108.9)
<b>Totals</b>	<b>\$119.7</b>	<b>\$114.8</b>

The principal additions in fiscal 2015 were to the construction-in-progress, machinery and equipment, street system, sewer lines and capacity rights. Construction in progress included the Main Street Pavement Reconstruction, street resurfacing, Milpitas Sport Center Facility Improvements and McCarthy Boulevard Landscaping.

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 and current year activities may be found in Note 8.

## DEBT ADMINISTRATION

A portion of the City’s debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal 2012, the EDC purchased a property and entered into a promissory note with the seller. In fiscal 2014, the EDC conveyed the same property to the City and the City assumed the balance of the debt. The promissory note was repaid in fiscal 2015. In fiscal 2013, the City entered into a capital lease for the purchase of a phone system and equipment. The lease requires annual payments until fiscal 2017. Each of the City’s debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2015 the City’s debt comprised:

**Table 9  
Outstanding Debt  
(in Millions)**

	<u>Balance June 30, 2015</u>	<u>Balance June 30, 2014</u>
<b>Governmental Activity Debt:</b>		
<b>Purchase Agreement with Mission West Properties</b> due February 15, 2016 (repaid as of April 2015)	\$ 0.0	\$ 6.0
<b>Cisco Phone System Capital Lease</b> Due September 18, 2016	0.2	0.3
Total Governmental Activity Debt	\$ 0.2	\$ 6.3
<b>Business-type Activity Debt:</b>		
<b>Sewer Certificates of Participation, 2006 Series A</b> 3.4% -4.2%, due November 1, 2026	\$ 6.5	\$ 6.9
Total Business-type Activity Debt	\$ 6.5	\$ 6.9

## 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, 2015, a total of \$6.7 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](http://www.ci.milpitas.ca.gov).

## **BASIC FINANCIAL STATEMENTS**

## **STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

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

The Statement of Net Position 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 position. 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, deferred inflows/outflows of resources, 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 Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the blended component units: the Milpitas Public Financing Authority (Financing Authority), the Milpitas Economic Development Corporation (EDC) and the City of Milpitas Housing Authority (Housing Authority). The Financing Authority and Housing Authority are legally separate component units of the City, because they are controlled by the City and the City is financially accountable for their 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 POSITION  
JUNE 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
<b>ASSETS</b>				
Cash and investments available for operations (Note 3)	\$113,009,148	\$53,269,321	\$166,278,469	\$22,664
Restricted investments (Note 3)	3,742,499		3,742,499	1,345,483
Receivables:				
Accounts	2,843,922	2,049,306	4,893,228	324
Due from other governments	2,968,862	143,612	3,112,474	
Interest	222,827	105,788	328,615	
Internal balances (Note 4)	(5,473,314)	5,473,314		
Loans receivable (Note 5)	33,357,139		33,357,139	
Prepays, materials, supplies and deposits (Note 1E)	753,482	309,004	1,062,486	113,226
Property held for resale (Note 6)	32,882,370		32,882,370	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	78,577,971	8,187,408	86,765,379	1,773,433
Depreciable capital assets, net	213,107,280	111,534,582	324,641,862	7,300,306
<b>Total assets</b>	<b>475,992,186</b>	<b>181,072,335</b>	<b>657,064,521</b>	<b>10,555,436</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	8,753,356	403,331	9,156,687	
<b>LIABILITIES</b>				
Accounts payable	7,420,210	1,536,610	8,956,820	117,607
Accrued payroll	3,262,904	142,260	3,405,164	12,374
Interest payable	4,723	41,558	46,281	
Uninsured claims payable (Note 13):				
Due within one year	955,731		955,731	
Due in more than one year	4,457,984		4,457,984	
Refundable deposits	3,292,004	90,063	3,382,067	77,278
Unearned revenue	3,464,015		3,464,015	2,272
Accrued vacation (Note 12C):				
Due within one year	513,906	177,752	691,658	14,190
Due in more than one year	3,985,912	119,806	4,105,718	
Sick leave payable (Note 12C):				
Due within one year	290,763	82,852	373,615	
Due in more than one year	3,693,297	224,010	3,917,307	
Net pension liabilities (Note 11C)	119,863,886	5,636,491	125,500,377	
Long term debt (Note 9):				
Due within one year	91,286	435,000	526,286	
Due in more than one year	94,222	6,055,000	6,149,222	
<b>Total liabilities</b>	<b>151,390,843</b>	<b>14,541,402</b>	<b>165,932,245</b>	<b>223,721</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	22,623,267	1,249,520	23,872,787	
<b>NET POSITION (Note 10)</b>				
Net investment in capital assets and capacity rights	291,499,743	113,231,990	404,731,733	9,073,739
Restricted for:				
Capital projects	35,558,052	40,866,612	76,424,664	
Redevelopment and community development activities	68,271,570		68,271,570	
<b>Total restricted net position</b>	<b>103,829,622</b>	<b>40,866,612</b>	<b>144,696,234</b>	
Unrestricted	(84,597,933)	11,586,142	(73,011,791)	1,257,976
<b>Total net position</b>	<b>\$310,731,432</b>	<b>\$165,684,744</b>	<b>\$476,416,176</b>	<b>\$10,331,715</b>

See accompanying notes to financial statements

CITY OF MILPITAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$18,118,201	\$1,063,025	\$932,343	\$45,928	(\$16,076,905)	
Building	2,616,869	5,128,177			2,511,308	
Recreation	3,097,502	2,059,562	85,080	905,504	(47,356)	
Public Works	17,509,220	2,644,221	1,944,446	13,759,845	839,292	
Planning and Neighborhood Services	2,372,327	700,055	1,942,919		270,647	
Police	24,698,634	1,150,754	1,280,335		(22,267,545)	
Fire	16,300,478	1,885,241	15,640		(14,399,597)	
Interest on long term debt	67,373				(67,373)	
<b>Total Governmental Activities</b>	<b>84,780,604</b>	<b>14,631,035</b>	<b>6,200,763</b>	<b>14,711,277</b>	<b>(49,237,529)</b>	
Business-type Activities:						
Water Utility	18,343,750	21,135,787	127,466	300,904		\$3,220,407
Sewer Utility	10,426,552	14,453,372		408,750		4,435,570
<b>Total Business-type Activities</b>	<b>28,770,302</b>	<b>35,589,159</b>	<b>127,466</b>	<b>709,654</b>		<b>7,655,977</b>
<b>Total Primary Government</b>	<b>\$113,550,906</b>	<b>\$50,220,194</b>	<b>\$6,328,229</b>	<b>\$15,420,931</b>	<b>(49,237,529)</b>	<b>7,655,977</b>
<b>Component Unit:</b>						
Terrace Gardens Inc.	\$1,811,196	\$1,676,272	\$239,232			
General revenues:						
Taxes:						
Property taxes					24,926,915	
Sales and use taxes					18,778,509	
Hotel/Motel taxes					10,916,649	
Other taxes					664,399	
Franchise fees, unrestricted					3,658,729	
Motor vehicle in lieu, unrestricted					29,323	
Investment earnings					379,127	382,716
Miscellaneous					332,771	
Transfers (Note 4)					1,626,962	(1,626,962)
<b>Total general revenues and transfers</b>					<b>61,313,384</b>	<b>(1,244,246)</b>
Change in Net Position					12,075,855	6,411,731
Net position-Beginning, as restated (Note 10E)					298,655,577	159,273,013
Net position-Ending					<b>\$310,731,432</b>	<b>\$165,684,744</b>

See accompanying notes to financial statements

Total	Net (Expense) Revenue and Changes in Net Position Component Unit Terrace Gardens Inc.
(\$16,076,905)	
2,511,308	
(47,356)	
839,292	
270,647	
(22,267,545)	
(14,399,597)	
(67,373)	
(49,237,529)	
3,220,407	
4,435,570	
7,655,977	
(41,581,552)	
	\$104,308
24,926,915	
18,778,509	
10,916,649	
664,399	
3,658,729	
29,323	
761,843	4,746
332,771	
60,069,138	4,746
18,487,586	109,054
457,928,590	10,222,661
\$476,416,176	\$10,331,715



## **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. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

### **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. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

### **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.

### **GENERAL GOVERNMENT PROJECT FUND**

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



CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2015

	General	Economic Development Corporation	Housing Authority	Street Improvement
<b>ASSETS</b>				
Cash and investments available for operations (Note 3)	\$32,282,371		\$6,236,595	\$8,295,416
Restricted investments (Note 3)				3,742,499
Receivables:				
Accounts	2,754,254			
Due from other governments	2,852,041			
Interest	85,002		12,424	16,483
Loans receivable, net (Note 5)			29,980,470	
Prepays, materials, supplies and deposits (Note 1E)	632,723		3,805	
Property held for resale (Note 6)	17,600,000		15,282,370	
Advances to other funds (Note 4)	5,032,500			
<b>Total Assets</b>	<b>\$61,238,891</b>		<b>\$51,515,664</b>	<b>\$12,054,398</b>
<b>LIABILITIES</b>				
Accounts payable	\$1,927,597		\$52,167	\$903,172
Accrued payroll	3,188,581		9,998	14,884
Refundable deposits	3,259,115		13,100	
Unearned revenue	3,289,144		1,021	
Advances from other funds (Note 4)				
<b>Total Liabilities</b>	<b>11,664,437</b>		<b>76,286</b>	<b>918,056</b>
<b>FUND BALANCES</b>				
Fund balances (Note 10):				
Nonspendable	23,265,223		3,805	
Restricted			51,435,573	11,136,342
Committed	5,432,703			
Assigned	7,012,741			
Unassigned	13,863,787			
<b>TOTAL FUND BALANCES</b>	<b>49,574,454</b>		<b>51,439,378</b>	<b>11,136,342</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$61,238,891</b>		<b>\$51,515,664</b>	<b>\$12,054,398</b>

Amounts reported for Governmental Activities in the Statement of Net Position 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 POSITION**

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 Position.

**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
- Net pension liability and pension-related deferred outflows/inflows of resources
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

**NET POSITION OF GOVERNMENTAL ACTIVITIES**

See accompanying notes to financial statements

<u>Transit Area Impact Fee</u>	<u>General Government Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$8,162,878	\$20,999,695	\$26,926,753	\$102,903,708 3,742,499
		89,668	2,843,922
		116,821	2,968,862
16,266	22,309	50,286	202,770
		3,376,669	33,357,139
		7,038	643,566
			32,882,370
			5,032,500
<u>\$8,179,144</u>	<u>\$21,022,004</u>	<u>\$30,567,235</u>	<u>\$184,577,336</u>
\$3,602,880	\$334,641	\$452,261	\$7,272,718
1,966	9,048	11,419	3,235,896
806		18,843	3,291,864
		173,850	3,464,015
<u>10,505,814</u>			<u>10,505,814</u>
<u>14,111,466</u>	<u>343,689</u>	<u>656,373</u>	<u>27,770,307</u>
		7,038	23,276,066
		29,775,417	92,347,332
			5,432,703
	20,678,315	128,407	27,819,463
<u>(5,932,322)</u>			<u>7,931,465</u>
<u>(5,932,322)</u>	<u>20,678,315</u>	<u>29,910,862</u>	<u>156,807,029</u>
<u>\$8,179,144</u>	<u>\$21,022,004</u>	<u>\$30,567,235</u>	
			291,685,251
			9,953,608
			(185,508)
			(133,733,797)
			(8,381,436)
			<u>(5,413,715)</u>
			<u>\$310,731,432</u>

CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Economic Development Corporation</u>	<u>Housing Authority</u>	<u>Street Improvement</u>
<b>REVENUES</b>				
Property taxes	\$24,926,916			
Sales taxes	19,572,355			
Other taxes	15,963,379			
Licenses and fines	6,971,287			
Use of money and property	732,275	\$1,605	\$962,460	\$49,863
Intergovernmental	1,904,888			973,892
Charges for services	5,854,123			
Developer contributions				1,276,684
Other	202,400			
<b>Total Revenues</b>	<u>76,127,623</u>	<u>1,605</u>	<u>962,460</u>	<u>2,300,439</u>
<b>EXPENDITURES</b>				
Current:				
General Government	12,386,417	102,216	211,341	2,935
Building and Safety	2,705,676			
Human Resources and Recreation	3,328,867			
Public Works	6,893,529			639,999
Planning and Neighborhood Services	1,963,348		203,657	
Police	23,941,441			
Fire	15,604,865			
Capital outlay				5,193,744
Debt service:				
Principal	1,400,000			
Interest and fees				
<b>Total Expenditures</b>	<u>68,224,143</u>	<u>102,216</u>	<u>414,998</u>	<u>5,836,678</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>7,903,480</u>	<u>(100,611)</u>	<u>547,462</u>	<u>(3,536,239)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of property	3,834			
Transfers in (Note 4)	4,325,931			7,680,064
Transfers (out) (Note 4)	(11,550,000)	(3,992,627)		(500,000)
<b>Total Other Financing Sources (Uses)</b>	<u>(7,220,235)</u>	<u>(3,992,627)</u>		<u>7,180,064</u>
<b>NET CHANGE IN FUND BALANCES</b>	683,245	(4,093,238)	547,462	3,643,825
Fund balances (deficits) at beginning of year, as restated (Note 10E)	48,891,209	4,093,238	50,891,916	7,492,517
<b>FUND BALANCES (DEFICITS) AT END OF YEAR</b>	<u>\$49,574,454</u>	<u>\$1,000,000</u>	<u>\$51,439,378</u>	<u>\$11,136,342</u>

See accompanying notes to financial statements

<u>Transit Area Impact Fee</u>	<u>General Government Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
			\$24,926,916
			19,572,355
		\$1,541,222	17,504,601
			6,971,287
\$45,054	\$54,168	186,194	2,031,619
		2,602,943	5,481,723
		595,200	6,449,323
9,288,357		1,048,928	11,613,969
		3,111	205,511
<u>9,333,411</u>	<u>54,168</u>	<u>5,977,598</u>	<u>94,757,304</u>
6,937		104,656	12,814,502
			2,705,676
			3,328,867
	105,156	1,560,340	9,199,024
		403,315	2,570,320
		251,687	24,193,128
5,927,420	1,477,531	1,777,128	15,604,865
			14,375,823
4,600,000			6,000,000
60,814			60,814
<u>10,595,171</u>	<u>1,582,687</u>	<u>4,097,126</u>	<u>90,853,019</u>
<u>(1,261,760)</u>	<u>(1,528,519)</u>	<u>1,880,472</u>	<u>3,904,285</u>
2,239,081	10,778,000	535,000	3,834
(300,000)	(235,976)	(2,726,548)	25,558,076
<u>1,939,081</u>	<u>10,542,024</u>	<u>(2,191,548)</u>	<u>(19,305,151)</u>
677,321	9,013,505	(311,076)	6,256,759
			10,161,044
<u>(6,609,643)</u>	<u>11,664,810</u>	<u>30,221,938</u>	<u>146,645,985</u>
<u>(\$5,932,322)</u>	<u>\$20,678,315</u>	<u>\$29,910,862</u>	<u>\$156,807,029</u>

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, 2015

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 Position 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 \$10,161,044

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 \$389,141 have already been added to capital assets) 9,903,764  
 Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$744,397 which has already been allocated to serviced funds.) (15,841,668)

LONG TERM DEBT PAYMENTS

Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities. Repayment of principal is added back to fund balance 6,000,000

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 (472,229)  
 Non-current portion of uninsured claims payable 953,500  
 Net pension liability and pension-related deferred outflows/inflows of resources 1,387,389

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 Position - All Internal Service Funds (15,945)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$12,075,855

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, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$21,841,500	\$21,841,500	\$24,926,916	\$3,085,416
Sales taxes	20,603,096	20,603,096	19,572,355	(1,030,741)
Other taxes	13,272,000	13,272,000	15,963,379	2,691,379
Licenses and fines	6,148,000	6,633,727	6,971,287	337,560
Use of money and property	317,000	317,000	732,275	415,275
Intergovernmental	900,000	945,871	1,904,888	959,017
Charges for services	5,291,000	5,611,000	5,854,123	243,123
Other	203,000	228,211	202,400	(25,811)
Total Revenues	68,575,596	69,452,405	76,127,623	6,675,218
Expenditures				
Current:				
General Government:				
City Manager	2,012,734	2,037,477	1,881,907	155,570
City Attorney	1,174,835	1,143,890	1,057,049	86,841
Finance	2,193,067	2,193,067	1,832,491	360,576
Information Services	2,171,280	2,171,280	2,095,152	76,128
Non-departmental	7,026,086	6,531,653	4,810,741	1,720,912
Building and Safety	2,869,306	3,355,033	2,705,676	649,357
Human Resources and Recreation	4,721,459	4,807,829	4,379,773	428,056
Public Works	7,301,291	7,475,291	6,907,279	568,012
Planning and Neighborhood Services	2,002,598	2,192,598	1,963,348	229,250
Police	25,034,105	25,056,767	23,949,471	1,107,296
Fire	15,284,444	15,717,686	15,631,491	86,195
Debt Service				
Principal		1,400,000	1,400,000	
Total Expenditures	71,791,205	74,082,571	68,614,378	5,468,193
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,215,609)	(4,630,166)	7,513,245	12,143,411
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			3,834	3,834
Transfers in	4,475,955	4,475,955	4,325,931	(150,024)
Transfers (out)	(1,770,044)	(11,570,044)	(11,550,000)	20,044
Total Other Financing Sources (Uses)	2,705,911	(7,094,089)	(7,220,235)	(126,146)
NET CHANGE IN FUND BALANCE	(\$509,698)	(\$11,724,255)	293,010	\$12,017,265
Adjustment to budgetary basis:				
Encumbrance expenditures			390,235	
Fund balance at beginning of year			48,891,209	
FUND BALANCE AT END OF YEAR			\$49,574,454	

See accompanying notes to financial statements

CITY OF MILPITAS  
HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Use of money and property	\$28,000	\$28,000	\$962,460	\$934,460
Total Revenues	<u>28,000</u>	<u>28,000</u>	<u>962,460</u>	<u>934,460</u>
Expenditures				
Current:				
General Government:				
Finance	67,780	67,780	39,347	28,433
Non-departmental	690,500	690,500	171,994	518,506
Planning and Neighborhood Services	<u>232,254</u>	<u>259,754</u>	<u>203,657</u>	<u>56,097</u>
Total Expenditures	<u>990,534</u>	<u>1,018,034</u>	<u>414,998</u>	<u>603,036</u>
Net change in fund balance	<u>(\$962,534)</u>	<u>(\$990,034)</u>	547,462	<u>\$1,537,496</u>
Fund balances (deficits) at beginning of year, as restated			<u>50,891,916</u>	
Fund balance at end of year			<u>\$51,439,378</u>	

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.

### **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 POSITION  
 JUNE 30, 2015

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
<b>ASSETS</b>				
Current Assets				
Cash and investments available for operations (Note 3)	\$25,211,142	\$28,058,179	\$53,269,321	\$10,105,440
Receivables:				
Accounts	1,195,422	853,884	2,049,306	
Due from other governments	82,704	60,908	143,612	
Interest	50,051	55,737	105,788	20,057
Prepays, materials, supplies and deposits (Note 1E)	265,914	43,090	309,004	109,916
<b>Total current assets</b>	<b>26,805,233</b>	<b>29,071,798</b>	<b>55,877,031</b>	<b>10,235,413</b>
Noncurrent assets:				
Advance to other funds (Note 4)		5,473,314	5,473,314	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	5,522,130	2,665,278	8,187,408	
Depreciable capital assets, net	40,187,480	71,347,102	111,534,582	2,940,385
<b>Total noncurrent assets</b>	<b>45,709,610</b>	<b>79,485,694</b>	<b>125,195,304</b>	<b>2,940,385</b>
<b>Total assets</b>	<b>72,514,843</b>	<b>108,557,492</b>	<b>181,072,335</b>	<b>13,175,798</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	230,940	172,391	403,331	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	1,408,736	127,874	1,536,610	147,492
Accrued payroll	78,943	63,317	142,260	27,008
Interest payable		41,558	41,558	4,723
Refundable deposits	90,063		90,063	140
Accrued vacation (Note 12C)	88,876	88,876	177,752	30,442
Sick leave payable (Note 12C)	41,426	41,426	82,852	9,492
Capital lease (Note 9)				91,286
Certificates of Participation (Note 9)		435,000	435,000	
<b>Total current liabilities</b>	<b>1,708,044</b>	<b>798,051</b>	<b>2,506,095</b>	<b>310,583</b>
Non-current liabilities:				
Accrued vacation (Note 12C)	59,903	59,903	119,806	36,844
Sick leave payable (Note 12C)	112,005	112,005	224,010	25,664
Net pension liabilities (Note 11C)	3,227,346	2,409,145	5,636,491	
Capital lease (Note 9)				94,222
Certificates of Participation (Note 9)		6,055,000	6,055,000	
<b>Total non-current liabilities</b>	<b>3,399,254</b>	<b>8,636,053</b>	<b>12,035,307</b>	<b>156,730</b>
<b>Total liabilities</b>	<b>5,107,298</b>	<b>9,434,104</b>	<b>14,541,402</b>	<b>467,313</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	715,451	534,069	1,249,520	
<b>NET POSITION (Note 10)</b>				
Net investment in capital assets and capacity rights	45,709,610	67,522,380	113,231,990	2,754,877
Restricted for capital projects	17,648,361	23,218,251	40,866,612	
Unrestricted	3,565,063	8,021,079	11,586,142	9,953,608
<b>Total net position</b>	<b>\$66,923,034</b>	<b>\$98,761,710</b>	<b>\$165,684,744</b>	<b>\$12,708,485</b>

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$20,968,779	\$14,362,865	\$35,331,644	\$2,668,442
Developer contributions	13,422	12,068	25,490	
Other operating revenue	153,586	78,439	232,025	
<b>Total Operating Revenues</b>	<b>21,135,787</b>	<b>14,453,372</b>	<b>35,589,159</b>	<b>2,668,442</b>
OPERATING EXPENSES				
Purchased water	12,195,672		12,195,672	
Sewer treatment services		4,314,289	4,314,289	
Personnel services	2,532,465	2,007,388	4,539,853	895,853
Services and supplies	1,750,650	923,430	2,674,080	671,343
Depreciation	1,651,449	2,916,520	4,567,969	744,397
Repairs and maintenance	214,098	18,446	232,544	414,471
<b>Total Operating Expenses</b>	<b>18,344,334</b>	<b>10,180,073</b>	<b>28,524,407</b>	<b>2,726,064</b>
<b>Operating Income (Loss)</b>	<b>2,791,453</b>	<b>4,273,299</b>	<b>7,064,752</b>	<b>(57,622)</b>
NONOPERATING REVENUES (EXPENSES)				
Interest income	171,329	211,387	382,716	67,613
Interest expense		(261,998)	(261,998)	(6,559)
Subventions and grants	127,466		127,466	
Gain on sale of assets				2,125
<b>Total Nonoperating Revenues</b>	<b>298,795</b>	<b>(50,611)</b>	<b>248,184</b>	<b>63,179</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>3,090,248</b>	<b>4,222,688</b>	<b>7,312,936</b>	<b>5,557</b>
Capital contributions		4,472,066	4,472,066	148,498
Capital contributions - connection fees	300,904	408,750	709,654	
Transfers (out) (Note 4)	(2,591,459)	(3,491,466)	(6,082,925)	(170,000)
<b>Change in net position</b>	<b>799,693</b>	<b>5,612,038</b>	<b>6,411,731</b>	<b>(15,945)</b>
<b>Net position-beginning, as restated (Note 10E)</b>	<b>66,123,341</b>	<b>93,149,672</b>	<b>159,273,013</b>	<b>12,724,430</b>
<b>Net position-ending</b>	<b>\$66,923,034</b>	<b>\$98,761,710</b>	<b>\$165,684,744</b>	<b>\$12,708,485</b>

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$20,800,270	\$14,352,944	\$35,153,214	\$2,668,442
Payments to suppliers	(13,970,314)	(5,243,830)	(19,214,144)	(974,297)
Payments to employees for salaries and benefits	(2,600,974)	(2,039,974)	(4,640,948)	(868,642)
Net cash provided by operating activities	<u>4,228,982</u>	<u>7,069,140</u>	<u>11,298,122</u>	<u>825,503</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Subventions and grants	127,466		127,466	
Transfers (out)	(2,591,459)	(3,491,466)	(6,082,925)	(170,000)
Cash Flows from Noncapital Financing Activities	<u>(2,463,993)</u>	<u>(3,491,466)</u>	<u>(5,955,459)</u>	<u>(170,000)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on long-term debt		(420,000)	(420,000)	(88,442)
Interest paid		(264,528)	(264,528)	(8,812)
Proceeds from sale of capital assets				2,125
Acquisition of capital assets	(575,755)	(4,515,879)	(5,091,634)	(240,643)
Capital contributions - connection fees	300,904	408,750	709,654	
Cash Flows from Capital and Related Financing Activities	<u>(274,851)</u>	<u>(4,791,657)</u>	<u>(5,066,508)</u>	<u>(335,772)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	164,531	144,931	309,462	65,621
Cash Flows from Investing Activities	<u>164,531</u>	<u>144,931</u>	<u>309,462</u>	<u>65,621</u>
Net increase (decrease) in cash and cash equivalents	1,654,669	(1,069,052)	585,617	385,352
Cash and investments at beginning of period	23,556,473	29,127,231	52,683,704	9,720,088
Cash and investments at end of period	<u>\$25,211,142</u>	<u>\$28,058,179</u>	<u>\$53,269,321</u>	<u>\$10,105,440</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$2,791,453	\$4,273,299	\$7,064,752	(\$57,622)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,651,449	2,916,520	4,567,969	744,397
Change in assets and liabilities:				
Receivables, net	(235,688)	(100,428)	(336,116)	
Materials, supplies and deposits	78,845	294	79,139	14,112
Accrued payroll	(1,169)	6,370	5,201	
Accounts and other payables	56,050	56,659	112,709	124,616
Due to retirement system	(111,958)	(83,574)	(195,532)	
Net cash provided by operating activities	<u>\$4,228,982</u>	<u>\$7,069,140</u>	<u>\$11,298,122</u>	<u>\$825,503</u>
<b>NONCASH TRANSACTIONS:</b>				
Interest accrued on advance to other funds		\$28,314		
Contributions and transfers of capital assets, net		<u>\$4,472,066</u>	<u>\$4,472,066</u>	<u>\$148,498</u>

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.

### **SUCCESSOR AGENCY TO THE MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND**

The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Recognized Obligation Payment 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 POSITION  
 JUNE 30, 2015

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and investments (Note 3)	\$10,356,119	\$5,530,593
Interest receivable		7,417
Due from other governments		30,611
Property held for resale (Note 16B)	18,028,815	
Total Assets	28,384,934	\$5,568,621
<b>LIABILITIES</b>		
Accounts payable	103,311	
Refundable deposits		\$1,643,020
Due to Local Improvement Districts		3,925,601
Interest payable	1,855,676	
Long-term obligations (Note 16D):		
Due in one year	10,298,396	
Due in more than one year	160,667,206	
Total Liabilities	172,924,589	\$5,568,621
<b>NET POSITION (DEFICIT)</b>		
Held in trust for other governments	(\$144,539,655)	

See accompanying notes to financial statements

CITY OF MILPITAS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund <hr style="border: 0.5px solid black;"/>
Additions:	
Property taxes	\$18,793,598
Use of money and property	<u>400,300</u>
Total additions	<u>19,193,898</u>
Deductions:	
General and administrative	3,004,289
Debt Service:	
Interest and fees	<u>9,172,947</u>
Total deductions	<u>12,177,236</u>
Net change in net position	7,016,662
Net position (deficit) - beginning	<u>(151,556,317)</u>
Net position (deficit) - ending	<u><u>(\$144,539,655)</u></u>

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, redevelopment and economic development.

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 Public Financing Authority, the Milpitas Economic Development Corporation and the City of Milpitas Housing Authority, all 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 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 16, the Redevelopment Agency was dissolved effective January 31, 2012. 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 received 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 Corporation became inactive as of June 30, 2015.

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](http://www.ci.milpitas.ca.gov/government/finance). Separate financial statements are not issued for the 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 former 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, 2014 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Government-wide Statements:** The Statement of Net Position 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, except for interfund services provided and used, which are not eliminated in the process of consolidation. 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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, hotel taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, public works, recreation services and the other governmental services described above.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 former Redevelopment Agency, established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

**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.

**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.

**General Government Capital Project Fund** – Established to account for the construction and maintenance of general government projects. Financing is provided by the General Fund.

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.

**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. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, significant building permit fees, and interest revenue. Forfeitures, licenses, other 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 unearned 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 position 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.

**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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Prepays, 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. *Deferred Inflows and Deferred Outflows of Resources***

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension-related deferred outflows of resources arising from certain changes in the collective net pension liability.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources arising from certain changes in the collective net pension liability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**G. *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.

**H. *Revenue Recognition for 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.

**I. *New Fund and Closed Fund***

The Community Planning Special Revenue Fund was established to account for fees collected to fund the General Plan update, zoning ordinance update and other long range planning documents. The Economic Development Special Revenue Fund was closed as of June 30, 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*J. 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 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 Street Improvement, 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 do not require the adoption of an annual budget.

*C. Expenditures in Excess of Budget*

The Community Facilities District Special Revenue Fund had non-departmental expenditures in excess of budget in the amount of \$963. Sufficient resources were available within the fund to finance the excess.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 3 - CASH AND INVESTMENTS**

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, certain investments of the Successor Agency to the Milpitas Redevelopment Agency, 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.

**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	\$166,278,469
Restricted investments	<u>3,742,499</u>
Total Primary Government cash and investments	<u>170,020,968</u>
Cash and investments available for operations	22,664
Restricted investments	<u>1,345,483</u>
Total Component Unit cash and investments	<u>1,368,147</u>
Cash and investments	
in Fiduciary Funds (separate statement)	<u>15,886,712</u>
Total cash and investments	<u><u>\$187,275,827</u></u>

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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

*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
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	\$5 million or 10%
Commercial Paper	270 Days	AA	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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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
Federal 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/AA m	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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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	More than 60 Months	Total
<b>City and Successor Agency:</b>					
Federal Agency Obligations	\$26,040,930	\$19,024,175	\$38,020,160	\$2,003,080	\$85,088,345
Medium Term Corporate Notes	4,018,660	4,038,760	8,977,032		17,034,452
U.S. Treasury Notes	7,007,370	10,041,090	12,019,434		29,067,894
California Local Agency Investment Fund	45,016,919				45,016,919
Mutual Funds (U.S. Securities)	5,934,913				5,934,913
Negotiable Certificates of Deposit	250,072	250,985	1,505,701	250,000	2,256,758
<b>Terrace Gardens, Inc.:</b>					
Certificates of Deposit	885,427				885,427
Total Investments	<u>\$89,154,291</u>	<u>\$33,355,010</u>	<u>\$60,522,327</u>	<u>\$2,253,080</u>	185,284,708
<b>Demand Deposits - City of Milpitas</b>					1,508,399
<b>Demand Deposits - Terrace Gardens</b>					482,720
Total Cash and Investments					<u>\$187,275,827</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The 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, 2015 these investments matured in an average of 239 days.

Mutual funds are available for withdrawal on demand and at June 30, 2015 matured in an average of 37 days.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2015 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/ AAAm	AA+/AA/AA-	A+/A/A-	BBB+/BBB	Total
Federal Agency Obligations		\$85,088,345			\$85,088,345
Medium Term Corporate Notes	\$3,003,272	13,029,850	\$1,001,330		17,034,452
Mutual Funds (U.S. Securities)	5,934,913				5,934,913
Negotiable Certificates of Deposit		502,192	1,001,299	\$502,845	2,006,336
Totals	<u>\$8,938,185</u>	<u>\$98,620,387</u>	<u>\$2,002,629</u>	<u>\$502,845</u>	<u>110,064,046</u>
<i>Not rated:</i>					
California Local Agency Investment Fund					45,016,919
Negotiable Certificates of Deposit					250,422
<i>Exempt from credit rate disclosure:</i>					
U.S. Treasury Notes					29,067,894
Total Investments					<u>\$184,399,281</u>

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2015.

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2015, all of Terrace Gardens' Time Certificates of Deposit were fully insured by Federal Deposit Insurance.

**H. Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2015, the book value of the City's cash with banks and petty cash was \$1,508,399, and the associated bank balances were \$946,123. As of June 30, 2015, \$13,367 of the City's bank balances of \$946,123 was exposed to custodial credit risk, because it was uncollateralized beyond the FDIC insurance of \$250,000.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

*I. 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, 2015:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$34,102,150
Federal Home Loan Bank	Federal Agency Obligations	18,973,550
Federal National Mortgage Association	Federal Agency Obligations	18,018,940

Significant investments in the securities of any individual issuers, other than U.S. Treasury Securities, mutual funds and the California Local Agency Investments Fund, in Fiduciary Funds at June 30, 2015 were as follows:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Obligations	\$9,999,000

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2015 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
<i>Major Funds:</i>		
General Fund	Solid Waste Reduction and Services Special Revenue Fund	\$223,252 (A)
General Fund	Community Facilities District Special Revenue Fund	200,000 (A)
General Fund	Hetch-Hetchy Ground Lease Special Revenue Fund	7,859 (A)
General Fund	Water Utility Enterprise Fund	2,366,459 (A)
General Fund	Sewer Utility Enterprise Fund	1,527,385 (A)
General Fund	General Government Project Capital Projects Fund	976 (A)
Street Improvement Capital Projects Fund	General Fund	1,600,000 (B)
Street Improvement Capital Projects Fund	Economic Development Corporation Special Revenue Fund	3,992,627 (B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	1,637,437 (B)
Street Improvement Capital Projects Fund	Water Utility Enterprise Fund	225,000 (B)
Street Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	225,000 (B)
Transit Area Impact Fee Capital Projects Fund	Street Improvement Capital Projects Fund	500,000 (B)
Transit Area Impact Fee Capital Projects Fund	Sewer Utility Enterprise Fund	1,739,081 (B)
General Government Project Capital Projects Fund	General Fund	9,950,000 (B)
General Government Project Capital Projects Fund	Lighting & Landscape Maintenance District Special Revenue Fund	58,000 (B)
General Government Project Capital Projects Fund	Park Improvement Capital Projects Fund	600,000 (B)
General Government Project Capital Projects Fund	Equipment Management Internal Service Fund	170,000 (B)
<i>Non-Major Funds:</i>		
Park Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	300,000 (B)
Storm Drain Development Capital Projects Fund	General Government Project Capital Projects Fund	235,000 (B)
Total Interfund Transfers		<u>\$25,558,076</u>

The reasons for these transfers are set forth below:

- (A) Transfer for operating costs
- (B) To fund capital projects

**B. Long-Term Interfund Advances**

During fiscal year 2010, 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 did not have funding available for the project since fees have not yet been collected. The advance is due on April 7, 2029 and bears simple interest at the monthly investment return of the City's portfolio. The balance of the advance, including principal and accrued interest was \$5,473,314 as of June 30, 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

In June 2014, the General Fund advanced \$5,000,000 to the Transit Area Development Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2015, the balance of the advance was \$5,032,500.

**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 former 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.

These loans were comprised of the following at June 30, 2015:

Housing and Community Development Loans:	
Rehabilitation Loans	\$3,376,669
Housing Authority Loans:	
Milpitas Housing Associates	4,667,092
Parc Metropolitan Housing Development	116,356
Montague Parkway Associates, LP	859,336
Parc North Associates LLC	910,827
Mid-Peninsula Milpitas Affordable Housing Associates	16,411,854
KB Home South Bay Inc.	1,622,900
Western Pacific Housing Inc.	1,806,811
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	2,785,294
Total Housing Authority Loans Receivable	29,980,470
Total Loans Receivable	\$33,357,139

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2015 the City had outstanding rehabilitation loans of \$3,376,669 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2015, the City received \$7,944 from all participants, and made new loans totaling \$105,608.

**B. *Milpitas Housing Associates Loan***

In fiscal 1997, the former 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 fiscal year 2015, a payment of \$233,558 was received, interest of \$241,647 was accrued, and as of June 30, 2015, principal and accrued interest outstanding totaled \$4,667,092.

**C. *Parc Metropolitan Housing Development Loans***

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2015, the Housing Authority received principal payments of \$4,552 and as of June 30, 2015, there were \$116,356 in loans outstanding.

**D. *Montague Parkway Associates, LP***

The former 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 \$41,520 was paid in fiscal 2015, and as of June 30, 2015, the outstanding balance totaled \$859,336.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 5 - LOANS RECEIVABLE (Continued)**

**E. *Parc North Associates LLC Loan***

In September 2003, the former Redevelopment 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 61<sup>st</sup> month after the recordation of the deeds of trust and continues until the loans are paid in full. During fiscal year 2015, principal of \$200,590 was paid and as of June 30, 2015, there were \$910,827 of such loans outstanding.

**F. *Mid-Peninsula Milpitas Affordable Housing Associates***

In December 2005, the former Redevelopment 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 a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2015, interest of \$288,001 was accrued, and as of June 30, 2015, principal and accrued interest outstanding totaled \$16,411,854.

**G. *KB Home South Bay Inc. Loans***

In January 2005, the former Redevelopment 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 former Redevelopment 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 37<sup>th</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to changes in the housing market and stricter lending requirements which had created unforeseen challenges in finding qualified buyers for the affordable units, the former Redevelopment 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, 2015, there were \$1,622,900 of loans to Parcel C households outstanding. As of June 30, 2015 subsidies totaling \$4,707,542 had been provided.

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**NOTE 5 - LOANS RECEIVABLE (Continued)**

*H. Western Pacific Housing Inc., Loans*

In August 2005, the former Redevelopment 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 former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment 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 61<sup>st</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full. Principal of \$4,280 was repaid in fiscal year 2015 and as of June 30, 2015, there were \$609,811 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.

In September 2006, the former Redevelopment 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 date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2015, there were \$1,197,000 of silent second loans outstanding.

*I. Shapell Industries*

In June 2004, the former Redevelopment 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 date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2015, there were \$800,000 of silent second loans outstanding.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 5 - LOANS RECEIVABLE (Continued)**

**J. MIL Aspen Associates, Ltd.**

In April 2007, the former Redevelopment 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. During the year ended June 30, 2015, the Housing Authority received payments totaling \$63,913 and interest accrued during the fiscal year totaled \$136,053. As of June 30, 2015, principal and accrued interest totaled \$2,785,294.

**NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT**

**A. General Fund**

As discussed in Note 16, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, a land parcel was transferred from the Successor Agency to the City in June 2014. One parcel not subject to housing related provisions was transferred to the City from the Housing Authority in June 2014.

The 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.

As of June 30, 2015, property totaling \$17,600,000 is being held by the General Fund.

**B. Housing Authority**

The former Redevelopment 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. 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.

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. Two of the KB Home Subdivision units with a book value of \$376,795 and \$294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of \$1,245,559. The units were purchased in order to retain them as affordable housing units and are being held for future resale. Four of the units are rented to tenants.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

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

In November 2009 the Agency purchased property along South Main Street in the amount of \$12,443,137, which was intended for the development of senior housing with low income housing units as discussed in Note 7B.

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.

As of June 30, 2015, property totaling \$15,282,370 is being held by the Housing Authority.

**NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS**

The City and former 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, 2015, the outstanding principal of the debt was \$50,600,000. The debt service payments on these bonds are solely the responsibility of the developer.

In June 2015 the Housing Authority approved the issuance of refunding bonds in the amount of \$45 million to refinance the acquisition construction and improvements to the project. The bonds were issued on August 26, 2015.

**B. *South Main Senior Lifestyles, LLC.***

In August 2009, the former Redevelopment 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. In November 2009, the Agency purchased the properties along South Main Street in the amount of \$12,443,137. 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 was to provide a grant in the amount of \$7.7 million to support the development and operation of the Phase 1 Parcel project.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)**

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.

In November 2013, the Housing Authority amended the Disposition and Development Agreement. The amendment states the Authority will convey the properties to the developer as a grant after certain requirements are fulfilled. In addition, the amendment also eliminates the \$7.7 million grant obligation included in the initial agreement. It further amended the number of affordable units from 63 to 48, all at the very low income level for seniors.

In June 2015, the Housing Authority amended the Disposition and Development Agreement to extend the deadline to convey the properties to the developer from November 19, 2015 to June 30, 2017. As of June 30, 2015, the terms of the amendment have not yet been fulfilled and the properties have not been transferred to the developer.

**C. *D.R. Horton Bay, Inc.***

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive fee credits totaling \$4,365,061 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation and will be reimbursed \$914,405 for the cost of improvements to the sewer lines 11A and 11B. During the year ended June 30, 2015, the City issued fee credits in the amount of \$2,047,219 and reimbursed improvements to 11A and 11B of \$914,405.

**D. *KLA-Tencor Corporation***

In June 2009, the City entered into a Sales Tax Sharing Agreement with KLA-Tencor Corporation (KLA). Under the terms of the Agreement, the City agreed to pay KLA 50% of the calendar year sales and use tax revenues paid by KLA and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from KLA for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$223,610 of sales tax to KLA during fiscal year 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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 statement of net position 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 8 - CAPITAL ASSETS (Continued)**

*A. Governmental Capital Asset Additions, Retirements and Balances*

	Balance at June 30, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets not being depreciated:					
Land	\$57,566,357				\$57,566,357
Construction in progress	16,426,597	\$4,710,017		(\$125,000)	21,011,614
Total capital assets not being depreciated	73,992,954	4,710,017		(125,000)	78,577,971
Capital assets being depreciated:					
Buildings and improvements	162,708,726				162,708,726
Other improvements	26,481,547				26,481,547
Machinery and equipment	38,423,423	389,142	(\$110,834)	125,000	38,826,731
Landscape system	29,648,018	378			29,648,396
Storm system	74,299,423				74,299,423
Street system	241,741,551	5,192,855			246,934,406
Traffic system	18,919,529	513			18,920,042
Total capital assets being depreciated	592,222,217	5,582,888	(110,834)	125,000	597,819,271
Less accumulated depreciation for:					
Buildings and improvements	(51,874,671)	(5,850,190)			(57,724,861)
Other improvements	(17,848,608)	(763,993)			(18,612,601)
Machinery and equipment	(25,275,256)	(2,510,625)	110,834		(27,675,047)
Landscape system	(12,309,759)	(594,060)			(12,903,819)
Storm system	(70,243,784)	(552,465)			(70,796,249)
Street system	(178,466,357)	(5,660,107)			(184,126,464)
Traffic system	(12,218,325)	(654,625)			(12,872,950)
Total accumulated depreciation	(368,236,760)	(16,586,065)	110,834		(384,711,991)
Net capital assets being depreciated	223,985,457	(11,003,177)		125,000	213,107,280
Governmental activity capital assets, net	\$297,978,411	(\$6,293,160)			\$291,685,251

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Governmental activities construction in progress comprised the following at June 30, 2015:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Alviso Adobe Renovations	\$5,424,272	\$5,413,916	\$10,356
Park Irrigation System Rehabilitation	400,000	376,008	23,992
Park Renovation Project	277,778	246,317	31,461
Main Street Park	350,000	188	349,812
Park Renovation Project	400,000	298,822	101,178
Pinewood Park Picnic Renovation	2,000,000	1,813,427	186,573
Higuera Adobe Park	2,000,000	12,877	1,987,123
Park Irrigation System	300,000	99,919	200,081
Park Renovation Project 2015	300,000	56,116	243,884
Sports Center Skate Park	100,000	33,288	66,712
McCandless Park	300,000	3,252	296,748
McCarthy Blvd Landscape	595,000	468,922	126,078
Fire Station Improvements	1,500,000	442,135	1,057,865
City Building Improvements	950,000	627,374	322,626
Midtown Parking Garage	113,804	37,728	76,076
MSC Facility Improvement	1,900,000	1,324,997	575,003
Public Works/Police Building	300,000	269,435	30,565
Sinclair LMD Improvements	73,000	22,265	50,735
Street Resurfacing 2014	2,579,288	1,924,590	654,698
2015 Finance System Upgrade	170,000	145,022	24,978
Storm Drain System	700,000	354,646	345,354
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	326,729	162,867	163,862
Storm Pump Station Improvements	28,590	526	28,064
Dempsey Road Storm Drain	400,000	62,221	337,779
Penitencia Pump Station	250,000	26,586	223,414
Light Rail Median Lane	6,005,000	1,767,994	4,237,006
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
Lower Penitencia Creek	650,000	68,472	581,528
VTA BART Project	17,000,000	3,600,000	13,400,000
TASP Traverse Development	1,351,704	1,351,704	
Total construction in progress	<u>\$47,133,165</u>	<u>\$21,011,614</u>	<u>\$26,121,551</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 8 - CAPITAL ASSETS (Continued)**

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

	Balance at June 30, 2014	Additions	Balance at June 30, 2015
Capital assets not being depreciated:			
Land	\$1,133,079		\$1,133,079
Construction in progress	6,242,869	\$811,460	7,054,329
Total capital assets not being depreciated	<u>7,375,948</u>	<u>811,460</u>	<u>8,187,408</u>
Capital assets being depreciated:			
Distribution facilities	79,548,803		79,548,803
Service lines	12,913,949		12,913,949
Sewer lines	77,369,820	4,472,066	81,841,886
Capacity rights	46,412,455	4,280,174	50,692,629
Total capital assets being depreciated	<u>216,245,027</u>	<u>8,752,240</u>	<u>224,997,267</u>
Less accumulated depreciation for:			
Distribution facilities	(45,218,008)	(1,416,506)	(46,634,514)
Service lines	(5,405,813)	(234,944)	(5,640,757)
Sewer lines	(42,811,293)	(1,425,020)	(44,236,313)
Capacity rights	(15,459,602)	(1,491,499)	(16,951,101)
Total accumulated depreciation	<u>(108,894,716)</u>	<u>(4,567,969)</u>	<u>(113,462,685)</u>
Net capital assets being depreciated	<u>107,350,311</u>	<u>4,184,271</u>	<u>111,534,582</u>
Business-type activity capital assets, net	<u>\$114,726,259</u>	<u>\$4,995,731</u>	<u>\$119,721,990</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Business-type activities construction in progress comprised the following at June 30, 2015:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Main SPS Site Improvements	\$2,302,000	\$2,159,798	\$142,202
Minor Sewer Projects	35,000	3,933	31,067
Sewer System Replacement I	1,750,000	352,252	1,397,748
Sewer System Replacement	1,750,000	147,796	1,602,204
TASP Sewer Line Replacement	2,500,000		2,500,000
CCTV Sanitary Sewer	165,000		165,000
Minor Sewer Projects 2015	350,000		350,000
Pressure Reducing Valve Replacement	320,000	41,286	278,714
Well Upgrade Program	4,645,000	1,807,777	2,837,223
Water System Seismic Improvements	4,187,951	723,545	3,464,406
Ayer Reservoir & Pump Station Improvements	1,050,000	658,802	391,198
Water System Replacement 08-09	700,000	118,819	581,181
Hydrant Replacement	170,000	621	169,379
Minor Water Projects	95,000	16,285	78,715
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	37,566	37,434
Cathodic Protection I	725,000	617,456	107,544
Minor Water Projects	150,000	134,380	15,620
Abel Street Pipeline Extension	350,000	11,159	338,841
Dempsey Road Water Line Replacement	3,607,772	172,885	3,434,887
Sunnyhills Turnout Pressure	600,000		600,000
Automated Water Meter Replacement	1,295,000	28,915	1,266,085
Daniel Court Water Service	525,000		525,000
Minor Water Projects 2015	105,000	21,054	83,946
Water System Air Relief Modification	350,000		350,000
Water Conservation	800,000		800,000
Supervisory Control	50,000		50,000
Total construction in progress	<u>\$28,802,723</u>	<u>\$7,054,329</u>	<u>\$21,748,394</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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 December 31, 2014:

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$1,565,277			\$1,565,277
Construction in Progress	46,658	\$208,156	(\$46,658)	208,156
Total capital assets not being depreciated	<u>1,611,935</u>	<u>208,156</u>	<u>(46,658)</u>	<u>1,773,433</u>
Capital assets being depreciated:				
Buildings	11,560,280	45,068		11,605,348
Furniture	270,278	13,116		283,394
Office equipment	65,096			65,096
Improvements	2,403,893			2,403,893
Total capital assets being depreciated	<u>14,299,547</u>	<u>58,184</u>		<u>14,357,731</u>
Less accumulated depreciation	<u>(6,645,019)</u>	<u>(412,406)</u>		<u>(7,057,425)</u>
Net capital assets being depreciated	<u>7,654,528</u>	<u>(354,222)</u>		<u>7,300,306</u>
Total capital assets, net	<u>\$9,266,463</u>	<u>(\$146,066)</u>	<u>(\$46,658)</u>	<u>\$9,073,739</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 8 - CAPITAL ASSETS (Continued)**

**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:

<i>Governmental Activities:</i>	
General Government	\$5,426,550
Public Works	8,386,263
Parks and Recreation	844,136
Police	847,299
Fire	337,420
Internal Service Fund	744,397
<b>Total Governmental Activities</b>	<u><u>\$16,586,065</u></u>
 <i>Business-Type Activities:</i>	
Water Utility	\$1,651,449
Sewer Utility	2,916,520
<b>Total Business-Type Activities</b>	<u><u>\$4,567,969</u></u>
 <i>Discretely Presented Component Unit:</i>	
Terrace Gardens, Inc.	<u><u>\$354,222</u></u>

**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 8.53% of the total plant capacity, 167 million gallons per day. The City has capitalized its share in the amount of \$50,692,629. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2015 the City's operation and maintenance share was approximately 5.966% of the total WPCP operations.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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.

	Original Issue Amount	Balance June 30, 2014	Retirements	Balance June 30, 2015	Current Portion
<b>Governmental Activity Debt:</b>					
<b>Purchase Agreement</b>					
with Mission West Properties					
0%, due February 15, 2016 (repaid February 2015)	\$21,780,000	\$6,000,000	\$6,000,000		
<b>Cisco Phone System Capital Lease</b>					
0.620%, due September 18, 2016	480,302	273,950	88,442	\$185,508	\$91,286
Total Governmental Activity Debt	<u>\$22,260,302</u>	<u>\$6,273,950</u>	<u>\$6,088,442</u>	<u>\$185,508</u>	<u>\$91,286</u>
<b>Business-type Activity Debt:</b>					
<b>Sewer Certificates of Participation, 2006 Series A</b>					
3.4% - 4.20%, due November 1, 2026	\$9,535,000	\$6,910,000	\$420,000	\$6,490,000	\$435,000
Total Business-type Activity Debt	<u>\$9,535,000</u>	<u>\$6,910,000</u>	<u>\$420,000</u>	<u>\$6,490,000</u>	<u>\$435,000</u>

**B. Mission West Purchase Agreement**

In February 2011, the former Redevelopment 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 two of the 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. In fiscal year 2015, \$4,134,284 in park-in-lieu fees were paid to Mission West Properties, and park in-lieu fees paid to Mission West Properties to date total \$7.91 million. The remaining balance of the Agreement of \$1,865,716 was paid to Mission West Properties in February 2015.

As discussed in Note 16, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the property was conveyed to the City, and the City assumed the Purchase Agreement from the Corporation.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 9 - LONG TERM DEBT (Continued)**

**C. Cisco Phone System Capital Lease**

In September 2012, the City entered into a purchase agreement in the amount of \$480,302 at 0.62% interest with Key Government Finance, Inc. to finance the purchase and installation of the City's phone system. Principal and interest payments of \$97,252 are due each September 18 through 2016.

**D. 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 2015, net revenues amounted to \$7,401,206, which represented coverage of 10.81 over the \$684,528 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.

**E. Debt Service Requirements**

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Total Principal	Total Interest	Total Principal	Total Interest
2016	\$91,286	\$5,966	\$435,000	\$249,348
2017	94,222	3,030	450,000	233,193
2018			470,000	216,055
2019			485,000	198,027
2020			505,000	179,028
2021 - 2025			2,840,000	572,309
2026 - 2027			1,305,000	55,335
	<u>\$185,508</u>	<u>\$8,996</u>	<u>\$6,490,000</u>	<u>\$1,703,295</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 10 – NET POSITION AND FUND BALANCES**

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

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

**A. Net Position**

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

*Net Investment in Capital Assets and Capacity Rights*, describes the portion of Net Position 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. Net investment in capital assets and capacity rights for the Governmental Activities is calculated as follows:

Total capital assets and capacity rights	\$291,685,251
Total outstanding debt	<u>(185,508)</u>
Net Investment in Capital Assets	<u><u>\$291,499,743</u></u>

*Restricted* describes the portion of Net Position 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 community development activities.

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

**B. Fund Balances**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund’s cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources.

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 property held for resale 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.

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

*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 resolution 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

Detailed classifications of the City's Fund Balances, as of June 30, 2015, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Fund Housing Authority	Major Capital Projects			Other Governmental Funds	Total
			Street Improvement Fund	Transit Area Impact Fee Fund	General Government Project Fund		
<b>Nonspendable:</b>							
Prepays, materials, supplies and deposits	\$632,723	\$3,805				\$7,038	\$643,566
Property held for resale	17,600,000						17,600,000
Advance to other funds	5,032,500						5,032,500
<b>Subtotal Nonspendable</b>	<b>23,265,223</b>	<b>3,805</b>				<b>7,038</b>	<b>23,276,066</b>
<b>Restricted for:</b>							
Redevelopment Projects and Programs and Maintenance			\$11,136,342			3,475,289	14,611,631
Housing and community development		51,435,573				3,431,637	54,867,210
Law enforcement services						186,303	186,303
Solid waste reduction and services						2,127,584	2,127,584
Assessment district services						347,462	347,462
Hetch-Hetchy ground lease						1,645,656	1,645,656
Community planning						222,448	222,448
Park improvement projects						16,048,734	16,048,734
Storm drain projects						2,290,304	2,290,304
<b>Subtotal Restricted</b>		<b>51,435,573</b>	<b>11,136,342</b>			<b>29,775,417</b>	<b>92,347,332</b>
<b>Committed to:</b>							
PERS stabilization	5,432,703						5,432,703
<b>Assigned to:</b>							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						128,407	128,407
Other contracts	436,006						436,006
General government capital projects	3,760,041				\$20,678,315		24,438,356
<b>Subtotal Assigned</b>	<b>7,012,741</b>				<b>20,678,315</b>	<b>128,407</b>	<b>27,819,463</b>
<b>Unassigned:</b>							
General Fund	13,863,787						13,863,787
Other governmental fund deficit residuals					(\$5,932,322)		(5,932,322)
<b>Subtotal Unassigned</b>	<b>13,863,787</b>				<b>(5,932,322)</b>		<b>7,931,465</b>
<b>Total fund balances (deficit)</b>	<b>\$49,574,454</b>	<b>\$51,439,378</b>	<b>\$11,136,342</b>	<b>(\$5,932,322)</b>	<b>\$20,678,315</b>	<b>\$29,910,862</b>	<b>\$156,807,029</b>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

**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 from unassigned fund balance after the 15% requirement of the operating expenditures has been met.
- 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 uninsured claims 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 and 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 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.
- 8) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund.

**D. *Fund Balance Deficit***

The Transit Area Impact Fee Capital Projects Fund had deficit fund balance of \$5,932,322. The deficit will be eliminated by future revenues.

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

*E. Fund Balance and Net Position Restatements*

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intension of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the City to make prior period adjustments. As a result, the beginning net positions of the Governmental Activities, Business-Type Activities, Water Utility Fund and Sewer Utility Fund were restated and reduced by \$135,121,186, \$6,678,212, \$3,823,815 and \$2,854,397, respectively. See Note 11 for additional information

The City changed its accounting policy related to loans receivable in fiscal year 2015. Rather than offsetting long-term loans receivable with unavailable revenue (deferred inflow of resources), loans receivable are now a component of fund balance. As a result, beginning fund balance in the Housing Authority Special Revenue Fund has been restated and increased in the amount of \$29,863,182.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS**

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

*Plan Descriptions* – All qualified permanent and probationary employees are eligible to participate in the City’s separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided* – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<b>Miscellaneous</b>		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
Hire date			
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% - 2.7%	1.092% - 2.418%	1.0% - 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	25.574%	25.574%	25.574%

	<b>Safety</b>		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to April 8, 2012	After April 8, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% - 3%	2.0% - 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	35.095%	35.095%	35.095%

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS (Continued)**

*Employees Covered* – The following employees were covered by the benefit terms for each Plan as of the most recent actuarial valuation date of June 30, 2013:

	Miscellaneous			Safety		
	Classic Tier I	Classic Tier II	PEPRA Plan	Classic Tier I	Classic Tier II	PEPRA Plan
Inactive employees or beneficiaries currently receiving benefits	306			203		
Inactive employees entitled to but not yet receiving benefits	284			38		
Active employees	161	9	8	127	2	0
<b>Total</b>	<b>751</b>	<b>9</b>	<b>8</b>	<b>368</b>	<b>2</b>	<b>0</b>

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

**B. Net Pension Liability**

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (2)	3.3% - 14.2% (2)
Investment Rate of Return	7.5% (3)	7.5% (3)
Mortality	Derived using CalPers Membership Data for all Funds (4)	Derived using CalPers Membership Data for all Funds (4)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tier II, and PEPRA)

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

(3) Net of pension plan investment expenses, including inflation

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

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**NOTE 11 - PENSION PLANS (Continued)**

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS (Continued)**

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

The changes in the Net Pension Liability for each Plan follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2013</b>	\$184,205,937	\$128,172,005	\$56,033,932
<b>Changes in the year:</b>			
Service cost	2,652,510		2,652,510
Interest on the total pension liability	13,600,615		13,600,615
Differences between actual and expected experience			
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		3,356,909	(3,356,909)
Contribution - employee (paid by employer)			
Contribution - employee		1,439,932	(1,439,932)
Net investment income		22,034,637	(22,034,637)
Administrative expenses			
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,381,334)	0
<b>Net changes</b>	<u>7,871,791</u>	<u>18,450,144</u>	<u>(10,578,353)</u>
<b>Balance at June 30, 2014</b>	<u>\$192,077,728</u>	<u>\$146,622,149</u>	<u>\$45,455,579</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS (Continued)**

*Safety Plan:*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2013</b>	<u>\$268,587,329</u>	<u>\$175,461,012</u>	<u>\$93,126,317</u>
<b>Changes in the year:</b>			
Service cost	4,932,970		4,932,970
Interest on the total pension liability	19,838,662		19,838,662
Differences between actual and expected experience			
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		5,856,270	(5,856,270)
Contribution - employee (paid by employer)			
Contribution - employee		1,839,234	(1,839,234)
Net investment income		30,157,647	(30,157,647)
Administrative expenses			
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,076,629)	
<b>Net changes</b>	<u>11,695,003</u>	<u>24,776,522</u>	<u>(13,081,519)</u>
<b>Balance at June 30, 2014</b>	<u>\$280,282,332</u>	<u>\$200,237,534</u>	<u>\$80,044,798</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	\$70,933,753	\$116,936,689
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$45,455,579	\$80,044,798
1% Increase	8.50%	8.50%
Net Pension Liability	\$24,374,093	\$49,520,711

*Pension Plan Fiduciary Net Position* – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS (Continued)**

**D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2015, the City recognized pension expense of \$7,573,766. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Miscellaneous Plan:**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$3,252,668	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$10,076,770)
Total	<u>\$3,252,668</u>	<u>(\$10,076,770)</u>

**Safety Plan:**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$5,904,019	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$13,796,017)
Total	<u>\$5,904,019</u>	<u>(\$13,796,017)</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 11 - PENSION PLANS (Continued)**

\$9,156,687 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

*Miscellaneous Plan:*

Year Ended June 30	Annual Amortization
2016	(\$2,519,192)
2017	(2,519,192)
2018	(2,519,192)
2019	(2,519,194)
2020	0
Thereafter	0

*Safety Plan:*

Year Ended June 30	Annual Amortization
2016	(\$3,449,004)
2017	(3,449,004)
2018	(3,449,004)
2019	(3,449,005)
2020	0
Thereafter	0

**E. 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 \$21,501 and the employee's required contributions of \$86,001 were made during the fiscal year ending June 30, 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2015 there were 282 participants receiving these health care benefits.

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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap 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 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap 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 10 but less than 15 15 but less than 20 At least 20	Up to 15% of the benefit cap for safety unrepresented, 25% for all others Up to 15% of the benefit cap for safety unrepresented, 50% for all others Up to 15% of the benefit cap for safety unrepresented, 75% for all others Up to 15% of the benefit cap for safety unrepresented, 100% for all others
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 (\$91.50 per month in 2015)
	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 At least 10	50% of the benefit cap 100% of the benefit cap
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10 At least 10	Up to 50% of the lesser of the retiree cap and the premium rate 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 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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 (\$91.50 per month in 2015)
	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 9 but less than 14 full years of service 14 but less than 19 full years of service At least 19 full years of service	Up to 25% of the retiree cap Up to 50% of the retiree cap Up to 75% of the retiree cap 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 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City Up to 50% of the lowest cost employee only premium Up to 75% of the lowest cost employee only premium 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 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap 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, 2015 was determined as part of a July 1, 2013 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) 7.50% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health costs trend rates of 5.50%-7.00% 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2013, the actuarial accrued liability was estimated to be \$60,933,391.

**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, 2015, the City contributed the ARC of \$3,848,712 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	\$3,848,712
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	3,848,712
Contributions made	<u>(3,848,712)</u>
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2014	<u>0</u>
<b>Net OPEB obligation (asset) June 30, 2015</b>	<b><u><u>\$0</u></u></b>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013, amounted to \$60,933,391. 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 reimbursed to the City, resulted in assets with CERBT of \$32,569,037 as of June 30, 2015, which partially funds the actuarial accrued liability.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2013, 2014 and 2015 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2013	\$3,475,268	\$3,475,268	100%	\$0
June 30, 2014	3,710,039	3,710,039	100%	0
June 30, 2015	3,848,712	3,848,712	100%	0

The Schedule of Funding Progress below and the required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the latest available actuarial study 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
7/1/2013	\$24,778,279	\$60,933,391	\$36,155,112	40.66%	\$35,200,000	102.71%

**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, 2015, sick leave benefits payable increased by \$324,807 and vacation benefits payable increased by \$254,959. 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 Position.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2014	\$4,288,610	\$253,806	\$3,704,737	\$261,378
Additions	2,745,173	246,129	1,156,971	109,827
Payments and adjustments	(2,533,965)	(202,377)	(877,648)	(64,343)
Balance as of June 30, 2015	<u>\$4,499,818</u>	<u>\$297,558</u>	<u>\$3,984,060</u>	<u>\$306,862</u>
General Government	\$474,029		\$178,284	
Building	132,976		115,417	
Public Works	150,637		70,976	
Engineering and Planning	140,977		137,466	
Recreation	73,498		65,523	
Police	2,429,583		1,307,578	
Fire	1,030,832		2,073,660	
Water Utility		\$148,779		\$153,431
Sewer Utility		148,779		153,431
Internal Service	67,286		35,156	
Total	<u>\$4,499,818</u>	<u>\$297,558</u>	<u>\$3,984,060</u>	<u>\$306,862</u>
Long-Term Portion:				
Governmental activities	\$3,985,912		\$3,693,297	
Business-type activities		\$119,806		\$224,010
Total long term portions	<u>\$3,985,912</u>	<u>\$119,806</u>	<u>\$3,693,297</u>	<u>\$224,010</u>
Current Portion:				
Governmental activities	\$513,906		\$290,763	
Business-type activities		\$177,752		\$82,852
Total current portions	<u>\$513,906</u>	<u>\$177,752</u>	<u>\$290,763</u>	<u>\$82,852</u>

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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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, 2015 the City contributed \$450,636 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, 2015 the City paid \$665,915 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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:

	2015			2014
	Worker's Compensation	General Liability	Total	
Beginning balance	\$3,783,770	\$2,583,445	\$6,367,215	\$3,420,058
Liability for current fiscal year claims	1,865,722	325,524	2,191,246	1,035,539
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(151,120)	(2,048,184)	(2,199,304)	3,021,913
Claims paid	(682,959)	(262,483)	(945,442)	(1,110,295)
Ending balance	<u>\$4,815,413</u>	<u>\$598,302</u>	<u>\$5,413,715</u>	<u>\$6,367,215</u>
Due in one year	<u>\$791,755</u>	<u>\$163,976</u>	<u>\$955,731</u>	<u>\$921,169</u>

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 as amended 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**C. 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, 2015 were as follows:

Major Governmental Funds:	
General Fund	\$436,006
Economic Development Corporation	3,060
Housing Authority	25
Street Improvement Fund	4,640,011
Transit Area Impact Fee Fund	322,451
Non-Major Governmental Funds	1,418,743
Total Encumbrances	\$6,820,296

**D. Silicon Valley Rapid Transit Program Berryessa Extension Project**

In September 2010, as amended, the City entered into a Master Agreement with the Santa Clara Valley Transportation Authority (VTA) to define the respective rights and obligations of each party and to ensure future cooperation between the City and VTA in connection with the Silicon Valley Rapid Transit Program Berryessa Extension Project. The Project is funded in part with funds made available to VTA by the Federal Transit Administration, and VTA will perform all acquisition, design and construction activities related to the Project.

Under the terms of the Master Agreement, VTA is entitled to reimbursement from the City's Transit Area Specific Plan (TASP) developer fees for a portion of the costs related to the eastern segment of the Milpitas Boulevard extension. The City's reimbursement commitment for this phase of the Project is not to exceed \$17.0 million and is repayable as the TASP developer fees become available. Although the VTA has first priority to the available TASP funds, the payment is subordinated to the City's existing interfund advances to the Transit Area Impact Fee Capital Projects Fund.

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of \$3.6 million through June 30, 2015. The Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment, therefore, the City has recorded a liability in the amount of \$3.6 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2015.

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

*E. South Bay Water Recycling System Facility Replacement*

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned \$2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 5.966% as discussed in Note 8E.

*F. Bay Area Water Supply and Conservation Agency Revenue Bonds Surcharge*

The City contracts with the City and County of San Francisco for the purchase of water from the Hetch Hetchy System operated by the San Francisco Public Utilities Commission (SFPUC). The City is also a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of all the 24 cities and water districts, as well as two private utilities, that purchase wholesale water from the SFPUC.

In 2009 the City entered into a new 25 year agreement with the SFPUC that includes a minimum water delivery level of 5.341MGD. One of the ways that the new agreement differs from the old is in how facilities constructed by the SFPUC that benefit the regional customers are treated from a rate and financial perspective. Under the old agreement, facilities were built, capitalized, and added to the rate base with a rate of return (interest), and then paid for over their useful lives through wholesale rates. Under the new agreement, the SFPUC issues revenue bonds and the debt service (which also includes an interest component) is paid for through rates over the life of the bonds.

During the transition from the old to the new contracts, one of the issues addressed was how to deal with the \$370 million in assets that were still being paid for by the wholesale customers under the old agreement. The assets were transferred to the new agreement, assigned a life with an agreed upon rate of return of 5.13%. Also negotiated was a provision to allow the wholesale customers to prepay any remaining existing assets' unpaid principal balance without penalty or premium. This prepayment was executed through the issuance of bonds by BAWSCA which provide a better interest rate given the favorable rate environment.

BAWSCA issued Revenue Bonds in the principal amount of \$335,780,000 in January 2013 to prepay the capital cost recovery payment obligation and fund a stabilization fund. The Bonds mature in October 2034 and are secured by surcharges to the monthly water purchase charges imposed upon the participating members. The Bonds are not a debt obligation of any member, and BAWSCA's failure to pay its Bonds would not constitute a default by any participating member.

Should any participating member fail to pay its share, BAWSCA will rely on the stabilization fund and will pursue all legal remedies to collect the shortfall from the delinquent member. In the interim, other participating members may have their portion adjusted to insure the continued payment of the debt service surcharge.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

The risk of bearing the debt service expense of a defaulting member is not significantly different than the risk each member assumes currently for fluctuations in water purchase charges. Under the Bond indenture, BAWSCA maintains a stabilization fund. If surcharge revenues collected are less than needed (due to a member's failure to pay timely), BAWSCA uses the stabilization fund to fund the debt service deficiency, and increases the surcharge in the subsequent year to make up for the prior year shortfall and reimburse the stabilization fund account. Also, given that each participating agency's governing body adopted a Resolution to participate in the Bond issue, Management believes that default is generally very unlikely.

The annual debt service surcharges are a fixed amount for each participant and are calculated by taking the subsequent fiscal year's debt service, multiplied by each participant's actual water purchase as a percent of total wholesale customer water purchases from the prior fiscal year. One-twelfth of the annual surcharge is included in the monthly bill from SFPUC. Because each participant's share of the debt service surcharge is proportional to the amount of water purchased during the prior fiscal year, the City's share of the debt service will fluctuate from year to year.

The City paid its surcharge of \$1,072,176 during fiscal year 2015, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2016 is estimated to be \$1,095,677.

**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. LID No. 18, Reassessment and Refunding of 1998 was fully retired in September 2014. The outstanding balance of each of the remaining issues as of June 30, 2015 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2015
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$335,000 - 360,000	2016-2017	\$695,000
LID #18	1999	5.85%	240,000 - 285,000	2016-2019	1,050,000
LID #20	1999	5.70%	1,125,000 - 1,330,000	2016-2019	4,905,000
Total					<u>\$6,650,000</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

**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.

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.

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.

Cash and investments of the Successor Agency as of June 30, 2015 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, 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

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

**B. *PROPERTY HELD FOR RESALE***

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. Pursuant to the settlement agreement discussed in Note 16E, the City conveyed four parcels to the Successor Agency in fiscal year 2014, which are held for future sale.

As of June 30, 2015, property totaling \$18,028,815 is held by the Successor Agency.

**C. *DEVELOPMENT AGREEMENTS***

The Successor Agency assumed the obligations of the Redevelopment Agency's Disposition and Development Agreements 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.

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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

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

**D. LONG-TERM OBLIGATIONS**

**1. Current Year Transactions and Balances**

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

	Balance June 30, 2014	Additions	Retirements/ Refunding	Balance June 30, 2015	Current Portion
<b>2003 Tax Allocation Bonds</b>					
2%-5.25%, due September 1, 2032	\$152,110,000		\$152,110,000		
<b>Installment Purchase Agreement with the County of Santa Clara due June 30, 2023</b>	25,204,840		3,069,566	\$22,135,274	\$2,923,396
<b>2015 Tax Allocation Bonds</b>					
2%-5%, due September 1, 2032		\$127,790,000		127,790,000	7,375,000
Plus: Unamortized bond premium		21,437,315	396,987	21,040,328	
<b>Total</b>	<u>\$177,314,840</u>	<u>\$149,227,315</u>	<u>\$155,576,553</u>	<u>\$170,965,602</u>	<u>\$10,298,396</u>

**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 were secured by a \$13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal was payable annually and the interest is payable semi-annually through 2033. The 2003 Tax Allocation Bonds were refunded in March 2015 by the 2015 Tax Allocation Refunding Bonds.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

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

3. *2015 Tax Allocation Refunding Bonds*

In March 2015, the Successor Agency issued Tax Allocation Refunding Bonds in the original principal amount of \$127,790,000. The proceeds of the Bonds were used to advance refund and defease the outstanding balance of the 2003 Tax Allocation Bonds. The Bonds are secured by Redevelopment Property Tax Trust Fund (RPTTF) revenues. In lieu of a reserve fund, the 2015 Bonds are secured by a reserve insurance policy in the amount of \$11,822,000, issued by Assured Guaranty Municipal Corp. Principal is payable annually and the interest is payable semi-annually through 2032. The refunding resulted in an overall debt service savings of \$27,320,871, and the net present value of the debt service savings, called an economic gain, amounted to \$22,449,613. The 2003 Bonds were redeemed on March 23, 2015.

4. *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 16C(1) above. As discussed in Note 16C (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 \$22,135,274 at June 30, 2015, representing the present value of future payments due under this Agreement.

5. *Debt Service Requirements*

Debt service requirements are shown below for all long-term debt:

Year Ending June 30	Principal	Interest
2016	\$10,298,396	\$7,643,632
2017	8,829,187	7,897,988
2018	8,876,607	7,815,393
2019	9,505,408	8,182,592
2020	9,621,103	8,029,022
2021-2025	46,934,573	29,180,302
2026-2030	41,270,000	8,399,250
2031-2033	14,590,000	946,500
	149,925,274	\$78,094,679
Plus: Unamortized bond premium	21,040,328	
	\$170,965,602	

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2015**

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

**6. *Defeased Bonds***

As of June 30, 2015, the outstanding balance for defeased debt was \$19,325,000 for the Redevelopment Agency 1997 Tax Allocation Bonds. The defeased Sales Tax Revenue Bonds, Series 2000, were fully repaid during fiscal year 2015.

**E. *STATE ASSET TRANSFER REVIEW, DEMAND FOR RETURN OF ASSETS AND SETTLEMENT AGREEMENT***

The activities of the former Redevelopment Agency and the Successor Agency were 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.

As noted above, the City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,360 to the Successor Agency and the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress capital assets in the amount of \$98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement in the amount of \$9,472,571.

The Successor Agency received a Finding of Completion on June 27, 2014.

In July 2015, the County alleged that the City, Economic Development Corporation and the Housing Authority have breached the Settlement Agreement and the dissolution laws with respect to several actions/inactions by the City and relating to certain City properties. The City has provided a written response to the accusation, inviting a meet and confer over one of the subject properties and has agreed to execute remaining documents to resolve the majority of the dispute. The County is questioning the zoning of one of the subject properties as parkland, rather than multi-family housing. The City has complied with most of the County's demands. In the event the City does not prevail in the matter, the value of the potential loss is not one of dollars, but of the loss of parkland to the community.

CITY OF MILPITAS  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

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

*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. Long Range Property Management Plan*

In fiscal year 2013, the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. As discussed in Note 16E, the two cases were settled in June 2014 with a settlement agreement executed between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties.

Under the agreement, the Successor Agency and the County agreed to jointly prepare and submit the long range property management plan ("LRPMP") to the Oversight Board for review and approval, all pursuant to Health and Safety Code section 34191.5. The State Department of Finance approved the LRPMP in March 2015.

The LRPMP requires four of the properties discussed in Note 16B to be auctioned for sale and one parcel to be transferred to the County of Santa Clara for the County Health Clinic and other public parking. The parcel was transferred to the County in September 2015.



**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Milpitas  
Required Supplementary Information  
For the Year Ended June 30, 2015**

**Retiree Medical Benefits (OPEB) Schedule of Funding Progress**

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
7/1/2009	\$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%
7/1/2013	24,778,279	60,933,391	36,155,112	40.66%	35,200,000	102.71%

**Retiree Medical Benefits (OPEB) Schedule of Contributions**

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2013	\$3,475,268	\$3,475,268	100%	\$0
June 30, 2014	3,710,039	3,710,039	100%	0
June 30, 2015	3,848,712	3,848,712	100%	0

**City of Milpitas  
Required Supplementary Information**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

Measurement Period	2013-14
<b>Total Pension Liability</b>	
Service Cost	\$2,652,510
Interest	13,600,615
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments, including refunds of employee contributions	(8,381,334)
<b>Net change in total pension liability</b>	7,871,791
<b>Total pension liability - beginning</b>	184,205,937
<b>Total pension liability - ending (a)</b>	\$192,077,728
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$3,356,909
Contributions - employee	1,439,932
Net investment income	22,034,637
Benefit payments, including refunds of employee contributions	(8,381,334)
<b>Net change in plan fiduciary net position</b>	18,450,144
<b>Plan fiduciary net position - beginning</b>	128,172,005
<b>Plan fiduciary net position - ending (b)</b>	\$146,622,149
 Net pension liability - ending (a)-(b)	\$45,455,579
 Plan fiduciary net position as a percentage of the total pension liability	76.33%
 Covered - employee payroll	\$15,471,948
 Net pension liability as percentage of covered-employee payroll	293.79%

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes in assumptions.** There were no changes in assumptions.

\* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Source: CalPERS Accounting Valuation

**City of Milpitas  
Required Supplementary Information**

**SCHEDULE OF CONTRIBUTIONS**

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

	2015
Actuarially determined contribution	\$3,252,668
Contributions in relation to the actuarially determined contributions	3,252,668
Contribution deficiency (excess)	\$0
 Covered-employee payroll	 \$16,009,660
 Contributions as a percentage of covered-employee payroll	 20.32%

**Notes to Schedule**

Valuation date: 6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	16 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

\* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Source: City of Milpitas' general ledger and CalPERS Actuarial Valuation

**City of Milpitas  
Required Supplementary Information**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
Safety Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\***

Measurement Period	2013-14
<b>Total Pension Liability</b>	
Service Cost	\$4,932,970
Interest	19,838,662
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments, including refunds of employee contributions	(13,076,629)
<b>Net change in total pension liability</b>	11,695,003
<b>Total pension liability - beginning</b>	268,587,329
<b>Total pension liability - ending (a)</b>	\$280,282,332
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$5,856,270
Contributions - employee	1,839,234
Net investment income	30,157,647
Benefit payments, including refunds of employee contributions	(13,076,629)
<b>Net change in plan fiduciary net position</b>	24,776,522
<b>Plan fiduciary net position - beginning</b>	175,461,012
<b>Plan fiduciary net position - ending (b)</b>	\$200,237,534
 Net pension liability - ending (a)-(b)	\$80,044,798
 Plan fiduciary net position as a percentage of the total pension liability	71.44%
 Covered - employee payroll	\$17,915,272
 Net pension liability as percentage of covered-employee payroll	446.80%

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a.

**Changes in assumptions.** There were no changes in assumptions.

\* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Source: CalPERS Accounting Valuation

**City of Milpitas  
Required Supplementary Information**

**SCHEDULE OF CONTRIBUTIONS  
Safety Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\***

	2015
Actuarially determined contribution	\$5,904,019
Contributions in relation to the actuarially determined contributions	5,904,019
Contribution deficiency (excess)	\$0
 Covered-employee payroll	\$18,810,920
 Contributions as a percentage of covered-employee payroll	31.39%
 <b>Notes to Schedule</b>	
Valuation date:	6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	28 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

\* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Source: City of Milpitas' general ledger and CalPERS Actuarial Valuation



## **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.

#### **COMMUNITY PLANNING FUND**

Established to account for fees collected to fund the General Plan update, zoning ordinance update and other long range planning documents.

### **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.

#### **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, 2015

	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	\$3,468,376	\$66,572	\$389,479	\$2,142,792	\$144,158
Receivables:					
Accounts				89,668	
Due from other governments		102,323	10,955		
Interest	6,913		777	4,259	272
Loans receivable		3,376,669			
Prepays, materials, supplies and deposits		555		1,754	808
Total Assets	<u>\$3,475,289</u>	<u>\$3,546,119</u>	<u>\$401,211</u>	<u>\$2,238,473</u>	<u>\$145,238</u>
LIABILITIES					
Accounts payable		\$113,927	\$49,637	\$76,419	\$4,744
Accrued payroll				5,294	1,796
Unearned revenue			165,271	8,579	
Refundable deposits				18,843	
Total Liabilities		<u>113,927</u>	<u>214,908</u>	<u>109,135</u>	<u>6,540</u>
FUND BALANCE					
Fund Balances:					
Nonspendable		555		1,754	808
Restricted	\$3,475,289	3,431,637	186,303	2,127,584	137,890
Assigned					
Total Fund Balances	<u>3,475,289</u>	<u>3,432,192</u>	<u>186,303</u>	<u>2,129,338</u>	<u>138,698</u>
Total Liabilities and Fund Balances	<u>\$3,475,289</u>	<u>\$3,546,119</u>	<u>\$401,211</u>	<u>\$2,238,473</u>	<u>\$145,238</u>

SPECIAL REVENUE FUNDS

CAPITAL PROJECTS FUNDS

Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Public Art	Park Improvement	Storm Drain Development	Total Nonmajor Governmental Funds
\$251,086	\$1,645,517	\$222,106	\$132,212	\$16,144,272	\$2,320,183	\$26,926,753
3,543						89,668
467	139	443	263	32,132	4,621	116,821
1,368	2,553					50,286
<u>\$256,464</u>	<u>\$1,648,209</u>	<u>\$222,549</u>	<u>\$132,475</u>	<u>\$16,176,404</u>	<u>\$2,324,804</u>	<u>\$30,567,235</u>
\$42,816		\$101	\$4,068	\$126,901	\$33,648	\$452,261
2,708				769	852	11,419
						173,850
						18,843
<u>45,524</u>		<u>101</u>	<u>4,068</u>	<u>127,670</u>	<u>34,500</u>	<u>656,373</u>
1,368	\$2,553					7,038
209,572	1,645,656	222,448		16,048,734	2,290,304	29,775,417
			128,407			128,407
<u>210,940</u>	<u>1,648,209</u>	<u>222,448</u>	<u>128,407</u>	<u>16,048,734</u>	<u>2,290,304</u>	<u>29,910,862</u>
<u>\$256,464</u>	<u>\$1,648,209</u>	<u>\$222,549</u>	<u>\$132,475</u>	<u>\$16,176,404</u>	<u>\$2,324,804</u>	<u>\$30,567,235</u>

CITY OF MILPITAS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Other taxes				\$414,576	\$310,154
Use of money and property	\$21,056	\$1,561	\$2,513	13,643	667
Intergovernmental	1,813,704	413,162	174,537	201,540	
Charges for services				371,647	
Developer contributions					
Other				3,111	
<b>Total Revenues</b>	<b>1,834,760</b>	<b>414,723</b>	<b>177,050</b>	<b>1,004,517</b>	<b>310,821</b>
EXPENDITURES:					
Current:					
General Government		22,470		29,808	
Public Works				648,473	275,281
Engineering and Planning		401,055			
Police			251,687		
Capital outlay					
<b>Total Expenditures</b>		<b>423,525</b>	<b>251,687</b>	<b>678,281</b>	<b>275,281</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,834,760</b>	<b>(8,802)</b>	<b>(74,637)</b>	<b>326,236</b>	<b>35,540</b>
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(1,637,437)			(223,252)	(58,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,637,437)</b>			<b>(223,252)</b>	<b>(58,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>197,323</b>	<b>(8,802)</b>	<b>(74,637)</b>	<b>102,984</b>	<b>(22,460)</b>
Fund balances at beginning of year	3,277,966	3,440,994	260,940	2,026,354	161,158
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$3,475,289</b>	<b>\$3,432,192</b>	<b>\$186,303</b>	<b>\$2,129,338</b>	<b>\$138,698</b>

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Public Art	Park Improvement	Storm Drain Development	
\$816,492 1,370	\$5,343	\$1,155  223,553	\$1,060	\$122,802  782,700	\$15,024  266,228	\$1,541,222 186,194 2,602,943 595,200 1,048,928 3,111
<u>817,862</u>	<u>5,343</u>	<u>224,708</u>	<u>1,060</u>	<u>905,502</u>	<u>281,252</u>	<u>5,977,598</u>
5,963 636,586	30,165	2,260	16,250	1,433,853	343,275	104,656 1,560,340 403,315 251,687 1,777,128
<u>642,549</u>	<u>30,165</u>	<u>2,260</u>	<u>16,250</u>	<u>1,433,853</u>	<u>343,275</u>	<u>4,097,126</u>
<u>175,313</u>	<u>(24,822)</u>	<u>222,448</u>	<u>(15,190)</u>	<u>(528,351)</u>	<u>(62,023)</u>	<u>1,880,472</u>
<u>(200,000)</u>	<u>(7,859)</u>			<u>300,000</u> <u>(600,000)</u>	<u>235,000</u>	<u>535,000</u> <u>(2,726,548)</u>
<u>(200,000)</u>	<u>(7,859)</u>			<u>(300,000)</u>	<u>235,000</u>	<u>(2,191,548)</u>
<u>(24,687)</u>	<u>(32,681)</u>	<u>222,448</u>	<u>(15,190)</u>	<u>(828,351)</u>	<u>172,977</u>	<u>(311,076)</u>
<u>235,627</u>	<u>1,680,890</u>		<u>143,597</u>	<u>16,877,085</u>	<u>2,117,327</u>	<u>30,221,938</u>
<u>\$210,940</u>	<u>\$1,648,209</u>	<u>\$222,448</u>	<u>\$128,407</u>	<u>\$16,048,734</u>	<u>\$2,290,304</u>	<u>\$29,910,862</u>

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, 2015

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
<b>REVENUES</b>						
Other taxes						
Use of money and property	\$13,000	\$21,056	\$8,056	\$1,000	\$1,561	\$561
Intergovernmental	2,079,000	1,813,704	(265,296)	463,148	413,162	(49,986)
Charges for services						
Other						
Total Revenues	<u>2,092,000</u>	<u>1,834,760</u>	<u>(257,240)</u>	<u>464,148</u>	<u>414,723</u>	<u>(49,425)</u>
<b>EXPENDITURES</b>						
Current:						
General Government:						
Finance				15,000	14,495	505
Non-departmental				14,205	7,975	6,230
Public Works						
Planning and Neighborhood Services				530,794	521,732	9,062
Police						
Total Expenditures				<u>559,999</u>	<u>544,202</u>	<u>15,797</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,092,000</u>	<u>1,834,760</u>	<u>(257,240)</u>	<u>(95,851)</u>	<u>(129,479)</u>	<u>(33,628)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers (out)	<u>(1,637,437)</u>	<u>(1,637,437)</u>				
Total Other Financing Sources (Uses)	<u>(1,637,437)</u>	<u>(1,637,437)</u>				
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$454,563</u>	197,323	<u>(\$257,240)</u>	<u>(\$95,851)</u>	(129,479)	<u>(\$33,628)</u>
<b>ADJUSTMENT TO BUDGETARY BASIS:</b>						
Expenditures capitalized for GAAP purposes					120,677	
Encumbrance adjustments						
Fund balances at beginning of year		<u>3,277,966</u>			<u>3,440,994</u>	
Fund balances at end of year		<u>\$3,475,289</u>			<u>\$3,432,192</u>	

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)
\$3,000	\$2,513	(\$487)	\$410,000	\$414,576	\$4,576	\$323,000	\$310,154	(\$12,846)
125,324	174,537	49,213	10,000	13,643	3,643	1,000	667	(333)
			134,413	201,540	67,127			
			310,000	371,647	61,647			
				3,111	3,111			
<u>128,324</u>	<u>177,050</u>	<u>48,726</u>	<u>864,413</u>	<u>1,004,517</u>	<u>140,104</u>	<u>324,000</u>	<u>310,821</u>	<u>(13,179)</u>
			30,000	29,808	192			
			737,678	706,358	31,320	379,474	280,707	98,767
<u>323,995</u>	<u>292,211</u>	<u>31,784</u>						
<u>323,995</u>	<u>292,211</u>	<u>31,784</u>	<u>767,678</u>	<u>736,166</u>	<u>31,512</u>	<u>379,474</u>	<u>280,707</u>	<u>98,767</u>
<u>(195,671)</u>	<u>(115,161)</u>	<u>80,510</u>	<u>96,735</u>	<u>268,351</u>	<u>171,616</u>	<u>(55,474)</u>	<u>30,114</u>	<u>85,588</u>
			<u>(223,252)</u>	<u>(223,252)</u>		<u>(58,000)</u>	<u>(58,000)</u>	
			<u>(223,252)</u>	<u>(223,252)</u>		<u>(58,000)</u>	<u>(58,000)</u>	
<u>(\$195,671)</u>	<u>(115,161)</u>	<u>\$80,510</u>	<u>(\$126,517)</u>	<u>45,099</u>	<u>\$171,616</u>	<u>(\$113,474)</u>	<u>(27,886)</u>	<u>\$85,588</u>
	40,524			57,885			5,426	
	<u>260,940</u>			<u>2,026,354</u>			<u>161,158</u>	
	<u>\$186,303</u>			<u>\$2,129,338</u>			<u>\$138,698</u>	

(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, 2015

	<u>COMMUNITY FACILITIES DISTRICT</u>			<u>HETCH-HETCHY GROUND LEASE</u>		
	<u>Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>						
Other taxes	\$400,000	\$816,492	\$416,492			
Use of money and property	2,000	1,370	(630)	\$20,000	\$5,343	(\$14,657)
Intergovernmental						
Charges for services						
Other						
<b>Total Revenues</b>	<u>402,000</u>	<u>817,862</u>	<u>415,862</u>	<u>20,000</u>	<u>5,343</u>	<u>(14,657)</u>
<b>EXPENDITURES</b>						
Current:						
General Government:						
Finance						
Non-departmental	5,000	5,963	(963)	36,000	30,165	5,835
Public Works	712,574	636,586	75,988			
Planning and Neighborhood Services						
Police						
<b>Total Expenditures</b>	<u>717,574</u>	<u>642,549</u>	<u>75,025</u>	<u>36,000</u>	<u>30,165</u>	<u>5,835</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(315,574)</u>	<u>175,313</u>	<u>490,887</u>	<u>(16,000)</u>	<u>(24,822)</u>	<u>(8,822)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers (out)	(200,000)	(200,000)		(7,859)	(7,859)	
<b>Total Other Financing Sources (Uses)</b>	<u>(200,000)</u>	<u>(200,000)</u>		<u>(7,859)</u>	<u>(7,859)</u>	
<b>NET CHANGE IN FUND BALANCES</b>	<u>(\$515,574)</u>	<u>(24,687)</u>	<u>\$490,887</u>	<u>(\$23,859)</u>	<u>(32,681)</u>	<u>(\$8,822)</u>
<b>ADJUSTMENT TO BUDGETARY BASIS:</b>						
Expenditures capitalized for GAAP purposes						
Encumbrance adjustments						
Fund balances at beginning of year		<u>235,627</u>			<u>1,680,890</u>	
Fund balances at end of year		<u>\$210,940</u>			<u>\$1,648,209</u>	

COMMUNITY PLANNING			PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
	\$1,155	\$1,155	\$2,000	\$1,060	(\$940)	\$1,133,000	\$1,541,222	\$408,222
						52,000	48,368	(3,632)
	223,553	223,553				2,801,885	2,602,943	(198,942)
						310,000	595,200	285,200
							3,111	3,111
	224,708	224,708	2,000	1,060	(940)	4,296,885	4,790,844	493,959
						15,000	14,495	505
			101,200	30,250	70,950	186,405	104,161	82,244
\$2,260	2,260					1,829,726	1,623,651	206,075
						533,054	523,992	9,062
						323,995	292,211	31,784
2,260	2,260		101,200	30,250	70,950	2,888,180	2,558,510	329,670
(2,260)	222,448	224,708	(99,200)	(29,190)	70,010	1,408,705	2,232,334	823,629
						(2,126,548)	(2,126,548)	
						(2,126,548)	(2,126,548)	
(\$2,260)	222,448	\$224,708	(\$99,200)	(29,190)	\$70,010	(\$717,843)	105,786	\$823,629
							120,677	
				14,000			117,835	
				143,597			11,227,526	
	\$222,448			\$128,407			\$11,571,824	



## **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, 2015

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,767,781	\$11,842	\$148,122	\$1,631,501
Receivables:				
Interest	3,374	3,351	3,374	3,351
Total Assets	<u>\$1,771,155</u>	<u>\$15,193</u>	<u>\$151,496</u>	<u>\$1,634,852</u>
<u>Liabilities</u>				
Refundable deposits	\$1,771,155	\$15,193	\$151,496	\$1,634,852
Total Liabilities	<u>\$1,771,155</u>	<u>\$15,193</u>	<u>\$151,496</u>	<u>\$1,634,852</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$9,230	\$2,397	\$3,475	\$8,152
Receivables:				
Interest	17	16	17	16
Total Assets	<u>\$9,247</u>	<u>\$2,413</u>	<u>\$3,492</u>	<u>\$8,168</u>
<u>Liabilities</u>				
Refundable deposits	\$9,247	\$2,413	\$3,492	\$8,168
Total Liabilities	<u>\$9,247</u>	<u>\$2,413</u>	<u>\$3,492</u>	<u>\$8,168</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$866,830	\$615,295	\$804,307	\$677,818
Cash and investments held by trustees	1,231,997		590,843	641,154
Receivable:				
Interest	1,605	1,351	1,605	1,351
Due from other governments		398		398
Total Assets	<u>\$2,100,432</u>	<u>\$617,044</u>	<u>\$1,396,755</u>	<u>\$1,320,721</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	\$2,100,432	\$617,044	\$1,396,755	\$1,320,721
Total Liabilities	<u>\$2,100,432</u>	<u>\$617,044</u>	<u>\$1,396,755</u>	<u>\$1,320,721</u>

CITY OF MILPITAS  
 AGENCY FUNDS  
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2015

<u>LID #20</u>	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
<u>Assets</u>				
Cash and investments available for operations	\$1,323,824	\$1,421,393	\$1,391,140	\$1,354,077
Cash and investments held by trustees	1,218,051		160	1,217,891
Receivables:				
Interest	2,453	2,699	2,453	2,699
Due from other governments		30,213		30,213
Total Assets	<u>\$2,544,328</u>	<u>\$1,454,305</u>	<u>\$1,393,753</u>	<u>\$2,604,880</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,544,328</u>	<u>\$1,454,305</u>	<u>\$1,393,753</u>	<u>\$2,604,880</u>
Total Liabilities	<u>\$2,544,328</u>	<u>\$1,454,305</u>	<u>\$1,393,753</u>	<u>\$2,604,880</u>
 <u>TOTAL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments available for operations	\$3,967,665	\$2,050,927	\$2,347,044	\$3,671,548
Cash and investments held by trustees	2,450,048		591,003	1,859,045
Receivables:				
Interest	7,449	7,417	7,449	7,417
Due from other governments		30,611		30,611
Total Assets	<u>\$6,425,162</u>	<u>\$2,088,955</u>	<u>\$2,945,496</u>	<u>\$5,568,621</u>
<u>Liabilities</u>				
Refundable deposits	\$1,780,402	\$17,606	\$154,988	\$1,643,020
Due to Local Improvement Districts	4,644,760	2,071,349	2,790,508	3,925,601
Total Liabilities	<u>\$6,425,162</u>	<u>\$2,088,955</u>	<u>\$2,945,496</u>	<u>\$5,568,621</u>

## 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 Position – Schedule 1
- Changes in Net Position – 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
- Taxable Sales by Category – Schedule 9
- Direct and Overlapping Sales Tax Rates – Schedule 10
- Principal Sales Tax Payers – Schedule 11

### ***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 12
- Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 13
- Computation of Direct and Overlapping Debt – Schedule 14
- Legal Debt Margin Information – Schedule 15
- Installment Payment Coverage, Sewer Certificates of Participation – Schedule 16

### ***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:

- Bimonthly Sewer Rates by Customer Class – Schedule 17
- Demographic and Economic Statistics – Schedule 18
- Principal Employers – 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:

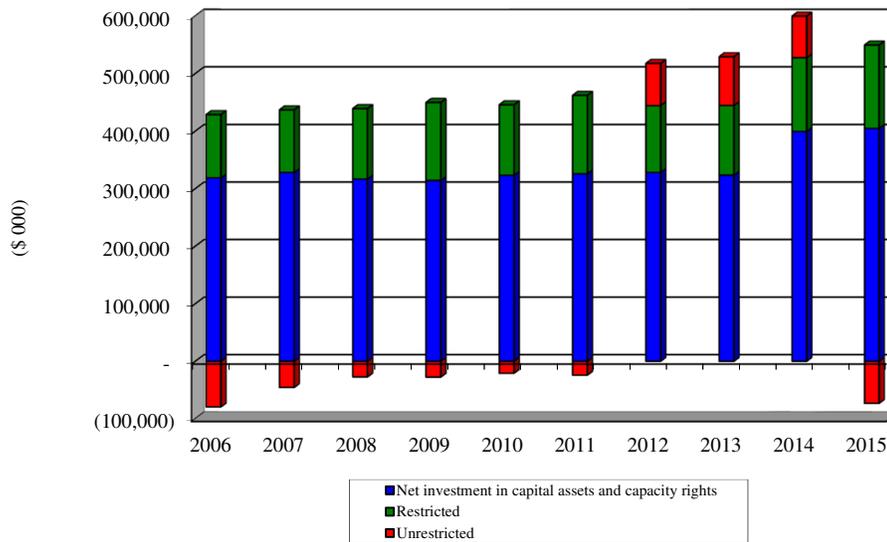
- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

### ***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 POSITION  
LAST TEN FISCAL YEARS  
(Accrual basis of accounting)  
(Dollars in Thousands)

Schedule I



	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
<b>Governmental activities</b>					
Net investment in capital assets and capacity rights	\$224,223	\$232,841	\$224,603	\$221,744	\$218,878
Restricted	97,069	92,504	104,161	110,463	98,426
Unrestricted	(92,209)	(62,097)	(50,764)	(41,574)	(38,500)
<b>Total governmental activities net position</b>	<u>\$229,083</u>	<u>\$263,248</u>	<u>\$278,000</u>	<u>\$290,633</u>	<u>\$278,804</u>
<b>Business-type activities</b>					
Net investment in capital assets and capacity rights	\$94,467 (a)	\$95,300	\$92,028	\$92,576	\$104,370
Restricted	12,852	16,179	18,252	24,911	24,059
Unrestricted	12,980	16,652	23,603	14,172	17,851
<b>Total business-type activities net position</b>	<u>\$120,299</u>	<u>\$128,131</u>	<u>\$133,883</u>	<u>\$131,659</u>	<u>\$146,280</u>
<b>Primary government</b>					
Net investment in capital assets and capacity rights	\$318,690	\$328,141	\$316,631	\$314,320	\$323,248
Restricted	109,921	108,683	122,413	135,374	122,485
Unrestricted	(79,229)	(45,445)	(27,161)	(27,402)	(20,649)
<b>Total primary government net position</b>	<u>\$349,382</u>	<u>\$391,379</u>	<u>\$411,883</u>	<u>\$422,292</u>	<u>\$425,084</u>
	Fiscal Year Ended June 30				
	2011	2012	2013 (b)	2014	2015 (c)
<b>Governmental activities</b>					
Net investment in capital assets and capacity rights	\$218,116	\$219,034	\$217,002	\$291,704	\$291,500
Restricted	115,474	90,878	88,147	90,758	103,829
Unrestricted	(44,592)	53,417	64,876	51,315	(84,598)
<b>Total governmental activities net position</b>	<u>\$288,998</u>	<u>\$363,329</u>	<u>\$370,025</u>	<u>\$433,777</u>	<u>\$310,731</u>
<b>Business-type activities</b>					
Net investment in capital assets and capacity rights	\$107,707	\$109,146	\$106,489	\$107,816	\$113,232
Restricted	20,743	25,239	32,889	37,254	40,867
Unrestricted	20,577	19,838	19,799	20,880	11,586
<b>Total business-type activities net position</b>	<u>\$149,027</u>	<u>\$154,223</u>	<u>\$159,177</u>	<u>\$165,950</u>	<u>\$165,685</u>
<b>Primary government</b>					
Net investment in capital assets and capacity rights	\$325,823	\$328,180	\$323,491	\$399,520	\$404,732
Restricted	136,217	116,117	121,036	128,012	144,696
Unrestricted	(24,015)	73,255	84,675	72,195	(73,012)
<b>Total primary government net position</b>	<u>\$438,025</u>	<u>\$517,552</u>	<u>\$529,202</u>	<u>\$599,727</u>	<u>\$476,416</u>

(a) The City restated the balance of capacity rights to remove improvements that did not add to the City's rights.  
 (b) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position"  
 (c) The City implemented the provisions of GASB Statement 68 in fiscal year 2015 that required the restatement of net position.  
 Amounts prior to 2015 have not been restated.

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

	Fiscal Year Ended June 30			
	2006	2007	2008	2009
<b>Expenses</b>				
Governmental activities				
General Government	\$18,651	\$16,297	\$18,130	\$18,184
Building and Safety	2,195	2,334	2,626	2,401
Public Works	17,156	20,647	20,745	19,605
Planning and Neighborhood Services	7,453	2,396	3,239	3,249
Parks and Recreation	4,266	7,301	6,527	6,518
Police	20,473	21,452	22,440	22,514
Fire	14,381	14,329	15,411	15,260
Payment under developer agreements	9,384			
Interest on Long Term Debt		9,419	11,534	9,402
Total governmental activities expenses	<u>93,959</u>	<u>94,175</u>	<u>100,652</u>	<u>97,133</u>
Business-type activities				
Water Utility	9,837	10,673	11,567	12,545
Recycled Water Utility	328	337	481	576
Sewer Utility	7,047	8,210	8,626	12,312
Total business-type activities expenses	<u>17,212</u>	<u>19,220</u>	<u>20,674</u>	<u>25,433</u>
Total primary government expenses	<u>\$111,171</u>	<u>\$113,395</u>	<u>\$121,326</u>	<u>\$122,566</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General Government	\$580	\$662	\$996	\$956
Building and Safety	5,800	5,029	4,194	2,897
Public Works	344	2,817	2,410	1,996
Planning and Neighborhood Services	2,412	436	459	358
Parks and Recreation	1,496	1,599	1,663	1,655
Police	1,132	1,406	1,351	1,425
Fire	1,070	1,109	1,144	1,108
Operating grants and contributions	4,089	4,600	4,617	4,920
Capital grants and contributions	12,971	16,056	15,242	9,801
Total government activities program revenues	<u>29,894</u>	<u>33,714</u>	<u>32,076</u>	<u>25,116</u>
Business-type activities				
Charges for services:				
Water Utility	13,224	14,523	14,937	13,873
Recycled Water Utility	1,086	1,203	1,323	1,288
Sewer Utility	8,966	9,833	10,041	9,849
Operating grants and contributions				
Capital grants and contributions	3,854	2,418	956	471
Total business-type activities program revenue	<u>27,130</u>	<u>27,977</u>	<u>27,257</u>	<u>25,481</u>
Total primary government program revenues	<u>\$57,024</u>	<u>\$61,691</u>	<u>\$59,333</u>	<u>\$50,597</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	(\$64,065)	(\$60,461)	(\$68,576)	(\$72,017)
Business-type activities	9,918	8,757	6,583	48
Total primary government net expense	<u>(\$54,147)</u>	<u>(\$51,704)</u>	<u>(\$61,993)</u>	<u>(\$71,969)</u>

- (a) 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.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012.
- (c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (d) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2010	2011	2012	2013 (c)	2014	2015
\$33,535 (a)	\$21,474 (a)	\$17,418 (b)	\$15,329	\$21,074	\$18,118
1,972	1,984	2,029	2,293	2,684	2,617
22,843	16,777	21,787	17,700 (d)	18,664	17,509
2,874	2,155	2,144	2,553	2,119	2,372
6,096	6,529	5,823	3,107 (d)	3,012	3,098
22,771	22,661	22,620	21,702	23,373	24,699
14,748	15,085	14,904	15,810	15,159	16,301
9,570	9,536	2,050	227	240	67
<u>114,409</u>	<u>96,201</u>	<u>88,775</u>	<u>78,721</u>	<u>86,325</u>	<u>84,781</u>
11,788	12,766	15,229	17,195	17,369	18,344
476	470	599	(e)	(e)	(e)
8,730	9,240	8,399	9,418	11,008	10,426
20,994	22,476	24,227	26,613	28,377	28,770
<u>\$135,403</u>	<u>\$118,677</u>	<u>\$113,002</u>	<u>\$105,334</u>	<u>\$114,702</u>	<u>\$113,551</u>
\$1,165	\$1,071	\$1,349	\$1,700	\$1,819	\$1,063
2,031	2,823	3,436	4,554	6,445	5,128
2,571	1,826	2,440	2,668	2,472	2,644
182	139	237	301	432	700
1,642	1,662	1,833	1,987	1,958	2,060
1,091	1,263	1,134	1,051	1,091	1,151
1,137	1,210	1,292	1,508	2,120	1,885
3,892	4,869	6,146	7,487	6,195	6,201
8,840	5,704	8,294	8,286	15,483	14,711
<u>22,551</u>	<u>20,567</u>	<u>26,161</u>	<u>29,542</u>	<u>38,015</u>	<u>35,543</u>
14,051	15,201	16,773	19,801	21,354	21,136
1,260	1,300	1,447	(e)	(e)	(e)
10,393	11,406	12,445	12,632	12,753	14,453
79	70	43	111	57	127
6,406	163	1,629	1,975	1,402	710
32,189	28,140	32,337	34,519	35,566	36,426
<u>\$54,740</u>	<u>\$48,707</u>	<u>\$58,498</u>	<u>\$64,061</u>	<u>\$73,581</u>	<u>\$71,969</u>
(\$91,858)	(\$75,634)	(\$62,614)	(\$49,179)	(\$48,310)	(\$49,238)
11,195	5,664	8,110	7,906	7,189	7,656
<u>(\$80,663)</u>	<u>(\$69,970)</u>	<u>(\$54,504)</u>	<u>(\$41,273)</u>	<u>(\$41,121)</u>	<u>(\$41,582)</u>

(Continued)

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

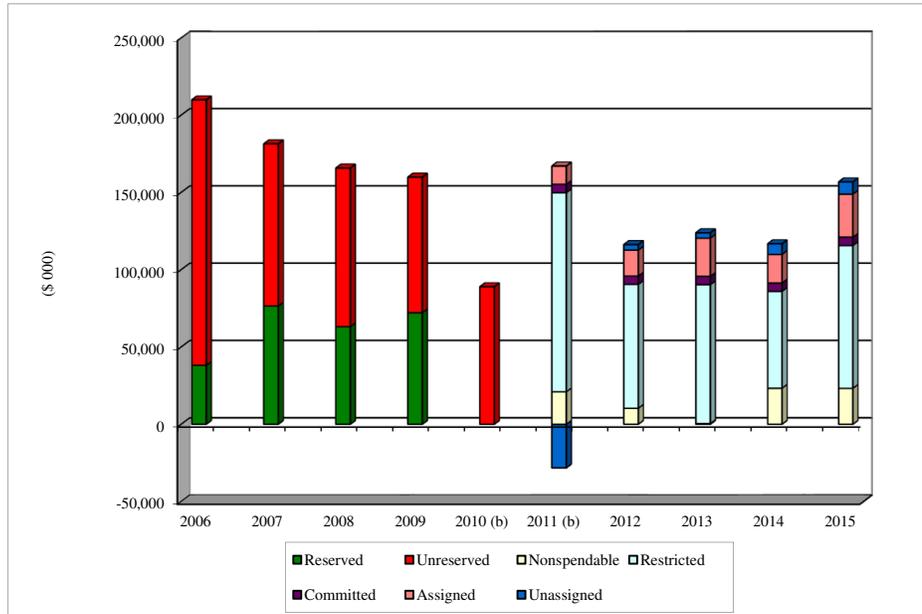
	Fiscal Year Ended June 30			
	2006	2007	2008	2009
<b>General Revenues and Other Changes in Net Position</b>				
Governmental activities				
Taxes:				
Property taxes	\$44,026	\$44,565	\$49,061	\$53,917
Less: Educational Revenue Augmentation				
Fund payment	(2,422)			
Sales and use taxes	15,613	16,765	15,551	15,670
Hotel/Motel taxes	5,669	6,427	7,195	5,550
Other taxes	133	125	602	416
Franchise fees	2,643	2,912	2,968	3,151
Motor vehicle in lieu	1,548	357	296	237
Investment earnings	1,302	2,225	4,100	1,553
Gain on sale of capital assets/property	12	18,257	34	35
Miscellaneous	856	355	109	92
Redevelopment expense				
Transfers	6,633	2,638	3,411	4,029
Extraordinary item				
Special Item				
Total government activities	<u>76,013</u>	<u>94,626</u>	<u>83,327</u>	<u>84,650</u>
Business-type activities				
Investment earnings	924	1,714	2,580	1,756
Transfers	(6,633)	(2,638)	(3,411)	(4,029)
Total business-type activities	<u>(5,709)</u>	<u>(924)</u>	<u>(831)</u>	<u>(2,273)</u>
Total primary government	<u>\$70,304</u>	<u>\$93,702</u>	<u>\$82,496</u>	<u>\$82,377</u>
<b>Change in net position</b>				
Governmental activities	\$11,948	\$34,165	\$14,751	\$12,633
Business-type activities	4,209	7,833	5,752	(2,225)
Total primary government	<u>\$16,157</u>	<u>\$41,998</u>	<u>\$20,503</u>	<u>\$10,408</u>

- (a) 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.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012.
- (c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (d) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2010	2011	2012	2013 (c)	2014	2015
\$58,012 (a)	\$55,655 (a)	\$34,029	\$20,469	\$27,607	\$24,927
14,725	16,429	18,758	20,196	19,014	18,779
5,297	6,124	7,068	7,933	9,336	10,917
407	380	491	516	672	664
2,993	3,083	3,218	3,270	3,453	3,659
209	323	35	37	31	29
700	399	1,093	260	844	379
171			46		
85	62	67	103	200	333
(2,570)	3,374	3,304	3,045	3,402	1,627
		68,882 (b)		49,799 (f)	
<u>80,029</u>	<u>85,829</u>	<u>136,945</u>	<u>55,875</u>	<u>114,358</u>	<u>61,314</u>
857	455	390	94	690	383
<u>2,570</u>	<u>(3,374)</u>	<u>(3,304)</u>	<u>(3,045)</u>	<u>(3,402)</u>	<u>(1,627)</u>
<u>3,427</u>	<u>(2,919)</u>	<u>(2,914)</u>	<u>(2,951)</u>	<u>(2,712)</u>	<u>(1,244)</u>
<u>\$83,456</u>	<u>\$82,910</u>	<u>\$134,031</u>	<u>\$52,924</u>	<u>\$111,646</u>	<u>\$60,070</u>
(\$11,829)	\$10,195	\$74,331	\$6,696	\$66,048	\$12,076
<u>14,622</u>	<u>2,745</u>	<u>5,196</u>	<u>4,955</u>	<u>4,477</u>	<u>6,412</u>
<u>\$2,793</u>	<u>\$12,940</u>	<u>\$79,527</u>	<u>\$11,651</u>	<u>\$70,525</u>	<u>\$18,488</u>



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



	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010 (b)	2011 (b)	2012	2013	2014	2015
<b>General Fund</b>										
Reserved	\$1,315	\$21,753	\$21,749	\$21,542						
Unreserved	27,966	26,716	29,359	29,293						
Nonspendable					\$20,977	\$20,970	\$577	\$468	\$23,279	\$23,265
Restricted						24,555				
Committed					5,433	5,433	5,433	5,433	5,433	5,433
Assigned					9,465	9,698	13,904	10,434	6,658	7,013
Unassigned					14,920	15,448	15,800	16,444	13,521	13,864
<b>Total General Fund</b>	<u>\$29,281</u>	<u>\$48,469</u>	<u>\$51,108</u>	<u>\$50,835</u>	<u>\$50,795</u>	<u>\$76,104</u>	<u>\$35,714</u>	<u>\$32,779</u>	<u>\$48,891</u>	<u>\$49,575</u>
<b>All Other Governmental Funds</b>										
Reserved	\$36,812	\$54,763	\$41,416	\$50,608						
Unreserved, reported in:										
Special revenue funds	3,524	4,025	4,213	4,603						
Capital project funds	140,259	74,178	69,028	53,845						
Debt service funds										
Nonspendable					\$115	\$23	\$9,788	\$11	\$32	\$11
Restricted					96,873	104,290	80,112	89,821	62,661	92,347
Assigned					2,196	2,127	2,892	14,244	11,808	20,806
Unassigned					(10,219)	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)
<b>Total all other governmental funds</b>	<u>\$180,595</u>	<u>\$132,966</u>	<u>\$114,657</u>	<u>\$109,056</u>	<u>\$88,965</u>	<u>\$62,816</u>	<u>\$80,558</u>	<u>\$91,121</u>	<u>\$67,891</u>	<u>\$107,232</u> (a)

- (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.

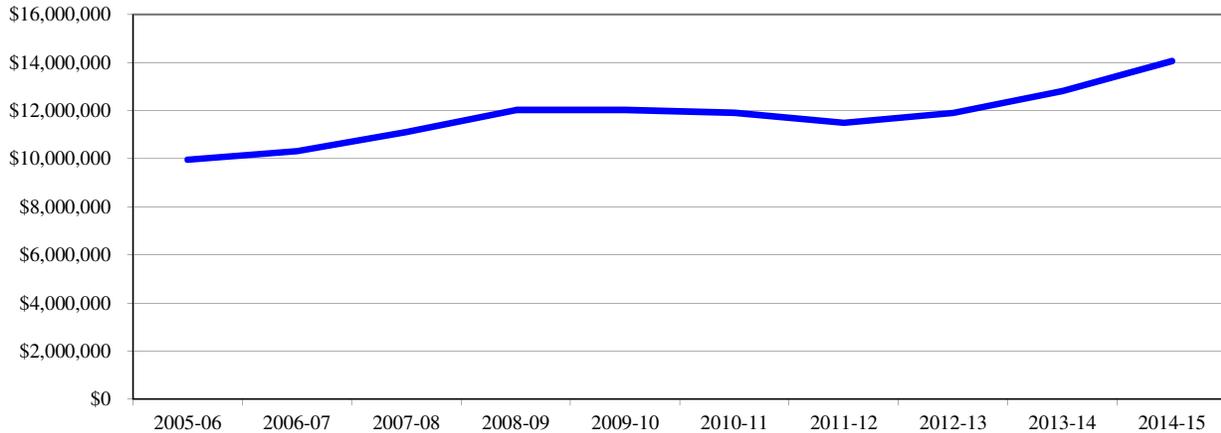
**CITY OF MILPITAS**  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(modified accrual basis of accounting)  
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
<b>Revenues</b>					
Property taxes	\$43,155	\$44,289	\$49,060	\$53,917	\$58,012 (b)
Less: Educational Revenue					
Augmentation Fund payment	(2,422)				
Sales taxes	16,228	17,383	16,173	16,251	15,268
Other taxes	10,003	10,508	11,636	9,937	9,495
Licenses and fines	7,357	6,958	5,991	4,619	3,481
Use of money and property	6,260	8,292	11,096	8,984	7,168
Intergovernmental	6,045	5,589	4,092	6,004	6,362
Charges for services	4,165	4,715	4,612	4,146	3,704
Developer contributions	5,010	1,217	2,884	2,558	4,739
Other	1,186	8,978	584	816	933
<b>Total Revenues</b>	<b>96,987</b>	<b>107,929</b>	<b>106,128</b>	<b>107,232</b>	<b>109,162</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	15,608	34,136	15,079	17,834	20,602 (b)
Building and safety	2,226	2,232	2,566	2,420	1,992
Human resources and recreation					
Public works	7,789	10,646 (a)	11,016	10,066	13,619
Engineering and planning	6,581		(a)		
Planning and neighborhood services		2,329 (a)	2,528	2,576	2,180
Recreation	4,284		(a)		
Parks and recreation		6,486 (a)	6,513	6,416	6,052
Police	20,167	20,081	21,701	21,602	22,071
Fire	14,312	13,717	14,664	15,279	14,249
Supplemental educational revenue					
augmentation fund payment					11,774
Capital outlay	16,861	46,076	33,133	21,585	16,938
Payments under developer agreements					
Debt service:					
Principal	8,559	8,508	8,490	8,481	8,169
Interest and fees	9,424	15,250	11,528	11,516	11,982
<b>Total Expenditures</b>	<b>105,811</b>	<b>159,461</b>	<b>127,218</b>	<b>117,775</b>	<b>129,628</b>
Excess (deficiency) of revenues over (under) expenditures	(8,824)	(51,532)	(21,090)	(10,543)	(20,466)
<b>Other Financing Sources (Uses)</b>					
Proceeds from debt issuance		20,455			
Bond issuance premium					
Payments to refunded debt escrow agent					
Proceeds from sale of properties			1,868	14	4
Loss from sale of property					
Transfers in	28,523	22,561	20,420	23,278	23,590
Transfers (out)	(22,075)	(19,924)	(16,869)	(18,624)	(23,259)
<b>Total other financing sources (uses)</b>	<b>6,448</b>	<b>23,092</b>	<b>5,419</b>	<b>4,668</b>	<b>335</b>
<b>Extraordinary Items</b>					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
<b>Special Item</b>					
Redevelopment expense					
Assets transferred to/from Successor Agency and County					
<b>Net Change in fund balances</b>	<b>(\$2,376)</b>	<b>(\$28,440)</b>	<b>(\$15,671)</b>	<b>(\$5,875)</b>	<b>(\$20,131)</b>
Debt service as a percentage of noncapital expenditures	20.2%	26.5%	21.3%	20.8%	17.9%

(a) The City departments were reorganized in fiscal 2007.  
(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 as of January 31, 2012.  
(d) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.  
(e) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

Fiscal Year Ended June 30				
2011	2012	2013	2014	2015
\$55,655 (b)	\$34,029 (c)	\$20,466	\$27,608	\$24,927
16,994	19,403	20,908	19,766	19,572
10,917	12,230	13,343	14,992	17,505
4,309	4,956	5,875	8,193	6,971
3,948	5,303	1,538	2,964	2,032
5,082	4,834	5,842	5,216	5,482
4,020	4,725	5,550	5,735	6,449
3,360	7,549	7,987	13,975	11,614
1,039	578	715	1,144	205
<u>105,324</u>	<u>93,607</u>	<u>82,224</u>	<u>99,593</u>	<u>94,757</u>
19,003 (b)	12,753 (c)	11,871	13,204	12,814
1,975	2,060	2,278	2,658	2,706
		3,087 (d)	3,124	3,329
7,960	8,772	9,124	8,535	9,199
2,267	2,196	2,030	2,202	2,570
5,688	5,261	(d)	(d)	(d)
21,682	21,733	20,978	22,165	24,193
14,994	14,562	15,420	14,587	15,605
2,424				
12,940	28,876	7,510	10,035	14,376
8,225	13,153	4,209	3,828	6,000
12,386	6,823	668	223	61
<u>109,544</u>	<u>116,189</u>	<u>77,175</u>	<u>80,561</u>	<u>90,853</u>
(4,220)	(22,582)	5,049	19,032	3,904
	21,780			
		46		
5	8	(512)	6	4
119,213	34,994	13,780	7,499	25,558
(115,839)	(31,690)	(10,735)	(4,098)	(19,305)
<u>3,379</u>	<u>25,092</u>	<u>2,579</u>	<u>3,407</u>	<u>6,257</u>
	17,274 (c)			
	(42,431) (c)			
			(27,261) (e)	
<u>(\$841)</u>	<u>(\$22,647)</u>	<u>\$7,628</u>	<u>(\$4,822)</u>	<u>\$10,161</u>
18.5%	22.9%	7.0%	5.7%	7.5%

**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				
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	2,772,798	346,493	1,557,639	(282,326)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%
2013-14	6,793,845	1,388,236	2,622,328	405,531	1,764,760	(161,341)	12,813,359	1%
2014-15	7,728,283	1,427,474	2,628,858	464,106	1,887,428	(75,363)	14,060,786	1%

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

Notes:

- (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)

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
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
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070
2014-15	1.00	1.00	0.0412	0.0750	0.0065

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 2014-15 and 2005-06  
 (Dollars in thousands)

Taxpayer	2014-2015			2005-2006		
	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.	\$985,547,362	1	7.01%	\$253,181,611	3	2.54%
Milpitas Mills LP	304,166,632	2	2.16%	288,541,158	2	2.90%
KLA Tencor Corporation	244,697,337	3	1.74%	356,390,763	1	3.58%
California Diversified LLC	160,198,610	4	1.14%			
Essex Portfolio LP	131,424,789	5	0.93%			0.00%
Hudson Campus Center LLC	121,691,718	6	0.87%			
Headway Technologies Inc.	111,314,729	7	0.79%	128,941,320	5	1.29%
Linear Technology Corporation	107,602,501	8	0.77%	117,194,777	7	1.18%
Fair Murphy LLC	105,345,742	9	0.75%			
Spus6 Murphy Crossing LP	95,431,300	10	0.68%			
Richard T. Peery Trustee				194,995,784	4	1.96%
Seagate Technology				126,396,305	6	1.27%
Lifescan Inc.				86,999,152	8	0.87%
Trinet Milpitas Associates				83,152,918	9	0.83%
ERP Operating LP				81,083,466	10	0.81%
Subtotal	<u>\$2,367,420,720</u>		<u>16.84%</u>	<u>\$1,716,877,254</u>		<u>17.24%</u>
	Fiscal Year 2014-2015 Total Net Assessed Valuation		\$14,060,786,369			
	Fiscal Year 2005-2006 Total Net Assessed Valuation		\$9,960,540,427			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2014/15 Combined Tax Rolls

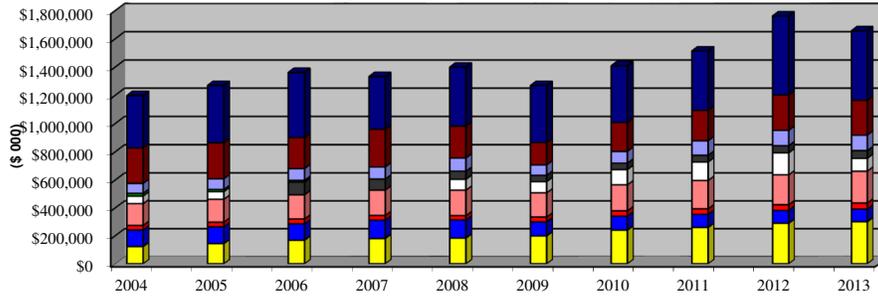
**CITY OF MILPITAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**  
(Dollars in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
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%
2012-13 (c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14	27,608	27,608	100.00%	0	27,608	100.00%
2014-15	24,927	24,927	100.00%	0	24,927	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  
TAXABLE SALES BY CATEGORY  
LAST TEN CALENDAR YEARS  
(Dollars in Thousands)**



	CALENDAR YEARS									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Apparel stores	\$123,583	\$145,317	\$168,985	\$181,878	\$185,023	\$200,140	\$241,992	\$261,414	\$291,268	\$302,168
General merchandise stores	119,471	120,297	118,348	131,594	130,193	101,561	100,790	94,828	92,652	91,224
Food stores	32,950	33,592	34,979	34,362	31,105	34,453	38,004	39,344	40,725	43,238
Eating and drinking places	156,318	164,694	173,424	181,668	183,049	174,016	187,002	203,411	214,065	227,952
Home furnishings and appliances	54,460	54,906	(a)	(a)	77,669	80,746	108,491	130,572	155,616	91,325
Building material and farm implements	(a)	(a)	91,571	79,360	57,594	44,818	45,501	48,131	51,128	54,486
Auto dealers and auto supplies	19,990	15,132	12,221	(a)						
Service stations	71,231	76,455	82,868	85,468	93,324	73,280	83,100	102,231	108,073	109,326
Other retail stores	251,599	255,805	220,862	266,915	225,954	158,982	204,074	215,350	250,826	246,769
All other outlets	370,253	405,111	460,265	373,394	417,099	402,516	401,569	420,024	558,935	491,929
<b>Total</b>	<b>\$1,199,855</b>	<b>\$1,271,309</b>	<b>\$1,363,523</b>	<b>\$1,334,639</b>	<b>\$1,401,010</b>	<b>\$1,270,512</b>	<b>\$1,410,523</b>	<b>\$1,515,305</b>	<b>\$1,763,288</b>	<b>\$1,658,417</b>
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".

Data for calendar year 2014 is not available.

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	
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	(a)
2009-10	1.00	1.00	7.25	
2010-11	1.00	1.00	7.25	
2011-12	1.00	1.00	6.25	(b)
2012-13	1.00	1.25	6.50	(c) (d)
2013-14	1.00	1.25	6.50	
2014-15	1.00	1.25	6.50	

Source: California State Board of Equalization

(a) April 1, 2009 the State increased the State Rate 1%

(b) July 1, 2011 the State decreased the State Rate 1%

(c) April 1, 2013 the County increased the rate 0.25%

(d) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%

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 2014 and 2004  
 IN ALPHABETICAL ORDER

2014	2004
Best Buy Stores Burlington Coat Factory Calvin Klein Chevron Service Stations Cisco System Inc. Coach Stores Consolidated Electrical Distributors Dave & Busters Eplus Technology Flextronics Forever 21 Home Depot KLA Tencor Corporation Kohl's Department Stores Marshall's Stores Milpitas Materials Company Nanometrics Nike Factory Store Piercey Toyota & Scion Safeway Stores Shell Service Stations South Bay Honda Tesoro Service Stations Union 76 Service Stations Wal-Mart Stores	Chevron Service Stations Credence Systems Dave & Buster's FEI Company Hanson Concrete Products Headway Technologies Home Depot KLA Tencor Corporation Marshall's Stores Mazak Corporation McDonald's Restaurant Mervyn's Department Stores Milpitas Materials Company Ohka America Old Navy Clothing Co. One Workplace L. Ferrari Orchard Supply Hardware Piercey Toyota & Piercey Scion Rackable Systems Saks Fifth Avenue Shell Service Stations Sportmart Union 76 Service Stations Walgreen's Drug Stores WalMart Stores

Source: MBIA MuniServices Company

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

Fiscal Year	Governmental Activities					Business-type Activities	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation			
2005-06	\$3,540	\$190,780	\$50,471	\$0	\$0	\$0	\$244,791	0.01%	\$3,779
2006-07	2,410	187,030	46,843	0	0	9,535	245,818	0.01%	3,769
2007-08	1,230	183,175	43,388	0	0	9,160	236,953	0.01%	3,580
2008-09	0	179,215	40,097	0	0	8,815	228,127	0.01%	3,301
2009-10	0	174,180	36,963	0	0	8,460	219,603	0.01%	3,101
2010-11	0	168,940	33,978	0	0	8,090	211,008	0.01%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	21,747	0.00%	325
2012-13	0	0	0	9,828	360	7,315	17,503	0.00%	258
2013-14	0	0	0	6,000	274	6,910	13,184	0.00%	188
2014-15	0	0	0	0	186	6,490	6,676	(c)	96

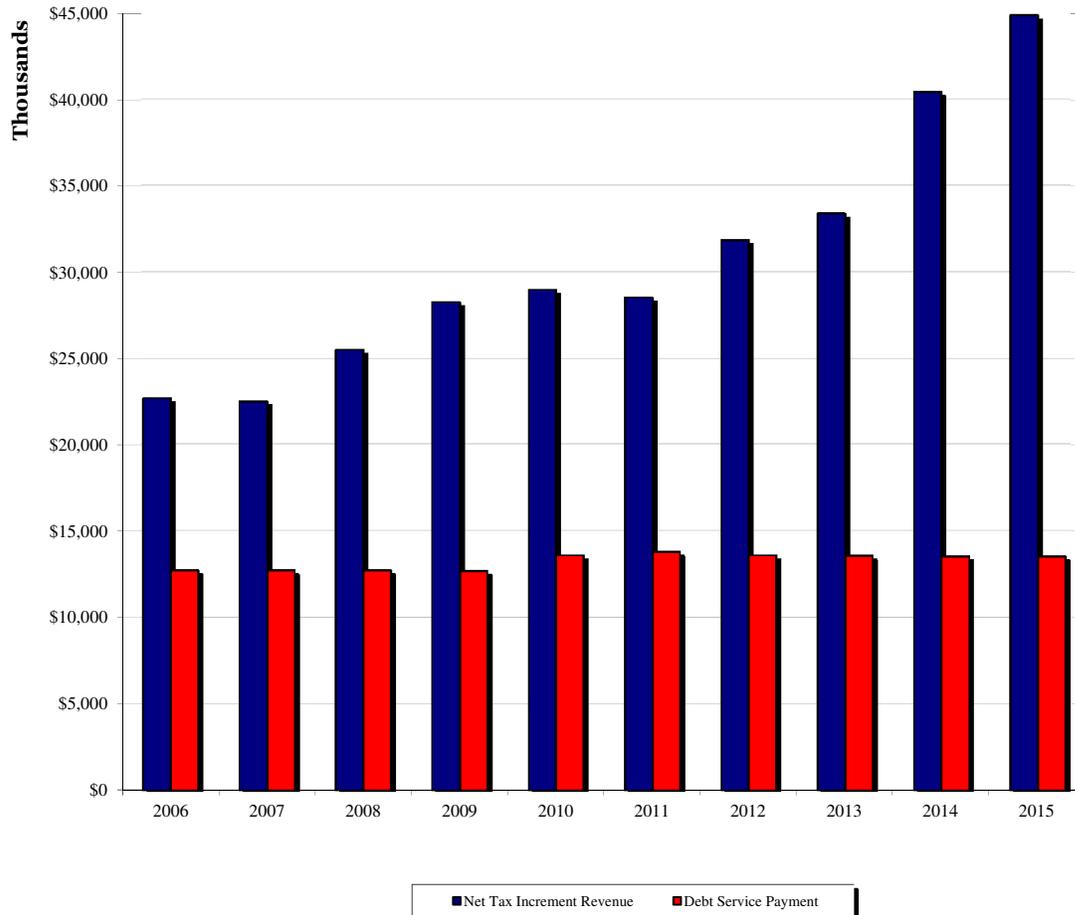
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 18 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 2014-15 not available until May of 2016.

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			Coverage
				Principal	Interest	Total	
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	7,800,736	28,553,001	5,240,000	8,548,559	13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99
2015	44,843,881 (d)	0 (b)	44,843,881	6,120,000 (d)	7,414,608 (d)	13,534,608	3.31

- (a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.
- (b) 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.
- (c) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.
- (d) Tax increment reported in this table after the dissolution date is the amount calculated by the County Auditor-Controller as available for payment of enforceable obligations. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Debt service reported was paid by the Successor Agency.

CITY OF MILPITAS  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
JUNE 30, 2015

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2014-15 Assessed Valuation, Direct and Overlapping Debt		<u>\$14,060,786,369</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.937%	\$31,463,717
San Jose- Evergreen Community College District	12.044%	50,284,360
Milpitas Unified School District	99.002%	115,466,033
East Side Union High School District	0.322%	2,073,799
Berryessa Union School District	2.111%	1,396,596
Santa Clara Valley Water District Benefits Assessment District	3.937%	4,200,385
City of Milpitas 1915 Act Bonds	100%	<u>6,650,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>211,534,890</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.937%	27,858,756
Santa Clara County Pension Obligations	3.937%	14,623,737
Santa Clara County Board of Education Certificates of Participation	3.937%	355,511
San Jose- Evergreen Community College District OPEB Bonds	12.044%	5,714,878
East Side Union High School District OPEB Bonds	32.200%	97,904
Berryessa Union School District Certificates of Participation	2.111%	131,176
<b>City of Milpitas</b>	<b>100%</b>	<b>185,508</b>
Santa Clara County Vector District Certifications of Participations	3.937%	121,456
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>49,088,926</u>
Less: Santa Clara County supported obligations		<u>(19,877,859)</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$29,211,067</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	<u>\$127,790,000</u>
<b>TOTAL DIRECT DEBT</b>		<b><u>\$185,508</u></b>
TOTAL GROSS OVERLAPPING DEBT		<u>\$388,228,308</u>
TOTAL NET OVERLAPPING DEBT		<u>\$368,350,449</u>
GROSS COMBINED TOTAL DEBT		<u>\$388,413,816 (2)</u>
NET COMBINED TOTAL DEBT		<u>\$368,535,957</u>

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

Ratios to 2014-15 Assessed Valuation:  
Total Overlapping Tax and Assessment Debt 1.50%

Ratios to Assessed Valuation:  
Direct Debt % 0.00%  
Total Gross Debt % 2.76%

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 2014-15

Assessed value (net) - June 30, 2015		<u>\$14,060,786</u>
Debt limit: 3.75% of assessed value (a)		\$527,279
Debt applicable to limit		
Total Bonded Debt	\$0	
Less: Tax Allocation Bonds not subject to limit	0	
Amount of Debt subject to limit		<u>0</u>
Legal debt margin		<u>\$527,279</u>

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
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%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%
2014-15	527,279	0	527,279	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 EIGHT 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
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90
2014-15	14,664,759	7,263,553	7,401,206	420,000	264,528	684,528	10.81

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)
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
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99
2014-15	86.93	52.22	38.20	14.68	2.73 - 8.00

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 CALENDAR YEARS  
 (Dollars in Thousands)

<u>Calendar Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%)</u>	<u>Land Area (Sq. Mile)</u>
2005	64,771	4,742	\$2,149,468	\$33,186	9,748	5.50%	13.66
2006	65,223	4,775	2,341,390	35,898	9,682	4.60%	13.66
2007	66,191	4,846	2,495,465	37,701	9,590	4.80%	13.66
2008	69,115	5,060	2,634,504	38,118	9,649	6.20%	13.66
2009	70,812	5,184	2,606,712	36,812	9,802	11.30%	13.66
2010	71,552	5,238	2,067,137	28,890	9,887	11.50%	13.66
2011	66,966	4,902	2,052,307	30,647	9,949	10.00%	13.66
2012	67,894	4,970	2,143,889	31,577	10,033	6.70%	13.66
2013	70,092	5,131	2,234,603	31,881	10,156	5.50%	13.66
2014	69,903	5,117	2,287,366	32,722	10,281	4.90%	13.66

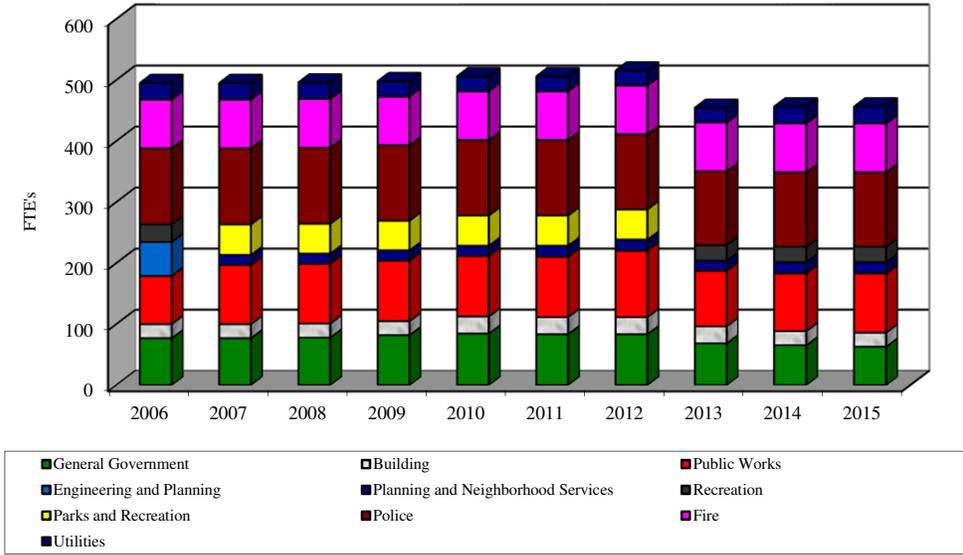
Sources: HdL, Coren & Cone  
 City of Milpitas Annual Budget

CITY OF MILPITAS  
PRINCIPAL EMPLOYERS  
FISCAL YEAR 2014-15 and 2005-2006

Employer	2014-15			2005-2006		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,816	1	10.15%	3,000	1	3.67%
KLA-Tencor Corporation	2,214	2	5.89%	1,000	7	1.22%
San Disk Corporation	1,928	3	5.13%	1,100	5	1.35%
Flextronics International	1,275	4	3.39%			
Linear Technology Corporation	1,230	5	3.27%	1,000	7	1.22%
FireEye, Inc.	852	6	2.27%			
Milpitas Unified School District	840	7	2.23%	950	10	1.16%
Headway Technologies	638	8	1.70%			
Wal-Mart	530	9	1.41%			
Kaiser Permanente	320	10	0.85%			
Great Mall				3,000	1	3.67%
Lifescan, Inc.				2,500	3	3.06%
LSI Logic Corporation				1,320	4	1.62%
Seagate Technology				1,100	5	1.35%
Soletron Corporation				1,000	7	1.22%
Subtotal	<u>13,643</u>		<u>36.28%</u>	<u>15,970</u>		<u>19.56%</u>
Total Labor Force			37,600			81,646

Source: California Municipal Statistics, Inc.

**CITY OF MILPITAS**  
**AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**



Adopted for Fiscal Year Ended June 30

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government	77.0	77.0	78.0	82.0	84.5	83.5	83.5	68.5	65.5	63.0
Building and Safety	23.0	23.0	23.0	23.0	28.0	28.0	28.0	28.0	23.0	23.0
Public Works	79.0	97.0 (a)	98.0	99.0	99.0	99.0	109.0	91.0	94.5	97.0
Engineering and Planning	55.5	(a)								
Planning and Neighborhood Services		16.5 (a)	16.5	17.0	17.0	18.0	18.0	16.5	18.5	18.5
Recreation	29.0	(a)	(a)	(a)	(a)	(a)	(a)	25.5 (b)	25.5	25.5
Parks and Recreation		50.0 (a)	49.0	48.5	49.5	49.5	49.5	(b)	(b)	(b)
Police:										
Sworn Police	94.0	94.0	94.0	94.5	94.5	94.5	94.0	91.5	92.0	92.0
Civilians	30.5	30.5	30.5	29.0	29.0	29.0	29.0	29.5	30.0	30.0
Fire:										
Firefighters and Safety	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	68.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	12.0
Utilities	27.0	27.0	27.0	25.0	24.5	24.5	24.5	24.0	27.5	27.5
<b>Total</b>	<b>495.0</b>	<b>495.0</b>	<b>496.0</b>	<b>498.0</b>	<b>506.0</b>	<b>506.0</b>	<b>515.5</b>	<b>454.5</b>	<b>456.5</b>	<b>456.5</b>

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

(b) Beginning in fiscal year 2013, parks maintenance division is now under public works department and recreation division is part of human resources department, but it is reported separately here.

Source: City of Milpitas, final budget

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

Function/Program	Fiscal Year				
	2006	2007	2008	2009	2010
<b>Building and Safety</b>					
Building permits issued	3,788	3,500	3,500	3,500	2,700
Plan checked performed	1,181	1,000	1,000	1,000	800
<b>Public Works</b>					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,326	3,208	3,500	3,924	3,900
Development projects reviewed	293	190	150	100	118
<b>Planning and Neighborhood Services</b>					
Customer Service Requests/Violations abated	1,802	1,470	1,100	1,250	980
Applications to Planning Commission	150	165	150	112	84
<b>Parks and Recreation</b>					
Sports Center members	7,508	7,885	8,278	8,500	10,000
Senior nutrition meals served	19,421	20,667	21,165	23,228	24,056
Athletic Field maintenance (hours)	1,947	1,947	1,946	2,242	2,100
<b>Police</b>					
Avg response time to emergency calls (minutes)	3:12	3:06	3:06	2:46	2:47
Number of anti-terrorist patrol checks	12,813	12,300	3,500	3,500	1,469
Crime prevention presentations	179	190	240	275	266
Number of vehicle citations issued	14,161	10,624	12,386	11,558	11,391
DARE presentations: schools/students	13/1538	14/1572	14/1492	13/1440	12/850
<b>Fire</b>					
Emergency calls for service	4,250	4,000	4,368	4,300	4,400
Public education events	70	65	80	70	90
Permits Inspections	4,231	4,300	5,400	4,000	4,000
Plan Review	1,005	1,000	750	995	1,000
<b>Utility</b>					
Clean sewer lines (feet)	500,000	500,000	500,000	500,000	500,000
Repair, replace or set water meters	425	600	580	700	500
Average daily consumption (thousands of gallons)	9,162	9,693	9,693	8,870	9,200

Source: City of Milpitas, final budget

Fiscal Year				
2011	2012	2013	2014	2015
2,800	2,800	3,400	4,300	4,300
800	800	1,100	1,500	1,400
139	139	139	139	139
3,000	3,350	3,500	2,880	2,800
225	200	200	205	190
800	725	725	725	755
45	96	106	159	236
1,200	1,400	1,600	1,450	1,504
23,076	23,304	22,090	20,656	21,231
1,641	n/a	n/a	n/a	n/a
2:49	2:42	2:32	2:33	2:32
1,469	1,693	1,996	2,550	2,300
281	235	201	200	200
8,544	6,901	4,120	3,516	3,600
11/845	12/770	0	0	0
4,400	4,075	4,356	4,356	4,950
80	120	45	45	80
4,000	4,334	4,510	4,510	4,666
900	671	807	807	983
550,000	500,000	329,313	640,255	500,000
380	491	149	298	279
8,100	8,200	9,340	9,300	9,300

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

Function/Program	Fiscal Year				
	2006	2007	2008	2009	2010
<b>Public Works</b>					
Miles of streets	139	139	139	138	139
Street lights	4,354	4,354	4,435	4,460	4,496
Square feet of buildings maintained (in thousands)	350	350	350	350	350
City vehicles	635	635	630	617	622
Signs	7,167	7,400	8,000	8,131	8,363
Signal lights	68	68	68	71	71
City Parks	26	29	32	32	29
Acres of Parkland	172	172	172	179	179
Playgrounds	32	30	29	37	33
<b>Parks and recreation</b>					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	3	4	4	3	4
Tennis courts	22	22	22	24	20
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	15
Soccer fields	13	13	13	13	5
Basketball courts	5	5	5	6	5
Volleyball courts	7	7	7	7	5
Handball courts	4	4	4	4	1
<b>Police</b>					
Police stations	2	2	2	2	2
Police patrol vehicles	30	28	27	28	28
<b>Fire</b>					
Fire stations	4	4	4	4	4
Fire Apparatus	14	16	14	14	13
Fire hydrants	1,756	1,756	1,809	1,756	1,840
<b>Utility</b>					
Miles of water mains	204	204	206	204	213
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	173	173	177	173	178
Miles of storm drain	105	105	107	106	110
Miles of recycled water main	11	11	11	11	3

Source: City of Milpitas, final budget

Fiscal Year				
2011	2012	2013	2014	2015
139	287	287	287	298
4,496	4,500	4,500	4,500	4,577
427	376	376	376	376
622	247	242	252	260
8,363	8,534	8,534	5,500	5,700
71	72	72	72	70
31	31	33	34	34
178	179	179	180	180
33	33	24	25	34
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
4	3	3	3	3
17	20	20	20	21
1	1	1	1	1
15	12	8	8	9
2	3	9	9	12
5	4	8	8	7
4	5	4	9	7
1	1	5	5	2
2	2	2	2	2
28	27	27	29	28
4	4	4	4	4
15	13	22	19	19
1,840	1,840	1,840	1,847	2,033
213	213	213	214	213
16	16	16	16	16
178	179	179	179	179
110	110	110	110	110
3	4	4	4	23



**CITY OF MILPITAS  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015**

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**CITY OF MILPITAS**  
**SINGLE AUDIT REPORT**  
**For The Year Ended June 30, 2015**

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**CITY OF MILPITAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2015**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes       X       No
- Significant deficiency(ies) identified?       X       Yes            None Reported

Noncompliance material to financial statements noted?            Yes       X       No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unmodified

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?       X       Yes            No

Identification of major programs:

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

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 disclose significant deficiencies, but no material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 28, 2015 which is an integral part of our audits and should be read in conjunction with this report.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding: SA2015-001**                      **Compliance with Grant Planning and Administration Limitations**

**CFDA Number:**                      14.218  
**CFDA Title:**                              Community Development Block Grant Program  
**Name of Federal Agency:**        Department of Housing and Urban Development

**Criteria:** Not more than 20 percent of the total CDBG grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)).

**Condition:** The City incurred planning and administrative expenses of \$96,200, which represented 23.74% of the total CDBG grant plus program income for the year. Costs in excess of the limit of \$15,167 were charged to the grant and drawn down from the grantor.

**Effect:** The City was not in compliance with the planning and administration cost limitations of the grant and requested reimbursement from the grant in excess of eligible costs.

**Questioned Costs:** None. Although the costs incurred as of June 30, 2015 were in excess of planning and administration cost allowances, the City reimbursed the ineligible costs of \$15,167 to the grant program via an interfund transfer from the General Fund and is working with the Department of Housing and Urban Development to determine how the funds are to be returned to the grantor. Therefore, the ineligible costs have been excluded from the Schedule of Expenditures of Federal Awards.

**Cause:** The City entered the wrong budget amount for planning and administration costs in the IDIS system, which included the cost of a third party administrator. As a result, when City staff calculated the planning and administration cost limitations those vendor costs totaling \$15,167 were initially excluded from those calculations and later included which revealed that the limitation had been exceeded.

**Recommendation:** Although City staff discovered the program expenditures in excess of planning and administration cost limitations subsequent to the fiscal year end and brought the issue to the attention of the Department of Housing and Urban Development, the City must adopt procedures to ensure program budgets are entered correctly in the IDIS system to ensure compliance with program limitations prior to grant expenditure or drawdown.

**View of Responsible Officials and Planned Corrective Actions:**

**Contact Person:**                      Tim Wong, Housing and Neighborhood Services Manager, 408-586-3286

**Corrective Action:**                      The City will adopt procedures to ensure program budgets are entered correctly in the IDIS system to ensure compliance with program limitations prior to grant expenditure or drawdown.

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

**Financial Statement Prior Year Findings**

There were financial statement Findings reported in the prior year, the current status of which we have communicated in a separate Memorandum on Internal Control dated October 28, 2015, which is an integral part of our audits and should be read in conjunction with this report.

**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, 2015

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development <b>Direct</b> Program:			
Community Development Block Grant/Entitlement Grants	14.218		
Loan Expenditures			\$105,508
Program Expenditures			96,797
Subgrants			316,365
Loan program cash balance at end of year			<u>65,603</u>
Total Department of Housing and Urban Development			<u>584,273</u>
U.S. Department of Transportation <b>Pass-Through</b> Program From:			
State of California Office of Traffic Safety			
County of Santa Clara			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated			
Avoid the 13th Under the Influence Campaign	20.608	AL1419	<u>11,345</u>
U.S. Department of Homeland Security			
<b>Direct Program:</b>			
Homeland Security Grant Program	97.067		4,620
<b>Pass-Through Program From:</b>			
County of Santa Clara Office of Emergency Services			
Emergency Management Performance Grants (EMPG)	97.042	EMW-2013-EP-00047	<u>19,466</u>
Total Department of Homeland Security			<u>24,086</u>
U.S. Department of Health and Human Services <b>Pass-Through</b> Program From:			
Sourcewise Community Resources Solution of Santa Clara			
Nutrition Program for the Elderly			
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	AP-1415-15	16,148
Nutrition Services Incentive Program	93.053	AP-1415-15	<u>9,060</u>
Total Department of Health and Human Services			<u>25,208</u>
Total Expenditures of Federal Awards			<u><u>\$644,912</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

## CITY OF MILPITAS

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended June 30, 2015

#### 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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**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015. Our report included emphasis of a matter paragraphs disclosing the implementation of new accounting principles and the restatement of beginning fund balances and net position.

***Internal Control Over Financial Reporting***

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated October 28, 2015 which is an integral part of our audits and should be read in conjunction with this report.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 that are required to be reported under *Government Auditing Standards*.

### ***City's Response to Findings***

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated October 28, 2015 which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*Mane & Associates*

Pleasant Hill, California  
October 28, 2015

**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

***Report on Compliance for Each Major Federal Program***

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, 2015. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs. Our opinion on each major federal program is not modified with respect to these matters.

### ***City's Response to Findings***

The City's response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the basic financial statements of the City as of and for the year ended June 30, 2015, and have issued our report thereon dated October 28, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Maye & Associates*

Pleasant Hill, California  
October 28, 2015

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**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED UPON PROCEDURES FOR  
COMPLIANCE WITH THE PROPOSITION 111  
2014-2015 APPROPRIATIONS LIMIT INCREMENT**

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

We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Milpitas for the year ended June 30, 2015. These procedures, which were suggested by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings were as follows:

- A. We obtained the Appropriations Limit Worksheet and determined that the 2014-2015 Appropriations Limit of \$79,870,017 and annual adjustment factors were adopted by Resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
- B. We recomputed the 2014-2015 Appropriations Limit by multiplying the 2013-2014 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limit Worksheet, we agreed the Per Capita Income, City Population and County Population Factors to California State Department of Finance Worksheets.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of management and the City Council; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in cursive script that reads "Maze & Associates".

Pleasant Hill, California  
June 5, 2015

**CITY OF MILPITAS**  
**BICYCLE/PEDESTRIAN PROJECTS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2015 AND 2014**

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**CITY OF MILPITAS**  
**Bicycle/Pedestrian Projects**  
**Financial Statements**  
**For the Years Ended June 30, 2015 and 2014**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council  
City of Milpitas, California

### *Report on Financial Statements*

We have audited the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) of the City of Milpitas, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

As discussed in Note 1, the financial statements present only the Projects and are not intended to present fairly the financial position and results of operations of the City of Milpitas, in conformity with generally accepted accounting principles in the United States of America.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Projects as of June 30, 2015 and 2014, and the change in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 , on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

*Maze & Associates*

Pleasant Hill, California

October 28, 2015

CITY OF MILPITAS  
 BICYCLE/PEDESTRIAN PROJECTS  
 COMPARATIVE BALANCE SHEETS  
 JUNE 30, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
Receivable from MTC	\$0	\$0
Total Assets	\$0	\$0
 <b>LIABILITIES</b>		
Due to the City	\$0	\$0
 <b>FUND BALANCE</b>		
Unassigned	0	0
Total Liabilities and Fund Balance	\$0	\$0

See accompanying notes to financial statements

CITY OF MILPITAS  
 BICYCLE/PEDESTRIAN PROJECTS  
 COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES  
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<b>REVENUES</b>		
TDA Article 3.0 (Note 2)	\$160,015	\$105,974
Total Revenues	160,015	105,974
<b>EXPENDITURES</b>		
Construction of ADA Ramps (14001036)	84,506	
ADA Curb Ramps (15001025)	75,509	
Enhanced Crosswalk Improvements Phase 2 (12001039)		34,238
ADA Curb Ramps (13001024)		45,050
Total Expenditures	160,015	79,288
Net change in fund balance	0	26,686
Fund balance (deficit) at beginning of year		(26,686)
Fund balance at end of year	\$0	\$0

See accompanying notes to financial statements

**CITY OF MILPITAS  
BICYCLE/PEDESTRIAN PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2015 and 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Milpitas has developed the Bicycle/Pedestrian Projects (Projects) under the Transportation Development Act (TDA), Article 3.0 for the construction of pedestrian pathways and wheelchair ramps and bicycle master plan studies. The Projects are funded by TDA grants.

The following is a summary of significant accounting policies applicable to the Projects which conform to generally accepted accounting principles as applicable to governments.

**A. *Fund Accounting***

The Projects are accounted for as part of the Capital Projects Fund of the City of Milpitas. This fund is a set of self-balancing accounts which comprise its assets, deferred inflows/outflows of resources, liabilities, fund equity, revenues and expenditures.

**B. *Basis of Accounting***

Basis of accounting refers to when revenues and expenditures are recognized. The Projects are accounted for in a governmental fund type and the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The Projects 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 recognized when they are incurred.

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

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF MILPITAS  
BICYCLE/PEDESTRIAN PROJECTS  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2015 and 2014**

**NOTE 2 - TDA ARTICLE 3.0 REVENUE**

For the years ended June 30, 2015 and 2014 the City had allocation instructions from the Metropolitan Transportation Commission for the following projects:

Instruction Number	Project Name	Grant Award	Expended in June 30, 2015	Revenue in fiscal 2015	Expended in June 30, 2014	Revenue in fiscal 2014
11001033	Enhanced Crosswalk Improvements Phase 2	\$26,686			\$26,686 (A)	\$26,686
12001039	Enhanced Crosswalk Improvements Phase 2	34,238			34,238	34,238
13001024	ADA Curb Ramps	45,050			45,050	45,050
14001036	Construction of ADA Ramps	84,506	\$84,506	\$84,506		
15001025	ADA Curb Ramps	75,509	75,509	75,509		
		<u>\$265,989</u>	<u>\$160,015</u>	<u>\$160,015</u>	<u>\$105,974</u>	<u>\$105,974</u>

(A) Expenditures were incurred in fiscal year 2013, but revenues were not received until fiscal year 2014.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING, ON COMPLIANCE WITH THE TRANSPORTATION  
DEVELOPMENT ACT AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

***Internal Control Over Financial Reporting***

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

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

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

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures contained in §6666 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated October 28, 2015 which is an integral part of our audit and should be read in conjunction with this report.

### *Purpose of this Report*

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

This report is intended solely for the information and use of the Metropolitan Transportation Commission, management, City Council, others within the City, 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.

*Mane & Associates*

Pleasant Hill, California  
October 28, 2015

**CITY OF MILPITAS**  
**MEMORANDUM ON INTERNAL CONTROL**  
**AND**  
**REQUIRED COMMUNICATIONS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2015**

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**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2015**

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the City of Milpitas, California

We have audited the basic financial statements of the City of Milpitas for the year ended June 30, 2015, and have issued our report thereon dated October 28, 2015. Our opinions on the basic financial statements and this report, insofar as they relate to Terrace Gardens, Inc., are based solely on the report of other auditors. In planning and performing our audit of the basic financial statements of the City, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management responses included in this report have not been subjected to the audit 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 *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive script.

Pleasant Hill, California  
October 28, 2015

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**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL  
SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2015-01      Work Out of Class Pay Excluded from Updated Memorandum of Understanding**

Special pay should be documented in the applicable Memoranda of Understanding.

During our payroll testing of 25 employees for the pay period ended April 10, 2015, we noted that one Fire Department employee received Work Out Of Class (WOOC) pay. WOOC pay is for Fire employees who work an assignment at a higher rank than their current position, and the rate is calculated at 10% of the base hourly rate.

However, the Fire Memorandum of Understanding (MOU) for the International Association of Firefighters (IAFF) Local 1699 for December 3, 2014 to December 31, 2016 did not include a provision for any such type of pay. Finance staff was able to locate documentation of the pay type in the prior IAFF MOU. The City staff indicated that it appears that the section for WOOC was accidentally omitted from the current MOU, but it is still a pay code used by the City.

City staff conducted additional research and found that the section of the MOU specific to WOOC pay was included in an early draft of the MOU, but unintentionally excluded from the final MOU. In July 2015, the City confirmed with the IAFF Local 1699 that the exclusion was a typographical error and the omitted section should be added back to the MOU. Representatives from IAFF Local 1699 acknowledged this error and agreed with the City's action.

In the future, when new MOUs are adopted, they should be reviewed in detail to determine whether omissions of, or changes to, prior pay types were intentional or unintentional.

***Management's Response:***

City staff will review any new MOU thoroughly to ensure that any omission or changes are in fact negotiated.

**2015-02      Vendor Database Review**

Good internal controls require that employees with access to the City's assets not have access to the City's accounting records for the same assets. As an example, employees with access to the vendor database should not also have access to processing accounts payable. If segregation of those duties is not possible, changes to the vendor database should be reviewed and approved by another employee who does not process accounts payable.

During our review of the Accounts Payable process, we noted the Accounts Payable clerks who process disbursements also have access to makes changes to the vendor database, but the changes are not reviewed and approved by a second appropriate employee.

We understand that the City has not designated staff to review the vendor database changes. Without an independent review, the City is exposed to the risk of ghost vendors and/or unauthorized changes to vendor accounts.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2015-02      Vendor Database Review (Continued)**

The City should remove the access to the vendor database from the Accounts Payable clerks. In the event this segregation of duties is not feasible, then changes to the vendor database should be reviewed and approved by an employee who does not have access to the database on a regular basis, such as prior to each check run.

***Management's Response:***

The City has activated the logging report in the financial system and we are testing the log currently to ensure the log is keeping track of the changes in the vendor database. We will also develop a procedure to periodically review the logging report.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2015-03      Timely Review of Bank Reconciliation**

Bank reconciliations should be reviewed in a timely manner to allow errors and unreconciled differences to be researched and corrected in time. The reviewer should sign off on the bank reconciliation or document evidence of review in some formal manner.

We noted that while the January and March 2015 bank reconciliations had been prepared timely, and staff indicated they were briefly reviewed at the time of completion, evidence of the review was not noted on the reconciliations. City staff indicated that they were still in the process of performing a more detailed review of the reconciliations at the time of our interim audit.

We understand that a transition in City staff caused the City to fall behind in reviewing responsibilities. However, the delay in review and approval of bank reconciliations increases the risk of errors and/or fraud may not be detected in a timely manner.

The City should develop procedures to ensure that bank reconciliations are reviewed in a timely manner even during staff transition periods, and evidence of the review should be clearly documented in some formal manner.

***Management's Response:***

The City has developed a procedure to ensure the bank reconciliation will be reviewed on a timely manner.

**2015-04      Personnel Action Form Updates**

All employee Personnel Action Forms (PAF) should be accurate and up-to-date at all times in accordance with City policy. We understand updated PAFs are required for all changes to employee pay, including those that are the result of a new or revised Memorandum of Understanding (MOU).

During our payroll testing of 25 employees for the pay period ended April 10, 2015, we noted that for one employee tested a PAF had not been executed to reflect the pay rate increase under the current MOU.

Human Resource staff indicated this was an oversight due to the employee being a Temporary Employee.

Without proper documentation in the employee's personnel file, there is risk that the current rate of pay in the payroll system may be mistaken as an error. The City should ensure that the PAFs for all employees are updated timely, including temporary employees. In the event PAFs are not required to be updated for global changes, such as the effects of updated MOUs, all City staff should be made aware of that policy.

***Management's Response:***

The City will develop a procedure to ensure all employees including temporary employees that are receiving a pay rate increase have the proper documentation in their folder.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2015-05      Finance Personnel Super-User Rights**

Good internal controls are based a segregation of duties, and no one finance employee should have access to an asset and the controlling documentation that supports that asset. Ideally, one employee should retain authorization to use an asset and another employee should maintain the records over that asset. Super-user rights give an individual the potential to obtain both of these functions. Due to the reasons mentioned above, Finance staff should not normally be allowed to have super-user rights in the City's general ledger system.

We understand that the City is in the process of upgrading the Cayenta general ledger system and the Accounting Manager was granted with Super-User rights for the convenience of system implementation. However, we recommend the City remove the Super-User login access to Finance staff immediately upon completion of the upgrade. And, additional review/approval procedures may be necessary to mitigate any potential control risks during the time those staff have such rights.

In the future, City should review the necessity of granting any employee the super-user rights to the financial system. For any module within the financial system that these employees do not need to edit, their access should be limited to read-only.

***Management's Response:***

The Finance Manager needs to have Super User Rights to troubleshoot the system issues. In order to mitigate the potential internal control issues, logs will be reviewed by another Finance staff on a timely basis.

**2015-06      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 of each individual is appropriate according to their specific job duties.

As we recommended in 2011 and 2013, due to the new system implementation in 2011, 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.

We understand that the City has worked with the software provider, Cayenta, to provide an Access Log from the financial system and it was expected to be available as of May 2013. However, the Log is still in the testing phase and the City is still working with Cayenta to determine how a concise report of employee access to the key financial functions and duties can be produced.

A designated managerial staff should review the system access periodically to ensure that access to the various system modules is authorized and appropriate.

***Management's Response:***

The City is working with the Finance system vendor to create an access log that is easily manageable and will develop a procedure to periodically review the system access.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2015-07      Timely Update of Bank Account Signature Cards**

Signature cards for the bank and investment accounts should be updated immediately whenever there is a change in authorized signers.

During our review of signature cards for the City's cash and investment accounts, we noted one of the authorized signers for the Workers Compensation Account left the City in May 2015.

We understand the update to the signature card was put on hold until the new authorized employee was hired, which is expected in October 2015.

Keeping ex-employees as authorized signers on the City's bank accounts exposes the City to the risk of misappropriation of City's assets.

The City should immediately remove the ex-employees from the authorized signer of the Worker's Compensation bank account. In the future, a step should be added to the employee departure checklist to ensure that outside parties (such as banks, investment advisors, and bond trustees) are informed that the departed employee no longer represents the City.

***Management's Response:***

The City will ensure that any signature authority is included in the exit interview checklist.

**2015-08      Require Collateralization for Deposit Balances or Monitor Bank Balances and Withdraw Amounts in Excess of FDIC Insurance**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 100% 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. The collateral requirement is waived for the balance of the deposits that are covered by FDIC insurance.

The City has a bank account that is used by a property manager to deposit amounts collected on the City's behalf. The balance of the account as of June 30, 2015 was \$263,367. City staff found that the account was not established as a governmental deposit and is therefore not subject to the collateralization requirements. However, City staff indicated that they intend to withdraw balances from the account more frequently so the balance remains below the \$250,000 FDIC insurance limit.

City staff should either require that the balance on deposit with the bank in excess of FDIC insurance be collateralized or the bank balance should be monitored to ensure it does not exceed the FDIC insurance by withdrawing any excess amounts. In the future, new bank accounts established in the City's name or that will be used to hold City deposits should either be established as governmental deposits and subject to the collateralization requirements or 100% insured by FDIC.

***Management's Response:***

The City will monitor this account monthly to withdraw amounts above the FDIC insured limit.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2015-09      Investment Portfolio Report – Include all Accounts and Report Investments by Type**

The City's quarterly Investment Portfolio Report normally includes all of the City's cash and investment accounts. In addition, the City's Investment Policy and the California Government Code Section 53646 require that investments be listed by issuer.

We reviewed the June 30, 2015 Investment Portfolio Report and noted one investment was listed by the bank name (U.S. Bank), rather than the investment name (Dreyfus money market fund), and that the Report did not include one of the City's bank accounts with a balance of \$263,367.

City staff should develop procedures to reconcile the quarterly Investment Portfolio Report to the general ledger to ensure all bank accounts are included in the report, and all investments should be reviewed to ensure they are listed by investment name/issuer, rather than by bank name.

***Management's Response:***

The City will revise the procedure to ensure the investment report includes all necessary information.

**2015-10      Follow Up on Submission of Forms 700**

Conflict of Interest Code Form 700s are to be signed by designated personnel and submitted to the City Clerk's Office by the annual filing date of April 1. For all forms not submitted, the City Clerk should follow up with responsible parties to ensure that all forms are eventually received.

After reviewing the Form 700 control log for Commissioners, as of June 4, 2015 we noted 3 forms that were not on file. Upon further inquiry it was noted that the City's Clerk Office has followed up on two of the absent forms as documented in the file, but documentation of follow up of the third one was not included.

We understand the follow up was completed, but documentation was not retained in the file. The City Clerk's Office should periodically follow up with all designated individuals who have not filed Form 700 by the deadline and documentation of the follow up should be retained.

***Management's Response:***

The City Clerk's office will document the efforts made to seek compliance with each filer.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**OTHER INFORMATIONAL ITEMS**

**Single Audit - Uniform Guidance**

The Office of Management and Budget (OMB) is streamlining the Federal government's guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidances); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up, and is referred to as the Uniform Guidance.

The Uniform Guidance consolidates the guidance previously contained in the aforementioned citations into a streamlined format that aims to improve both the clarity and accessibility. The final guidance is located in Title 2 of the Code of Federal Regulations.

This final guidance does not broaden the scope of applicability from existing government-wide requirements affecting Federal awards to non-Federal entities including state and local governments, Indian tribes, institutions of higher education, and nonprofit organizations. The guidance is intended to provide a government-wide framework for grants management which will be complemented by additional efforts to strengthen program outcomes through innovative and effective use of grant-making models, performance metrics, and evaluation.

In addition to revisions to the administrative requirements for federal grants, the threshold for a Single Audit was increased to federal award expenditures of \$750,000 or more during the fiscal year.

The Uniform Guidance is effective for Federal agencies beginning December 26, 2013 and applicable for non-Federal entities beginning on or after December 26, 2014 (fiscal year 2016). However, the administrative provisions of the Uniform Guidance are effective for grants with federal award dates of December 26, 2014 or later.

City staff should review each grant award date to determine which the administrative requirements are applicable to each of the City's federal grants and ensure procedures are in place to comply with the provisions applicable to each grant.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**AB1248 – State’s Internal Control Guidelines**

AB1248 added Government Code Section 12422.5 which required the State Controller’s Office to develop internal control guidelines applicable to each local agency. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. However, there is no requirement that the tools developed must be used in the form provided.

City staff should consider reviewing the 2015 Internal Control Guidelines for California Local Agencies as a tool to evaluate the design and function of the City’s internal control structure. The 2015 Guidelines are available on the State’s website.

In addition, the State Controller’s Office intends to update the Guidelines periodically, so the Guidelines should be reviewed periodically to determine if any significant revisions were made that could impact the City’s internal control policies or procedures.

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking affect in the next few years. We cite it here to keep you informed of developments:

**EFFECTIVE FISCAL 2015/16:**

**GASB 72 – Fair Value Measurement and Application**

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**Fair Value Measurement**

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government’s principal market, or a government’s most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 72 – Fair Value Measurement and Application (Continued)**

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 72 – Fair Value Measurement and Application (Continued)**

**Fair Value Application**

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

**Fair Value Disclosures**

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

**GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**

Issued in June 2015, the objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Continued)***

***How the Changes in This Statement Improve Financial Reporting***

The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

**EFFECTIVE FISCAL 2016/17:**

**GASB 77 - *Tax Abatement Disclosures***

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**OTHER STATEMENTS RECENTLY APPROVED BY GASB:**

The Governmental Accounting Standards Board (GASB) has unanimously approved two Statements that will significantly improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB), primarily retiree health insurance. The GASB also approved a third Statement establishing accounting and financial reporting requirements for pensions and pension plans that were outside the scope of the pension standards the GASB released in 2012.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. Effective beginning in fiscal year 2016-2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. Effective beginning in fiscal year 2017-2018.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**OTHER STATEMENTS RECENTLY APPROVED BY GASB (Continued):**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, completes the suite of pension standards. Effective beginning in fiscal year 2016-2017.

The new OPEB standards parallel the pension standards issued in 2012—GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Together, the pension and OPEB standards provide consistent and comprehensive guidance for all postemployment benefits.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2014-01      Develop Procedures to Ensure Proper Classification of Developer Fees**

Developer fees collected should be recorded in the applicable fund for which they are paid.

During fiscal year 2014, City staff determined that water and sewer developer fees collected in prior years in the amounts of \$303,301 and \$1,992,758, respectively, had been incorrectly recorded in the Street Improvement Capital Projects Fund, but should have been recorded in the Water and Sewer Funds. City staff had recorded the corrections as interfund transfers, however the balances were significant to each fund and therefore should have been recorded as a restatement of the beginning balances.

When the fees were collected in May 2010, the misposting was caused by staff oversight.

As a result of the misposting of the developer fees, the cash and developer fee balances in the Water and Sewer Enterprise Funds were understated and the balances in the Street Improvement Capital Projects Fund were overstated.

City staff must establish procedures to ensure that the general ledger postings for the collections of developer fees are reviewed in detail to ensure they are recorded in the correct fund(s).

***Current Status:***

The City continues to review the developer fee carefully and to make sure to record the fee to the appropriate fund(s) in the general ledger.

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**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF OTHER MATTERS**

**2014-02            Compliance with CAL-Card Manual**

The City's CAL-Card Manual includes the following provisions related to the use of CAL-Cards and approval of the related purchases:

- i. Monthly Statements of Accounts must be reviewed, reconciled, and approved by the Department Head.
- ii. A maximum of 10 calendar days are allowed for the review and reconciliation of the Statement of Account once the Cardholder receives the Statement.
- iii. Single transaction limit of limit of \$3,000.
- iv. The Finance Department will periodically perform audits on all credit card statements to determine compliance with the City of Milpitas policies and procedures.

In addition, the City's Credit Card Policy states that purchase orders are required to be processed through the Purchasing Division in Finance for all purchases \$5,000 and over.

We selected CAL-Card transactions for testing of compliance with the Manual during the prior year audit, and noted a number of exceptions as discussed in prior year comment 2013-02. To see if procedures had been revised in the current year, we selected one transaction each for five CAL-Card holders to test for compliance with the CAL-Card policies and noted the following:

- i. One Department Head's statement for December 2013 did not indicate the date on which the statement was reviewed; therefore we were unable to determine if the statement was reconciled within ten days under the prescribed policy in place.

Approving officials should be reminded to include the date of the review on the Statements to demonstrate compliance with the 10-day review limitation.

However, we understand that the 10-day limitation was implemented due to the timing of payment requirements of the City's prior CAL-Card vendor. City staff indicated that the current practice is to review the statements within 14 days, because the new vendor's payment requirements provide additional time for review. The City should either comply with the 10-day review requirement or amend the Manual to reflect the current practice.

- ii. One Department Head made a purchase over the \$3,000 single purchase limit. And, the purchase was in the amount of \$6,264, but did not have a required purchase order. We did note that the card holder used an informal bid process prior to making the purchase, but the transaction is still not in compliance with the requirements of the CAL-Card Manual and the Credit Card Policy.

We then obtained the detail of the CAL-Card transactions the card holder made between October 2013 to April 2014 and noted a second transaction over the \$3,000 single purchase limit (\$3,189).

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF OTHER MATTERS**

**2014-02      Compliance with CAL-Card Manual (Continued)**

We were unable to determine why the card holder was allowed to make purchases in excess of the single purchase limit, since the CAL-Card manual indicates that single purchases over \$3,000 will be declined.

The City should immediately correct the card holder's single purchase limit to be in compliance with the CAL-Card Policy, or revise the Policy to reflect the current practices. And, in the event purchases do exceed \$5,000, they should be accompanied with a purchase order to comply with the provisions of the City's Credit Card Policy. City staff indicated that CAL-Card purchases are not expected to be accompanied by a purchase order, but that is not clear because the credit card policy is included as a reference in the CAL-Card Manual.

The City should review its CAL-Card and Credit Card Policies to ensure there are not additional inconsistencies between the two documents, revise each Policy to eliminate inconsistencies and either conform the current procedures to the requirements of the Policies or revise the Policies to reflect the current practices.

***Current Status:***

The City is in the process of reviewing the updated version of the policies. The revised policy will address the above issues.

**2014-03      Police Station Cash Collection Procedures**

Daily cash collections should be reconciled to the cash register-generated cash summary report for accuracy and completeness. Pre-numbered cash receipts should be used and accounted for sequentially during the daily cash reconciliation. And, voided receipts should be included in the cash receipt report and approved by an employee not involved in the cash receipt processing.

We reviewed the cash collection procedures at the Police Station and noted the following:

- i. Cash receipts are reconciled to a manually created report by the employees processing cash receipts. The Department does not use a cash register to process transactions.
- ii. Pre-numbered cash receipts are not generated.
- iii. Voided receipts are not reviewed by employees not involved in cash receipt processing, and without the use of prenumbered receipts voided transactions could go undetected.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF OTHER MATTERS**

**2014-03      Police Station Cash Collection Procedures (Continued)**

We understand that the Police Station staff believes there is no issue with the cash reconciliation process as two employees are always present during the reconciliation and that voided receipts are reviewed at that time. However, without the reconciliation of the daily cash collections to a collection report and the accounting for the sequential receipt numbers, the daily cash reconciliations cannot be relied upon.

The Police Department should utilize a cash register-generated summary report of cash collections to the daily collections. In addition, we recommend cash receipts be pre-numbered so inconsistencies can be identified in the normal course of cash receipt reconciliations. Finally, voided receipts should be approved by an employee not handling the cash receipts and evidenced by a signature sign-off on the reconciliation report or some other formal method of documentation.

The City should review the cash collection procedures at the Police Station to ensure the above controls are implemented.

***Current Status:***

The City has developed a new receipt program that will document the voided receipt process. This new program is currently in the testing phase. We will revise our reconciliation process after the new program has been implemented.

**2014-04      Health and Safety Code Expenditure Limitations and Reporting Requirements for the Housing Successor**

Senate Bill No. 341 was approved on October 13, 2013 and amended and added to the Health and Safety Code (HSC) effective January 1, 2014 to change provisions relating to the functions performed by a Housing Successor.

The amendments to HSC Section 34176 are minor and primarily include defining the "entity that assumed the housing functions of a former redevelopment agency" as the Housing Successor.

HSC Section 34176.1 is new and imposes spending limitations and reporting requirements related to the housing assets of the former Redevelopment Agency held by the Housing Successor.

The City serves as Housing Successor for the housing activities of the former Milpitas Redevelopment Agency and the activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund.

The City, as Housing Successor, should develop procedures to ensure ongoing compliance with the provisions of HSC Section 34176.1, including the expenditure limitations and annual reporting requirements.

***Current Status:***

The City has developed a procedure to ensure the compliance with the provisions of HSC Section 34176.1. The City will also monitor the expenditure limitation and will comply with the annual reporting requirement listed in the HSC 34176.1.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF OTHER MATTERS**

**NEW GASB PRONOUNCEMENT NOT YET EFFECTIVE**

The following comment represents a new pronouncement taking affect in the next fiscal year. We cite it here to keep you informed of developments:

**EFFECTIVE FISCAL 2015:**

**GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68**

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions* discussed in the Current Status of Prior Year Schedule of Other Matters section below. The issue relates to determining the beginning balances of deferred inflows and outflows required under the provisions of GASB Statement No. 68 and amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

**CITY OF MILPITAS  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SCHEDULE OF OTHER MATTERS**

**GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68 (Continued)**

**How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

***Current Status:***

The City implemented the provisions of the Statement in fiscal year 2015.

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## REQUIRED COMMUNICATIONS

To the City Council of  
the City of Milpitas, California

We have audited the basic financial statements of the City of Milpitas for the year ended June 30, 2015. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2014, which represent 1.61%, 2.17%, and 1.27% of the assets, net position and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, 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 the other auditor.

Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133.

### **Significant Audit Findings**

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

#### **GASB Statement No. 68 – Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The pronouncement became effective, and as disclosed in Notes 10E and 11 to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

**GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68**

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The pronouncement became effective, and as disclosed in Notes 10E and 11 to the financial statements required a prior period restatement for the cumulative effect on the financial statements.

**Accounting Policy Related to Loans Receivable**

The City changed its accounting policy related to loans receivable in fiscal year 2015. Rather than offsetting long-term loans receivable with unavailable revenue (deferred inflow of resources), loans receivable are now a component of fund balance. As disclosed in Notes 10E to the financial statements, the change in accounting policy required a prior period restatement for the cumulative effect on the financial statements.

The following Governmental Accounting Standards Board (GASB) pronouncement became effective, but did not have a material effect on the financial statements:

**GASB 69 – Government Combinations and Disposals of Government Operations**

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

- The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.
- A disposal of a government’s operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
- This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

## ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the City's financial statements were as follows:

*Estimated Fair Value of Investments:* As of June 30, 2015, the City held approximately \$187.3 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, 2015. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2015.

*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 Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 11 to the financial statements and are based on accounting valuations determined by the California Public Employees Retirement System, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the 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.

*Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 13 to the financial statements and is based on estimates determined by the City's risk pool and third party claims administrator, which are based on the claims experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

## ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected 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 City Council.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated October 28, 2015.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Information Accompanying the Financial Statements**

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information, which accompanying the financial statements but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

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



Pleasant Hill, California  
October 28, 2015