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Comprehensive Annual Financial Report

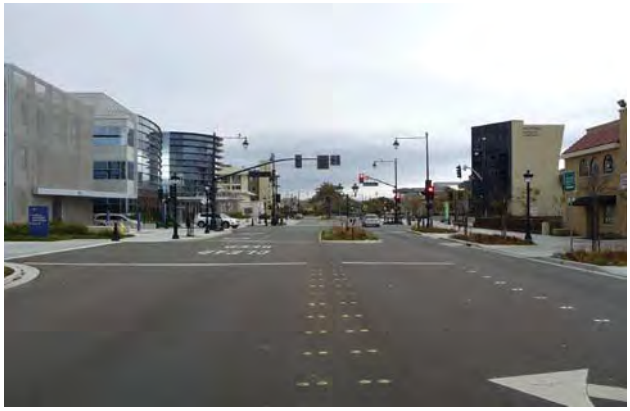
For the Fiscal Year Ended June 30, 2016

Midtown Development Projects

Centria

Terra Serena Luna

Milpitas Library



North Main Street

City of Milpitas

CALIFORNIA

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

CITY OF MILPITAS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

Prepared by

THE DEPARTMENT OF FINANCIAL SERVICES

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

INTRODUCTORY SECTION

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 www.ci.milpitas.ca.gov

October 21, 2016

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, 2016. 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

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 Public Financing Authority (MPFA), Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The MPFA, Housing Authority, MMFA and Terrace Gardens are separate legal entities from the City and are controlled by the City. The MPFA, Housing Authority and MMFA 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 Contract 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: public safety; police, fire, community services public works; maintenance, planning, building and public facility inspection, engineering, water and sewer utilities, recreation services; redevelopment and economic development 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 70,000 in 2010. 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. We are cautiously managing this economic road to recovery while cognizant of the need to remain in a state of fiscal readiness.

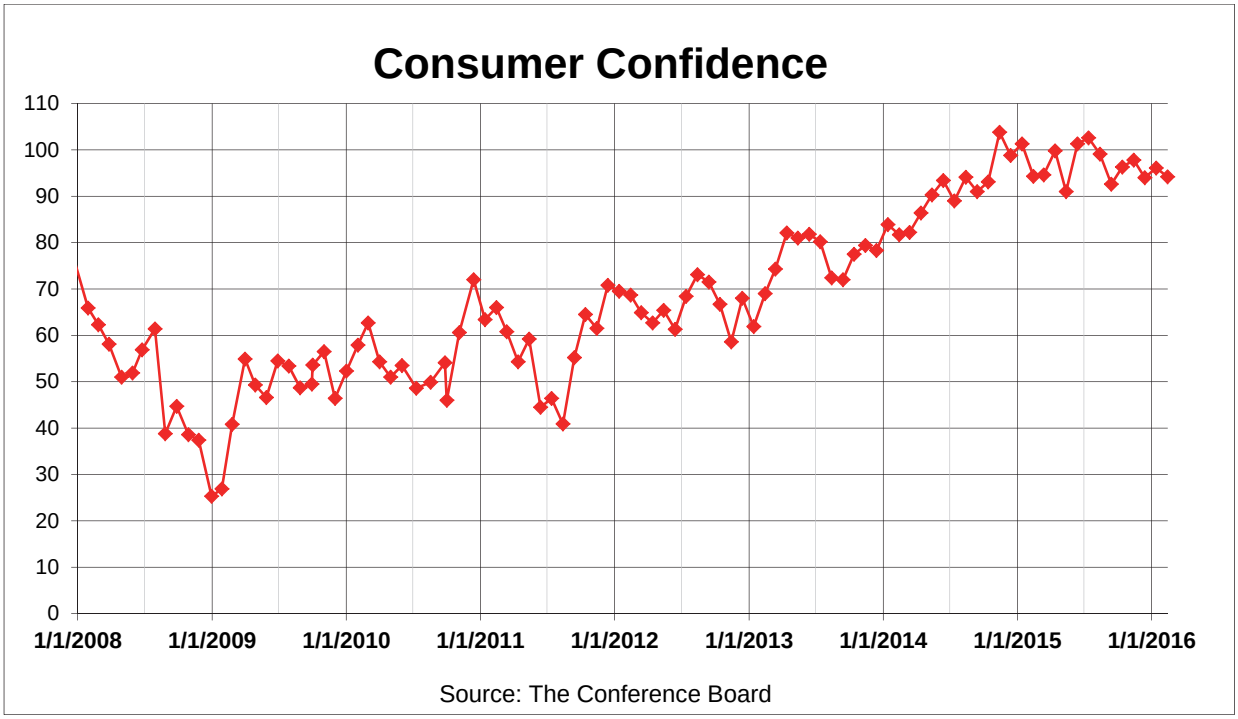
Growth in the South Bay housing market has also been an important contributor to the strength of the local economy. The lack of available homes continues to push home prices upward. Median home prices in certain parts of the Bay Area are outperforming the state and nation. Beyond the residential equation, much is happening in Milpitas from a perspective of private investment. The section below titled "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, and Flextronics International and Linear Technology, Inc. Other key retailers include South Bay Honda, Toyota/Scion, Marshall Stores, Safeway, Home Depot, Wal-Mart and Best Buy. Several of these top employers, including SanDisk Corporation and Linear Technology, make Milpitas their corporate headquarters. The three largest non-manufacturing employers in Milpitas are the Milpitas Unified School District, Kaiser Permanente and Wal-Mart.

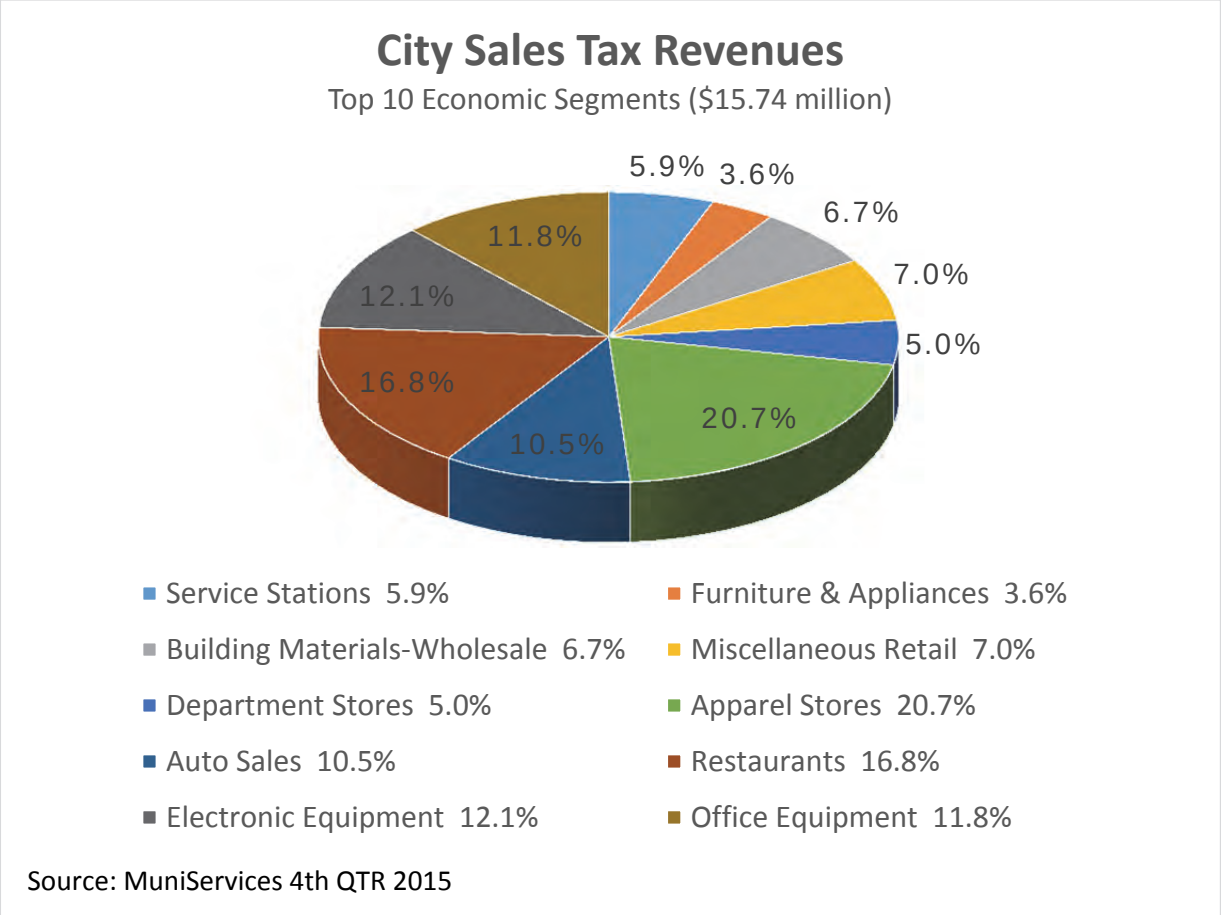
Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment is still high, despite a slight decrease in March 2015 reflecting a moderate downward slope up to January 2016. From the high of 103.80 in January 2015, January 2016 reflects a rating of 94.2. 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 accounts for 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 $18.9 million, with the top ten economic segments generating about $15.74 million. The sales tax revenue generated from economic segments such as apparel stores, auto sales, restaurants, and miscellaneous retail increased over a year ago, while the department stores segment decreased.



Source: MuniServices 4th QTR 2015

Major Development Activities in the City

Midtown Specific Plan – The vision for this area includes smart growth, high density mixed-use housing and retail 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 realized in recent years include 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, and updated it in 2011, 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 3, 800 housing units in the Transit Area that are under various stages of development.

Residential Development – An improving economy and high median home prices led to heightened interest in residential developments. Outside of the Midtown and Transit Area, there are several residential developments that are either under construction or completed and occupied. These projects include Cobblestone (27 Single Family Detached and 5 live/work units), Prynt (20 townhomes and 5 live/work units) and Waterstone (84 single family detached units) An adopted policy of the City Council no longer allows for rezoning of commercial and industrial lots to residential outside of the two specific plan areas.

Non-residential Development – FY2015-16 was also a busy year for commercial development and expansion. Flextronics, Cisco, KLA Tencor, Micron Technology, Inc., and SGO invested in millions in tenant improvements of their buildings. Property owners of the former LifeScan campus and Tasman TechPark invested in revamping their buildings and outdoor spaces in order to attract new tenants. Micron, a local company, has expanded at the Tasman Tech Park. As for hotel projects and developments, Holiday Inn is under construction.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2015-2016, 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 follows:

Fire

- Responded to 2,501 emergency incidents with an average response time of 4:22 minutes.
- Presented fire prevention information at over 51 public events.
- Conducted 359 plan reviews, and performed 3,762 fire inspections.
- Certified 14 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Reduced residential burglaries by 18.6% in 2015.
- Reduced auto-thefts by 18.9% in 2015
- Increased arrest rate by 11%, from 2014 to 2015.
- Released online camera registry program.

Engineering

- Completed construction of Sports Center Main Fields.
- Completed reconstruction of South Main Street, and overlay of Curtis Ave, Corning Ave, and Serra Way.
- Implemented new NPDES Storm Water Discharge Permit.
- Completed construction of Jacklin Road and Del Rio Court sound wall repairs.

Public Works Maintenance

- Coordinated water system shutdowns for development and BART construction.
- Responded to over 2,280 customer service requests.
- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Responded immediately to all roadway and park hazards, graffiti abatement, park and emergency utility service requests.

Planning/Neighborhood Services

- Initiated comprehensive General Plan Update and the preparation of a Development Handbook for staff and public.
- Enabled adoption of affordable housing requirements for new development.
- Processed over 650 code enforcement service requests and code violations.
- Managed and administered 1,200 affordable Housing units for Milpitas Housing Authority.

Recreation

- Expanded the After the Bell after school program to include Spangler Elementary School.
- Promoted Recreation's Registration System, ActiveNet, and as a result increased online enrollment from 8% to 28%.
- Increased registration in Pre-K Enrichment classes by 60%.
- Increased the Adopt-A-Spot program participation from one, to four parks having a local organization/business sponsor.

Building & Safety

- Provided efficient permitting process for issuance of over 3,000 permits
- Continued to improve automation of inspection reporting and time tracking.
- Continued to utilize same plan checker and inspector from project start to finish.
- Improved the inspection efficiency by enhancing the field permitting software.

Administration

- Implemented City Council priorities for fiscal year 2015-16.
- Implemented financial strategies that ensure cost effective City service delivery while limiting department budget expenses.
- Continued to reorganize City departments and divisions to improve staff utilization, increase efficiency, accountability and at savings to the City.
- Continued to develop the Citywide Strategic Plan to update City's visions, values and goals.

City Attorney

- Provided superior, affordable timely legal advice and service.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Advised on various ordinances, including Special Events, Single Use Plastic Bags, Water Rates Adjustment, and Administrative Citation Process ordinances.
- Represented the City in numerous administrative/court cases.

Human Resources

- Updated new employee benefits packet; enhanced online benefit forms; updated the Family Medical Leave Act (FMLA) Policy and forms.
- Worked on 34 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 trainings to employees i.e., Customer Service Training, professional workshops, legally mandated training, Liebert, Cassidy Whitmore workshops, wellness lunch and learns, and CalPERS webinar trainings.

Information Services

- Completed Website re-design.
- Completed Computer Aided Dispatch system upgrade.
- Completed aerial survey.
- Maintained network availability at 99.9% of the time.

Finance

- Implemented and sent out the required Affordable Care Act (ACA) forms to employees.
- Received awards for "Distinguished Budget Presentation" and "Excellence in Financial Reporting".
- Provided 99.9% accuracy on initial meter reads.
- 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, 2015. 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-seven of the last twenty-eight years (fiscal years ended 1988-2015). 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,

Jane Corpus
Acting Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2016

City Council

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

City Manager
Thomas C. Williams

Police Chief
Steve Pangelinan

Director of Financial Services
Russel Morreale, CPA

Fire Chief
Robert Mihovich

City Clerk
Mary Lavelle

Public Works Director
Nina Hawk

Chief Information Officer
Mike Luu

Human Resources Director
Tina Murphy

Director of Engineering/City Engineer
Steven Machida

Planning & Neighborhood Services Director
Bradley Misner

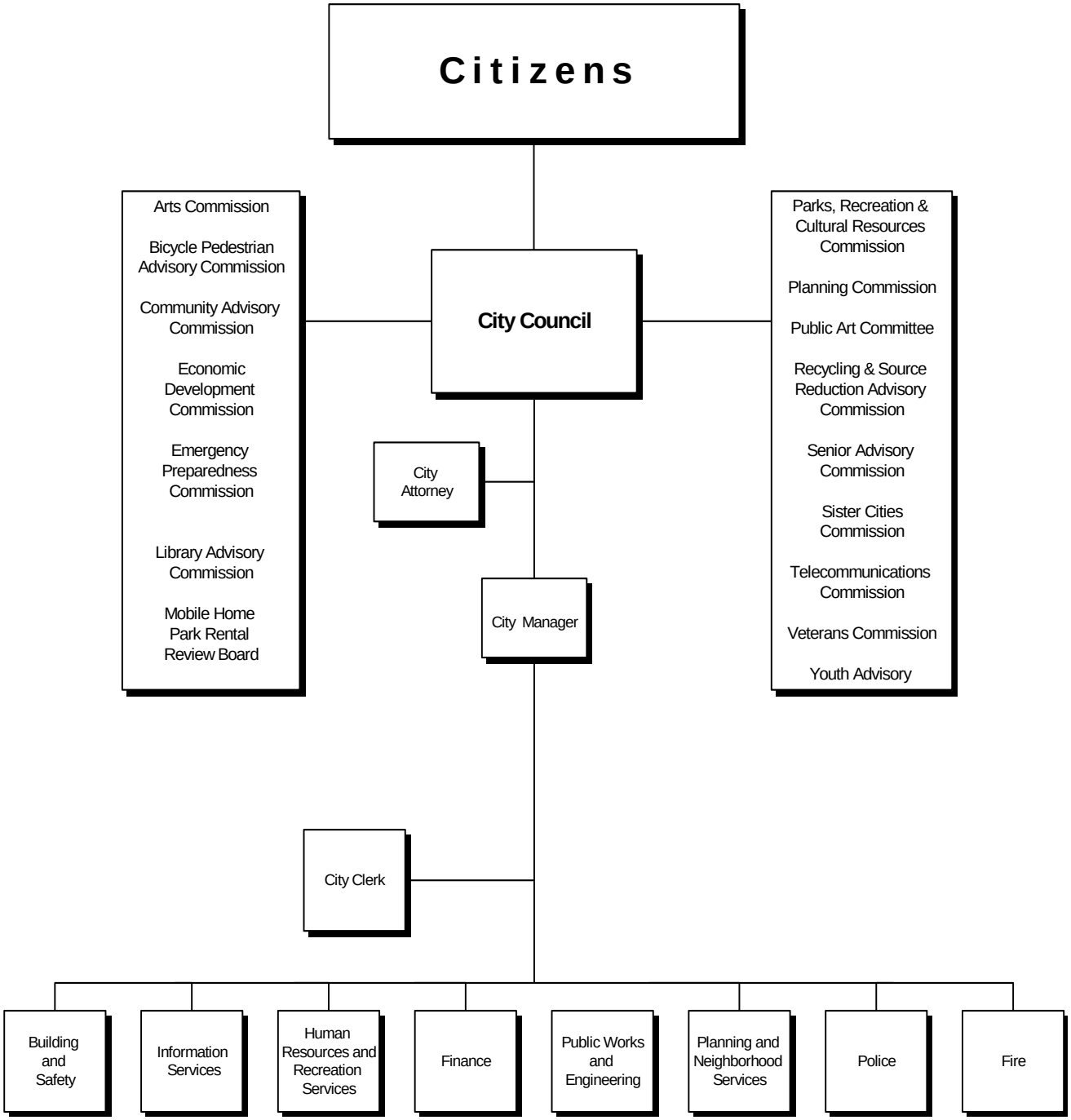
Chief Building Officer
Keyvan Irannejad

Economic Development Manager
Edesa Bitbadal

Recreation Services Manager
Renee Lorentzen

City Attorney
Christopher Diaz

The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the "Crossroads of Silicon Valley" with most of its 13.66 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.


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

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, 2015

Executive Director/CEO

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

FINANCIAL SECTION

MAZE & ASSOCIATES

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, California, as of and for the year ended June 30, 2016, 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, 2015, which represent 1.46%, 1.91%, and 1.09% 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.

Accountancy Corporation
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Pleasant Hill, CA 94523

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F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

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, 2016, 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 Statement, which became effective during the year ended June 30, 2016 as discussed in Notes 1I and 3H to the financial statements:

Statement No. 72 – *Fair Value Measurement and Application*

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2016 as noted in the Pension-Related Required Supplementary Information:

Statement No. 82 – *An Amendment of GASB Statements No. 67, No. 68, and No. 73*

The emphasis of these matters does not constitute a modification to 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 21, 2016, 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.

Maze & Associates

Pleasant Hill, California
October 21, 2016

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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, 2016. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2016 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2016 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 2016 was at 4.1%, improvement slight decline from last year's 4.0%. 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 2016 financial highlights include the following:

City-wide:

- The City's total net position was $523.2 million at June 30, 2016. Of this total, $354.2 million were Governmental and $169.0 million were Business-type.
- City-wide revenues include program revenues of $95.5 million, general revenues and transfers of $69.3 million, totaling $164.8 million, an increase of $32.9 million from the prior year's total of $131.9 million.
- Total City-wide expenses were $118.0 million, an increase of $4.4 million from the prior year's $113.6 million.

Fund Level:

- Governmental Fund balances were $183.9 million, an increase of $27.1 million from fiscal 2015.
- Governmental Fund revenues were $124.4 million in fiscal 2016, up $29.6 million from the prior year's $94.8 million.
- Governmental Fund expenditures were $100.6 million in fiscal 2016, an increase of $9.7 million from fiscal 2015's level of $90.9 million.
- General Fund revenues of $85.7 million represented an increase of $9.6 million from fiscal 2015's revenues of $76.1 million.
- Net other financing uses of the General Fund were $8.3 million in fiscal 2016 while fiscal 2015 had a total other financing uses of $7.2 million.
- General Fund balance of $54.3 million at the fiscal 2016 year-end was $4.7 million more than the fund balance at fiscal 2015 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, building safety and inspection, public safety, public works maintenance, 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 21-38 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 four other separate legal entities, the Milpitas Public Financing Authority (MPFA), the Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) 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 four other Major Governmental Funds in fiscal 2016 in addition to the General Fund. These are the Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund, and the General Government Capital Projects 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 one major Special Revenue Fund, the Housing Authority Fund.

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 2015 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

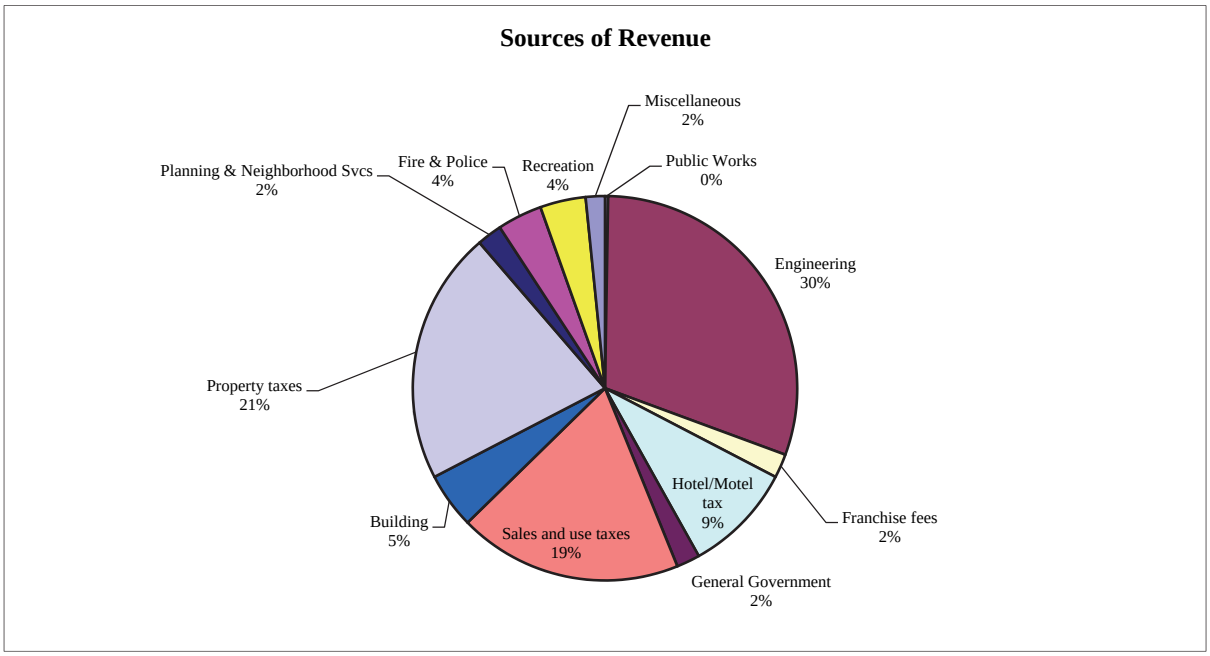
	Governmental Activities	
	2016	2015
Cash and investments	$138.2	$116.7
Other assets	78.3	67.6
Capital assets	298.4	291.7
Total assets	**514.9**	**476.0**
Deferred Outflows of Resources –Related to pensions	**11.0**	**8.7**
Long-term debt outstanding	0.1	0.2
Net Pension Liabilities	128.4	119.9
Other liabilities	32.7	31.3
Total liabilities	**161.2**	**151.4**
Deferred Inflows of Resources –Related to pensions	**10.5**	**22.6**
Net position:		
Net investment in capital assets	298.3	291.5
Restricted	117.9	103.8
Unrestricted	(62.0)	(84.6)
Total net position	**$354.2**	**$310.7**

The City's governmental net position was $354.2 million at June 30, 2016, an increase of $43.5 million from 2015. This increase 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:

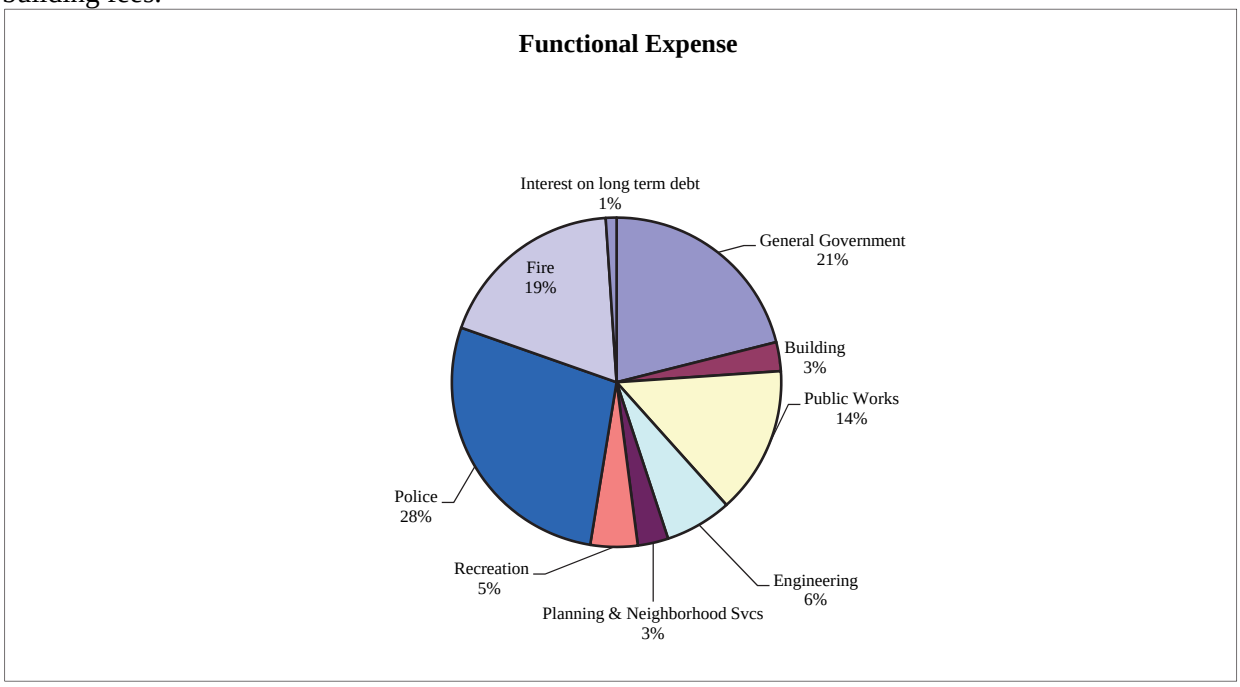
- Cash and investments increased $21.5 million principally due to increased revenue from property tax, sales and use tax, hotel/motel taxes and developer fees.
- Other assets increased $10.7 million from last year due to increase in receivables.
- Capital assets increased $6.7 million from last year, resulting from $16.2 million depreciation, offset by $23.0 million asset additions, net of retirements in fiscal 2016.
- Deferred outflows of resources related to pension increased $2.3 million from last year due to increased pension costs.
- Long-term debt decreased $0.1 million due to scheduled debt repayments.

- Net Pension Liabilities, Other liabilities and deferred inflows of resources decreased $2.3 million primarily due to the decrease in pension related deferred inflows offsetting increases in the net pension liabilities.

Fiscal Year 2016
Governmental Activities



As the Sources of Revenue Chart above shows, $38.6 million or 31% of the City's fiscal 2016 governmental activities revenue came from impact fees, $27.1 million or 21% came from property taxes, while $23.9 million or 19% 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 2016'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)

	Governmental Activities	
	2016	2015
Expenses		
General Government	$18.6	$18.2
Building	2.5	2.6
Recreation	4.1	3.1
Public Works	12.7	17.5
Engineering	5.8	0.0*
Planning & Neighborhood Svcs	2.6	2.3
Police	24.6	24.7
Fire	16.4	16.2
Interest on long term debt	0.1	0.1
Total expenses	87.4	84.7
Revenues		
Program revenues:		
Charges for services	17.2	14.6
Operating contributions and grants	7.3	6.2
Capital Grants	35.2	14.7
Total program revenues	59.7	35.5
General revenues:		
Taxes:		
Property taxes	27.1	24.9
Sales and uses taxes	23.9	18.8
Hotel/Motel taxes	11.8	10.9
Other taxes	0.8	0.7
Franchise fees	3.8	3.7
Investment earnings	0.9	0.4
Miscellaneous	0.3	0.2
Total general revenues	68.6	59.6
Total Revenues	128.3	95.1
Surplus (Deficit) before transfers	40.9	10.4
Transfers	2.6	1.6
Changes in net position	43.5	12.0
Beginning net position	310.7	298.7
Ending net position	**$354.2**	**$310.7**

* Engineering was split from Public Works in 2016

Table 2 compares fiscal 2016 expenses and revenues with those of fiscal 2015. Expenses increased by $2.7 million in fiscal 2016, due to almost all of the program expenses experiencing increases in salaries and benefits. Public Works program expenses decreased $4.8 million due to the split of Engineering as a separate department from Public Works in 2016.

Table 2 shows that total government revenues increased $33.2 million in fiscal 2016. Program revenues increased $24.2 million while general revenues increased $9 million. The increase in program revenues was due to increases of $2.6 million in charges for services, $1.1 million increase in operating grants and $20.5 million increase in capital grants. The increase in general revenues was mainly due to property tax and sales and use tax revenue. Property tax revenue was $2.2 million more than last year due to increase in housing. Sales tax revenue in fiscal 2016 was $5.1 million more than fiscal 2015, due to a final closeout payment related to the triple flip received from the State. Transient Occupancy Tax increased $0.9 million in fiscal 2016 reflecting recovery in the economy. The increase of investment earnings by $0.5 million in fiscal 2016 was due to an increase in the return on cash and investments.

Table 3 presents the net cost of each of the City's largest programs—general government, building, recreation, public works, engineering, planning & neighborhood services, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased $22.2 million. The primary reasons for increased program revenues were due to an increase in charges for services and capital grants.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2016	2015
General Government	$(16.1)	$(16.7)
Building	3.5	2.5
Recreation	0.8	0.0
Public Works	(12.4)	0.9
Engineering	32.8	0.0
Planning & Neighborhood Services	0.0	0.3
Police	(22.4)	(22.3)
Fire	(13.8)	(14.3)
Interest on long term debt	(0.1)	(0.1)
Totals	**$(27.7)**	**$(49.7)**

Business-type Activities

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

	Business-Type Activities	
	2016	2015
Cash and investments	$56.4	$53.3
Other assets	2.9	8.0
Capital assets	124.6	119.7
Total assets	**183.9**	**181.0**
Deferred Outflows of Resources – Related to Pensions	**0.5**	**0.4**
Other liabilities	2.9	2.4
Net pension liabilities	6.1	5.6
Long-term Debt	6.0	6.5
Total liabilities	**15.0**	**14.5**
Deferred Inflows of Resources – Related to Pensions	**0.4**	**1.2**
Net position:		
Net investment in capital assets	118.6	113.2
Restricted	35.1	40.9
Unrestricted	15.3	11.6
Total net position	**$169.0**	**$165.7**

The net position of business-type activities were $169.0 million in fiscal 2016, an increase of $3.3 million from fiscal 2015. Total assets increased $2.9 million and deferred outflows and inflows increased $0.1 million and decreased $0.8 million, respectively. The increase in net position was due to the increase from increased customer service charges and capital contributions for the Sewer Fund.

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

	Business-Type Activities	
	2016	2015
Expenses		
Water Utility	$19.7	$18.3
Sewer Utility	10.9	10.4
Total expenses	30.6	28.7
Revenues		
Program revenues:		
Charges for services	34.7	35.6
Operating grants	0.0	0.1
Capital grants	1.1	0.7
Total program revenues	35.8	36.4
General revenues:		
Investment earnings	0.7	0.3
Total general revenues	0.7	0.3
Total Revenues	36.5	36.7
Excess before transfers	5.9	8.0
Transfers	(2.6)	(1.6)
Changes in net position	3.3	6.4
Beginning net position	165.7	159.3
Ending net position	**$169.0**	**$165.7**

Table 5 compares fiscal 2016 expenses and revenues with those of fiscal year 2015. Total expenses increased by $1.9 million in fiscal 2016 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 decreased by $0.4 million primarily due to a decreased charges for services. Total general revenue was $0.7 million from interest earnings, $0.4 million higher than last year due to higher 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)

	2016	2015
Total assets	$210.4	$184.6
Total liabilities	23.6	27.8
Total deferred inflows of resources	2.6	0.0
Total fund balances	184.2	156.8
Total revenues	124.7	94.8
Total expenditures	100.6	90.9
Total other financing sources	3.3	6.3

At June 30, 2016, the City's governmental funds reported combined fund balances of $184.2 million, an increase of $27.4 million from last year. The fund balances of the Street Improvement and the Other Governmental Funds decreased $2.7 million and $1.1 million, respectively, while the fund balances of the General Fund, Housing Authority, Transit Area Impact Fee and General Government Capital Projects Fund increased $4.7 million, $0.8 million, $16.6 million, and $9.1 million, respectively.

Revenues at the fund level totaled $124.7 million, an increase of $29.9 million. Revenues for the General Fund, Housing Authority, Street Improvement Fund, Transit Area Impact Fee Fund, General Government and Other Governmental Funds increased $9.6 million, $0.2 million, $0.4 million, $17.2 million, $0.2 million, and $2.4 million, respectively.

Expenditures increased $9.7 million this year to $100.6 million from last year's $90.9 million. The expenditures of the General Fund, Street Improvement Fund, General Government Fund and Other Governmental Funds increased $4.5 million, $1.5 million, $0.1 million and $4.5 million, respectively while the Transit Area Impact Fee Fund decreased by $0.8 million. 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 increased to $85.7 million this fiscal year, up $9.6 million from the prior fiscal year. Increases came from property tax revenue, sales taxes, other taxes, licenses and fines, use of money and property, and charges for services categories while decreases came from intergovernmental revenue and other revenue. Property tax revenue increased $2.2 million due to the recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax increased by approximately $5.1 million due to a $3 million final payment of the "triple flip" and an increase in consumer spending. Other taxes increased by $0.8 million primarily due to increased Transient Occupancy Tax revenue. Licenses and permits increased $1.0 million primarily from the building permit and inspection fees as a result of increased development activities. Intergovernmental revenue decreased by $0.8 million due to the State of California paying prior year receivables in 2015. Charges for services also increased by $0.7 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 $4.5 million to $72.7 million in fiscal 2016 primarily due to an increase in salaries and benefits.

Net transfers out were approximately $8.4 million, as compared to net transfers out of $7.2 million in fiscal 2015. Net transfers consist of $4.5 million from other funds for operating costs and transfers out of $12.9 million for funding of future capital projects.

For the City's General Fund, actual revenues of $85.7 million were $7.3 more than the final budgeted revenues of $78.5 million. Property taxes, Sales taxes, Other taxes, Licenses and fines, Use of money and property, and Charges for services and revenues exceeded budget by $2.4 million, $0.2 million, $2.2 million, $1.1 million, $0.8 million, and $0.6 million, respectively. These increases were due to the improving views on the state of the economic recovery and increased property values. The original budgeted General Fund Sales tax revenues were increased by $3 million due to the final payment of the "triple flip".

At the end of the year, actual General Fund expenditures were $73.4 million, $5.3 million less than final budget of $78.6 million. Savings were primarily in Non-departmental $1.1 million for decreased OPEB and utility expenditures, Police $0.9 million, Public Works $0.8 million , Building and Safety $0.6 million were mostly related to delays in hiring personnel.

The difference in General Fund original budget and final budget was $1.5 million. The appropriations consisted of $1 million of expenditures funded by additional grants, donations and developer fees and $0.5 million of new appropriations.

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 2016, comprised of $1.0 million of interest, rental income and 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 $2.7 million in fiscal 2016, an increase of $0.4 million from fiscal 2015. The increase in revenues was due to one-time intergovernmental revenues and developer contributions. Fund expenditures were $7.3 million in fiscal 2016, an increase of $1.5 million from fiscal 2015, attributed to capital outlay increases. Transfers in of $2.9 million were from the General Fund, Gas Tax Special Revenue Fund, General Government Capital Projects Fund, Water and Sewer Utilities Fund for capital improvement project funding while a transfer out of $1 million was to the General Government Capital Projects 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 2016, fund revenues were $26.5 million, primarily from fees collected from developers. Expenditures were $9.8 million, consisting of $9.7 million capital improvement project. The transfers out of $0.1 million to the General Fund and the Street Improvement fund were for reimbursement of operating costs and to fund capital projects.

General Government Capital Projects

The General Government Capital Projects Fund accounts for construction and maintenance of general government projects in the City. In fiscal 2016, expenditures were $1.7 million, consisted of $1.7 million of capital improvement project expenditures. The transfers in of $13.5 million were primarily from the General Fund, Street Improvement, Solid Waste Reduction and Services Fund and Community Planning Fund and the transfers out of $2.8 million were to the Street Improvement Fund, Water Utility Fund, Park Improvement Fund and 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)

	2016	2015
General Fund		
Nonspendable	$ 23.4	$ 23.3
Committed	8.4	5.4
Assigned	9.1	7.0
Unassigned	13.4	13.9
Total	$54.3	$49.6
Housing Authority Fund		
Restricted	$51.9	$51.4
Street Improvement Fund		
Restricted	$8.4	$11.1
Transit Area Impact Fee Fund		
Restricted	$10.7	
Unassigned		($5.9)
General Government Project Fund		
Assigned	$29.8	$20.7

At June 30, 2016, the fund balance of the General Fund was $54.3 million: $23.4 million was classified as nonspendable, comprised of $0.7 for prepaid materials and supplies, $17.6 million of property held for resale, and $5.1 million for advances to other funds; $8.4 million for PERS Rate Stabilization was classified as committed; $9.1 million of the fund balance comprised of $5.4 million for capital improvement, $2.8 million for uninsured claims and $0.8 million for encumbrances, was classified as assigned; $13.4 million was classified as unassigned.

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

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 decreased $1.0 million from last year, while operating expenses increased $1.9 million. Total operating revenues and total operating expenses were $34.6 million and $30.4 million respectively. Non-operating revenues were $0.5 million in fiscal 2016, an increase of $0.3 million from the prior year. Capital contributions decreased by $3.3 million while net transfers out decreased by $1.9 million.

Water Utility

Water fund revenues were $18.7 million in fiscal 2016, down $2.4 million from prior year. The decrease in revenues was primarily due to water conservation as a result of the drought. Expenses were $19.7 million in fiscal 2016, up $1.4 million from prior year, primarily due to increased purchased water expense. Net position of the Water Utility Fund decreased $1.3 million in the current year to a total of $65.6 million. The decrease comprised of a $1.0 million operating loss for the current year, $0.3 million in non-operating revenues, $0.3 million capital contributions from developers, offset by net transfers out of $2.4 million. The transfer out of $2.4 million was to reimburse $2.3 million of administration costs incurred by the General Fund and to fund $0.1 million in capital projects.

This Fund's Net Position includes $48.5 million invested in capital assets, $13.9 million in restricted net position, and $3.2 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were $16 million in fiscal 2016, up $1.5 million from the prior year due to increased sewer rates. Expenses were $10.6 million in fiscal 2016, up $0.4 million from the prior year due to increased contribution requirements for the City's share of the operating expenses at the San Jose Waste Water Treatment Plant. Non-operating revenues and expenses in fiscal year 2016 consisted of $0.4 million interest income, and $0.2 million interest expense. Net position of the Sewer Utility Fund increased $4.6 million in the current year to a total of $103.4 million. This increase comprised of $5.3 million in operating income, $0.6 million in capital contributions by developers, offset by $1.5 million net transfers out. The transfers out of $1.8 million was to reimburse $1.6 million administration costs incurred by the General Fund and to fund $0.2 million in capital projects.

$12.1 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, $70.1 million was invested in capital assets and $21.2 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 2016, 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)

	2016	2015
Governmental Activities:		
Land	$ 57.6	$ 57.6
Construction in progress	36.3	21.0
Buildings and improvements	162.7	162.7
Other improvements	27.0	26.5
Machinery and equipment	39.4	38.8
Landscape system	29.7	29.6
Storm system	74.3	74.3
Street system	252.9	246.9
Traffic system	18.9	18.9
Less accumulated depreciation	(400.4)	(384.7)
Totals	**$298.4**	**$291.7**
Business-type Activities:		
Land	$ 1.1	$ 1.1
Construction in progress	11.1	7.1
Distribution facilities	79.6	79.6
Service lines	13.7	13.0
Sewer lines	81.8	81.8
Capacity rights	55.4	50.7
Less accumulated depreciation	(118.1)	(113.5)
Totals	**$124.6**	**$119.7**

The principal additions in fiscal 2016 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 TASP infrastructure improvements.

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 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, 2016 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2016	Balance June 30, 2015
Governmental Activity Debt:		
Cisco Phone System Capital Lease		
Due September 18, 2016	$ 0.1	$ 0.2
Total Governmental Activity Debt	$ 0.1	$ 0.2
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A		
3.4% -4.2%, due November 1, 2026	$ 6.1	$ 6.5
Total Business-type Activity Debt	$ 6.1	$ 6.5

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, 2016, a total of $4.6 million in local improvement district debt was outstanding, issued by two local improvement districts. This debt is secured only by special assessments on the real properties in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

STATEMENT OF NET 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 (MPFA), the Milpitas Economic Development Corporation (EDC), the City of Milpitas Housing Authority (Housing Authority) and the Milpitas Municipal Financing Authority (MMFA). The Financing Authorities 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 EDC became inactive as of June 30, 2015. 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	$138,201,283	$56,447,445	$194,648,728	$72,887
Restricted investments (Note 3)				1,183,914
Receivables:				
Accounts	5,602,862	2,193,009	7,795,871	4,744
Due from other governments	5,851,399	79,127	5,930,526	
Interest	506,506	207,778	714,284	
Loans receivable (Note 5)	32,651,421		32,651,421	
Prepaids, materials, supplies and deposits (Note 1E)	836,812	387,469	1,224,281	115,905
Property held for resale (Note 6)	32,882,370		32,882,370	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	93,908,063	12,227,338	106,135,401	1,565,277
Depreciable capital assets, net	204,507,154	112,415,910	316,923,064	7,230,706
Total assets	514,947,870	183,958,076	698,905,946	10,173,433
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	11,053,294	525,379	11,578,673	
LIABILITIES				
Accounts payable	7,653,482	1,965,047	9,618,529	93,651
Accrued payroll	3,246,684	185,602	3,432,286	13,332
Interest payable	2,399	38,865	41,264	
Uninsured claims payable (Note 13):				
Due within one year	950,630		950,630	
Due in more than one year	4,231,599		4,231,599	
Refundable deposits	3,238,406	130,842	3,369,248	77,433
Unearned revenue	4,478,794		4,478,794	4
Accrued vacation (Note 12C):				
Due within one year	513,906	219,678	733,584	14,038
Due in more than one year	3,973,109	53,892	4,027,001	
Sick leave payable (Note 12C):				
Due within one year	282,046	70,454	352,500	
Due in more than one year	3,182,480	232,410	3,414,890	
Net pension liabilities (Note 11C)	128,443,406	6,109,162	134,552,568	
Net OPEB obligation (Note 12B)	906,182		906,182	
Long term debt (Note 9):				
Due within one year	94,222	450,000	544,222	
Due in more than one year		5,605,000	5,605,000	
Total liabilities	161,197,345	15,060,952	176,258,297	198,458
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	10,524,200	443,512	10,967,712	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	298,320,995	118,588,248	416,909,243	8,795,983
Restricted for:				
Capital projects	44,925,134	35,129,873	80,055,007	
Redevelopment and community development activities	73,001,618		73,001,618	
Total restricted net position	117,926,752	35,129,873	153,056,625	
Unrestricted	(61,968,128)	15,260,870	(46,707,258)	1,178,992
Total net position	$354,279,619	$168,978,991	$523,258,610	$9,974,975

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	$18,614,222	$2,065,269	$248,924	$187,498	($16,112,531)	
Building and Safety	2,512,643	5,962,871			3,450,228	
Recreation	4,089,650	1,980,807	96,087	2,794,974	782,218	
Public Works	12,761,039		337,335		(12,423,704)	
Engineering	5,790,327	2,862,934	3,497,080	32,212,454	32,782,141	
Planning and Neighborhood Services	2,648,764	747,019	1,930,857		29,112	
Police	24,556,469	1,137,653	1,034,598		(22,384,218)	
Fire	16,399,559	2,439,555	175,013		(13,784,991)	
Interest on long term debt	55,915				(55,915)	
Total Governmental Activities	87,428,588	17,196,108	7,319,894	35,194,926	(27,717,660)	
Business-type Activities:						
Water Utility	19,743,350	18,709,016	63,379	502,778		($468,177)
Sewer Utility	10,872,305	15,964,027		599,756		5,691,478
Total Business-type Activities	30,615,655	34,673,043	63,379	1,102,534		5,223,301
Total Primary Government	$118,044,243	$51,869,151	$7,383,273	$36,297,460	(27,717,660)	5,223,301
Component Unit:						
Terrace Gardens Inc.	$2,265,505	$1,793,138	$112,713			
General revenues:						
Taxes:						
Property taxes					27,068,110	
Sales and use taxes					23,923,602	
Hotel/Motel taxes					11,757,327	
Other taxes					821,668	
Franchise fees, unrestricted					3,841,010	
Motor vehicle in lieu, unrestricted					29,295	
Investment earnings					913,061	695,468
Miscellaneous					287,252	
Transfers (Note 4)					2,624,522	(2,624,522)
Total general revenues and transfers					71,265,847	(1,929,054)
Change in Net Position					43,548,187	3,294,247
Net position-Beginning					310,731,432	165,684,744
Net position-Ending					$354,279,619	$168,978,991

See accompanying notes to financial statements

	Net (Expense) Revenue and Changes in Net Position	
	Component Unit	
Total	Terrace Gardens Inc.	
($16,112,531)		
3,450,228		
782,218		
(12,423,704)		
32,782,141		
29,112		
(22,384,218)		
(13,784,991)		
(55,915)		
(27,717,660)		
(468,177)		
5,691,478		
5,223,301		
(22,494,359)		
	($359,654)	
27,068,110		
23,923,602		
11,757,327		
821,668		
3,841,010		
29,295		
1,608,529	2,914	
287,252		
69,336,793	2,914	
46,842,434	(356,740)	
476,416,176	10,331,715	
$523,258,610	$9,974,975	

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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.

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 CAPITAL PROJECT FUND

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

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
ASSETS				
Cash and investments available for operations (Note 3)	$35,077,421	$7,435,127	$8,416,393	$19,728,808
Receivables:				
Accounts	2,865,917			2,650,355
Due from other governments	5,733,481		77,150	
Interest	175,708	27,121	30,904	73,188
Loans receivable, net (Note 5)		29,260,935		
Prepaids, materials, supplies and deposits (Note 1E)	714,740	6,629		
Property held for resale (Note 6)	17,600,000	15,282,370		
Advances to other funds (Note 4)	5,072,208			
Total Assets	$67,239,475	$52,012,182	$8,524,447	$22,452,351
LIABILITIES				
Accounts payable	$2,333,958	$18,297	$86,721	$4,081,422
Accrued payroll	3,155,332	10,866	12,734	356
Refundable deposits	3,205,657	13,100		806
Unearned revenue	4,256,166	2,242		
Advances from other funds (Note 4)				5,072,208
Total Liabilities	12,951,113	44,505	99,455	9,154,792
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - accounts receivable (Note 7G)				2,612,809
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	23,386,948	6,629		
Restricted		51,961,048	8,424,992	10,684,750
Committed	8,439,565			
Assigned	9,052,333			
Unassigned	13,409,516			
TOTAL FUND BALANCES	54,288,362	51,967,677	8,424,992	10,684,750
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$67,239,475	$52,012,182	$8,524,447	$22,452,351

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 Governme

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 a central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore in 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:
Unavailable revenue
Long-term debt
Net pension liability and pension-related deferred outflows/inflows of resources
Net OPEB obligation
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

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
$29,971,253	$26,282,312	$126,911,314
	84,548	5,600,820
	40,768	5,851,399
66,716	91,211	464,848
	3,390,486	32,651,421
	6,615	727,984
		32,882,370
		5,072,208
$30,037,969	$29,895,940	$210,162,364
$198,566	$873,241	$7,592,205
1,268	28,718	3,209,274
	18,843	3,238,406
	220,386	4,478,794
		5,072,208
199,834	1,141,188	23,590,887
		2,612,809
	6,615	23,400,192
	28,630,480	99,701,270
		8,439,565
29,838,135	117,657	39,008,125
		13,409,516
29,838,135	28,754,752	183,958,668
$30,037,969	$29,895,940	
		298,415,217
		11,236,418
		2,612,809
		(94,222)
		(127,914,312)
		(906,182)
		(7,846,548)
		(5,182,229)
		$354,279,619

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
REVENUES				
Property taxes	$27,068,110			
Sales taxes	24,718,975			
Other taxes	16,754,122			
Licenses and fines	8,050,689			
Use of money and property	1,311,119	$961,319	$90,495	$177,067
Intergovernmental	1,145,819		2,505,474	
Charges for services	6,567,398			
Developer contributions			64,419	26,358,985
Other	106,164			
Total Revenues	85,722,396	961,319	2,660,388	26,536,052
EXPENDITURES				
Current:				
General Government	13,449,719	171,103	595	53,335
Building and Safety	2,884,974			
Recreation	3,383,594			
Public Works	5,084,646			
Engineering	2,508,988			
Planning and Neighborhood Services	2,098,120	261,917		53,120
Police	25,857,856			
Fire	17,469,713			
Capital outlay			7,253,251	9,656,377
Debt service:				
Interest and fees				53,648
Total Expenditures	72,737,610	433,020	7,253,846	9,816,480
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,984,786	528,299	(4,593,458)	16,719,572
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	160,122			
Transfers in (Note 4)	4,469,000		2,890,000	
Transfers (out) (Note 4)	(12,900,000)		(1,007,892)	(102,500)
Total Other Financing Sources (Uses)	(8,270,878)		1,882,108	(102,500)
NET CHANGE IN FUND BALANCES	4,713,908	528,299	(2,711,350)	16,617,072
Fund balances (deficits) at beginning of year	49,574,454	51,439,378	11,136,342	(5,932,322)
FUND BALANCES AT END OF YEAR	$54,288,362	$51,967,677	$8,424,992	$10,684,750

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		$27,068,110
		24,718,975
	$1,983,362	18,737,484
		8,050,689
$187,493	309,059	3,036,552
	2,452,652	6,103,945
	628,710	7,196,108
	2,986,655	29,410,059
	6,574	112,738
187,493	8,367,012	124,434,660
	96,868	13,771,620
		2,884,974
		3,383,594
	935,210	6,019,856
	747,781	3,256,769
	391,476	2,804,633
	266,626	26,124,482
		17,469,713
1,722,387	6,178,861	24,810,876
		53,648
1,722,387	8,616,822	100,580,165
(1,534,894)	(249,810)	23,854,495
		160,122
13,506,800	2,135,000	23,000,800
(2,812,086)	(3,041,300)	(19,863,778)
10,694,714	(906,300)	3,297,144
9,159,820	(1,156,110)	27,151,639
20,678,315	29,910,862	156,807,029
$29,838,135	$28,754,752	$183,958,668

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, 2016

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	$27,151,639
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 $708,433 have already been added to capital assets)	22,218,959
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $717,511 which has already been allocated to serviced funds.)	(15,475,608)
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	534,888
Non-current portion of uninsured claims payable	231,486
Net pension liabilities and pension-related deferred outflows/inflows of resources	5,819,485
Net OPEB obligation	(906,182)
Unavailable revenue	2,612,809
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	1,360,711
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$43,548,187

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, 2016

	Budgeted Amounts			Variance with Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Revenues				
Property taxes	$24,672,500	$24,672,500	$27,068,110	$2,395,610
Sales taxes	21,467,831	24,474,693	24,718,975	244,282
Other taxes	14,594,000	14,594,000	16,754,122	2,160,122
Licenses and fines	6,905,808	6,980,808	8,050,689	1,069,881
Use of money and property	492,000	492,000	1,311,119	819,119
Intergovernmental	836,000	1,185,913	1,145,819	(40,094)
Charges for services	5,462,000	5,966,866	6,567,398	600,532
Other	75,500	85,045	106,164	21,119
Total Revenues	74,505,639	78,451,825	85,722,396	7,270,571
Expenditures				
Current:				
General Government:				
City Manager	1,936,782	2,144,658	2,059,915	84,743
City Attorney	950,622	1,260,489	1,201,002	59,487
Finance	2,362,587	2,362,587	2,163,059	199,528
Human Resources	1,179,343	1,202,143	1,181,615	20,528
Information Services	2,387,854	2,394,017	2,228,303	165,714
Non-departmental	6,963,769	6,187,402	5,097,642	1,089,760
Building and Safety	3,454,481	3,529,481	2,884,974	644,507
Recreation	3,901,921	3,986,492	3,385,868	600,624
Public Works	5,663,379	5,945,379	5,144,560	800,819
Engineering	2,314,235	2,719,235	2,543,889	175,346
Planning and Neighborhood Services	2,265,104	2,365,104	2,098,120	266,984
Police	26,776,488	26,821,737	25,877,700	944,037
Fire	16,955,596	17,730,186	17,514,314	215,872
Total Expenditures	77,112,161	78,648,910	73,380,961	5,267,949
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,606,522)	(197,085)	12,341,435	12,538,520
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			160,122	160,122
Transfers in	4,406,500	4,469,000	4,469,000	
Transfers (out)	(900,000)	(12,900,000)	(12,900,000)	
Total Other Financing Sources (Uses)	3,506,500	(8,431,000)	(8,270,878)	160,122
NET CHANGE IN FUND BALANCE	$899,978	($8,628,085)	4,070,557	$12,698,642
Adjustment to budgetary basis:				
Encumbrance expenditures			643,351	
Fund balance at beginning of year			49,574,454	
FUND BALANCE AT END OF YEAR			$54,288,362	

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, 2016

	Budgeted Amounts			Variance with Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Revenues				
Use of money and property	$30,000	$30,000	$961,319	$931,319
Total Revenues	30,000	30,000	961,319	931,319
Expenditures				
Current:				
General Government:				
Finance	72,964	72,964	40,468	32,496
Non-departmental	620,025	620,025	130,635	489,390
Planning and Neighborhood Services	265,129	265,129	261,917	3,212
Total Expenditures	958,118	958,118	433,020	525,098
NET CHANGE IN FUND BALANCE	($928,118)	($928,118)	528,299	$1,456,417
Fund balances (deficits) at beginning of year			51,439,378	
FUND BALANCE AT END OF YEAR			$51,967,677	

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, 2016

	Business-type Activities-Enterprise Funds			Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments available for operations (Note 3)	$21,183,760	$35,263,685	$56,447,445	$11,289,969
Receivables:				
Accounts	1,186,821	1,006,188	2,193,009	2,042
Due from other governments	45,410	33,717	79,127	
Interest	77,801	129,977	207,778	41,658
Prepaids, materials, supplies and deposits (Note 1E)	342,612	44,857	387,469	108,828
Total current assets	22,836,404	36,478,424	59,314,828	11,442,497
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	9,145,045	3,082,293	12,227,338	
Depreciable capital assets, net	39,332,281	73,083,629	112,415,910	2,927,000
Total noncurrent assets	48,477,326	76,165,922	124,643,248	2,927,000
Total assets	71,313,730	112,644,346	183,958,076	14,369,497
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions (Note 11D)	300,822	224,557	525,379	
LIABILITIES				
Current liabilities:				
Accounts payable	1,788,779	176,268	1,965,047	61,277
Accrued payroll	97,211	88,391	185,602	37,410
Interest payable		38,865	38,865	2,399
Refundable deposits	130,842		130,842	
Accrued vacation (Note 12C)	109,839	109,839	219,678	45,008
Sick leave payable (Note 12C)	35,227	35,227	70,454	12,056
Capital lease (Note 9)				94,222
Certificates of Participation (Note 9)		450,000	450,000	
Total current liabilities	2,161,898	898,590	3,060,488	252,372
Non-current liabilities:				
Accrued vacation (Note 12C)	26,946	26,946	53,892	22,667
Sick leave payable (Note 12C)	116,205	116,205	232,410	25,262
Net pension liabilities (Note 11C)	3,497,988	2,611,174	6,109,162	
Certificates of Participation (Note 9)		5,605,000	5,605,000	
Total non-current liabilities	3,641,139	8,359,325	12,000,464	47,929
Total liabilities	5,803,037	9,257,915	15,060,952	300,301
DEFERRED INFLOWS OF RESOURCES				
Related to pensions (Note 11D)	253,946	189,566	443,512	
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	48,477,326	70,110,922	118,588,248	2,832,778
Restricted for capital projects	13,885,371	21,244,502	35,129,873	
Unrestricted	3,194,872	12,065,998	15,260,870	11,236,418
Total net position	$65,557,569	$103,421,422	$168,978,991	$14,069,196

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, 2016

	Business-type Activities-Enterprise Funds			Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	$18,559,494	$15,770,897	$34,330,391	$3,383,255
Developer contributions	16,776	120,997	137,773	
Other operating revenue	132,746	72,133	204,879	158
Total Operating Revenues	18,709,016	15,964,027	34,673,043	3,383,413
OPERATING EXPENSES				
Purchased water	13,642,163		13,642,163	
Sewer treatment services		4,550,915	4,550,915	
Personnel services	2,632,301	2,110,671	4,742,972	927,581
Services and supplies	1,566,852	853,664	2,420,516	612,830
Depreciation	1,667,699	2,937,802	4,605,501	717,511
Repairs and maintenance	234,335	172,598	406,933	473,383
Total Operating Expenses	19,743,350	10,625,650	30,369,000	2,731,305
Operating Income (Loss)	(1,034,334)	5,338,377	4,304,043	652,108
NONOPERATING REVENUES (EXPENSES)				
Interest income	250,777	444,691	695,468	134,899
Interest expense		(246,655)	(246,655)	(2,267)
Subventions and grants	63,379		63,379	40,145
Gain on sale of assets				16,792
Total Nonoperating Revenues	314,156	198,036	512,192	189,569
Income (Loss) Before Contributions and Transfers	(720,178)	5,536,413	4,816,235	841,677
Capital contributions	812,500		812,500	219,034
Capital contributions - connection fees	502,778	599,756	1,102,534	
Transfers in (Note 4)	486,435	278,543	764,978	300,000
Transfers (out) (Note 4)	(2,447,000)	(1,755,000)	(4,202,000)	
Change in net position	(1,365,465)	4,659,712	3,294,247	1,360,711
Net position-beginning	66,923,034	98,761,710	165,684,744	12,708,485
Net position-ending	$65,557,569	$103,421,422	$168,978,991	$14,069,196

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities-Enterprise Funds			Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$18,795,690	$15,811,723	$34,607,413	$3,381,371
Payments to suppliers	(15,140,005)	(5,530,550)	(20,670,555)	(1,171,480)
Payments to employees for salaries and benefits	(2,888,771)	(2,294,230)	(5,183,001)	(914,628)
Net cash provided by operating activities	766,914	7,986,943	8,753,857	1,295,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	63,379		63,379	40,145
Repayment of interfund advance		5,473,314	5,473,314	
Transfers in	486,435	278,543	764,978	300,000
Transfers (out)	(2,447,000)	(1,755,000)	(4,202,000)	
Cash Flows from Noncapital Financing Activities	(1,897,186)	3,996,857	2,099,671	340,145
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt		(435,000)	(435,000)	(91,286)
Interest paid		(249,348)	(249,348)	(4,591)
Proceeds from sale of capital assets				21,099
Acquisition of capital assets	(3,622,915)	(5,091,344)	(8,714,259)	(489,399)
Capital contributions - connection fees	502,778	599,756	1,102,534	
Cash Flows from Capital and Related Financing Activities	(3,120,137)	(5,175,936)	(8,296,073)	(564,177)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	223,027	397,642	620,669	113,298
Cash Flows from Investing Activities	223,027	397,642	620,669	113,298
Net increase (decrease) in cash and cash equivalents	(4,027,382)	7,205,506	3,178,124	1,184,529
Cash and investments at beginning of period	25,211,142	28,058,179	53,269,321	10,105,440
Cash and investments at end of period	$21,183,760	$35,263,685	$56,447,445	$11,289,969
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	($1,034,334)	$5,338,377	$4,304,043	$652,108
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,667,699	2,937,802	4,605,501	717,511
Change in assets and liabilities:				
Receivables, net	45,895	(152,304)	(106,409)	(2,042)
Materials, supplies and deposits	(76,698)	(1,767)	(78,465)	1,088
Accrued payroll	18,268	25,074	43,342	
Accounts and other payables	406,829	34,401	441,230	(73,402)
Due to retirement system	(260,745)	(194,640)	(455,385)	
Net cash provided by operating activities	$766,914	$7,986,943	$8,753,857	$1,295,263
NONCASH TRANSACTIONS:				
Retirement of capital assets, net				($4,307)
Contributions and transfers of capital assets, net	$812,500		$812,500	$219,034

See accompanying notes to financial statements

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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, 2016

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	$9,162,420	$4,781,813
Interest receivable		12,288
Property held for resale (Note 16B)	13,021,241	
Total Assets	22,183,661	$4,794,101
LIABILITIES		
Refundable deposits		$1,494,115
Due to Local Improvement Districts		3,299,986
Accounts payable	79,030	
Interest payable	1,894,058	
Long-term obligations (Note 16D):		
Due in one year	8,829,187	
Due in more than one year	150,647,057	
Total Liabilities	161,449,332	$4,794,101
NET POSITION (DEFICIT)		
Held in trust for other governments	($139,265,671)	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Property taxes	$16,989,188
Use of money and property	9,373
Total additions	16,998,561
Deductions:	
General and administrative	225,951
Loss on conveyance of property held for resale (Note 16B)	3,798,884
Estimated reduction in value of property held for sale (Note 16B)	1,208,690
Debt Service:	
Interest and fees	6,491,052
Total deductions	11,724,577
Net change in net position	5,273,984
Net position (deficit) - beginning	(144,539,655)
Net position (deficit) - ending	($139,265,671)

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety; police; fire and building inspection; engineering; public works; water; sewer; sanitation; recreation services; building and safety; 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, the City of Milpitas Housing Authority and the Milpitas Municipal Financing 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.

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 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.

The Milpitas Municipal Financing Authority, formed in March 2016, is a separate government entity whose purpose is to assist with the financing and refinancing of public programs, projects and capital improvements for the benefit of the City and the Housing Authority. The Municipal Financing 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 Municipal Financing Authority is controlled by the City and the Housing Authority and has the same governing body as the City, which also performs all accounting and administrative functions for the Municipal Financing Authority. As of June 30, 2016, no financial activities have been undertaken by the Municipal Financing Authority.

Separate financial statements are not issued for the Milpitas Public Financing Authority, Milpitas Economic Development Corporation, City of Milpitas Housing Authority or Milpitas Municipal Financing 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, 2015 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Basis of Presentation

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

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Projects 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

F. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet reports 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 reports 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fair Value Measurements

Fair value is defined as 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. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

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 an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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's budget control remains at the level of department and/or project within any one fund. 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.

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	$194,648,728
Total Primary Government cash and investments	194,648,728
Cash and investments available for operations	72,887
Restricted investments	1,183,914
Total Component Unit cash and investments	1,256,801
Cash and investments in Fiduciary Funds (separate statement)	13,944,233
Total cash and investments	$209,849,762

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.

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, updated or adopted on an annual basis, 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%	$65,000,000 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	5 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
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	5 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	$65,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

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

E. Investments Authorized for Terrace Gardens Inc.

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total	Percentage of Portfolio
City and Successor Agency:					
Federal Agency Obligations	$19,036,418	$24,116,130	$25,199,521	$68,352,069	32.57%
Medium Term Corporate Notes	4,007,180	8,035,210	3,547,469	15,589,859	7.43%
U.S. Treasury Notes	10,014,960	12,077,100	4,044,645	26,136,705	12.45%
California Local Agency Investment Fund	80,249,822			80,249,822	38.24%
Mutual Funds (U.S. Securities)	10,838,514			10,838,514	5.16%
Negotiable Certificates of Deposit	250,312	2,006,849	1,278,299	3,535,460	1.68%
Terrace Gardens, Inc.:					
Nonnegotiable Certificates of Deposit	888,946			888,946	0.42%
Total Investments	$125,286,152	$46,235,289	$34,069,934	205,591,375	
Demand Deposits - City of Milpitas				3,890,532	1.85%
Demand Deposits - Terrace Gardens				367,855	0.18%
Total Cash and Investments				$209,849,762	100.00%

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, 2016 these investments matured in an average of 167 days.

Mutual funds are available for withdrawal on demand and at June 30, 2016 matured in an average of 33 days.

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2016 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		$68,352,069			$68,352,069
Medium Term Corporate Notes	$5,559,259	10,030,600			15,589,859
Mutual Funds (U.S. Securities)	10,585,783				10,585,783
Negotiable Certificates of Deposit		507,111	$1,767,966	$755,011	3,030,088
Totals	$16,145,042	$78,889,780	$1,767,966	$755,011	97,557,799
Not rated:					
California Local Agency Investment Fund					80,249,822
Mutual Funds (U.S. Securities)					252,731
Negotiable Certificates of Deposit					505,372
Exempt from credit rate disclosure:					
U.S. Treasury Notes					26,136,705
Total Investments					$204,702,429

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2016.

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At June 30, 2016, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling $888,946 were fully insured by Federal Deposit Insurance.

NOTE 3 - CASH AND INVESTMENTS (Continued)

H. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2016:

	Level 1	Level 2	Total
Investments by Fair Value Level:			
Federal Agency Obligations		$68,352,069	$68,352,069
Medium Term Corporate Notes		15,589,859	15,589,859
U.S. Treasury Notes	$26,136,705		26,136,705
California Local Agency Investment Fund		80,249,822	80,249,822
Negotiable Certificates of Deposit		3,535,460	3,535,460
Subtotal	$26,136,705	$167,727,210	193,863,915
Investments Measured at Amortized Cost:			
Mutual Funds (U.S. Securities)			10,838,514
Investments Measured at Cost:			
Terrace Gardens, Inc.			
Nonnegotiable Certificates of Deposit			888,946
Total Investments			$205,591,375

U.S. Treasury Notes totaling $26.1 million classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal Agency Obligations totaling $68.4 million, Medium Term Corporate Notes of $15.6 million and Negotiable Certificates of Deposit of $3.5 million, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank. The California Local Agency Investment Fund, classified in Level 2 of the fair value hierarchy, is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as the fair value divided by the amortized cost of the investment pool. Fair value is defined as the quoted market value on the last trading day of the period.

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, 2016:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	$28,145,811
Federal Home Loan Bank	Federal Agency Obligations	16,125,760
Federal National Mortgage Association	Federal Agency Obligations	15,052,050

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, 2016 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
Major Funds:			
General Fund	Transit Area Impact Fee Capital Projects Fund	$62,500	(A)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	277,000	(A)
General Fund	Community Facilities District Special Revenue Fund	200,000	(A)
General Fund	Hetch Hetchy Ground Lease Special Revenue Fund	7,500	(A)
General Fund	Water Utility Enterprise Fund	2,347,000	(A)
General Fund	Sewer Utility Enterprise Fund	1,575,000	(A)
Street Improvement Capital Projects Fund	General Fund	600,000	(B)
Street Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	40,000	(B)
Street Improvement Capital Projects Fund	General Government Capital Projects Fund	200,000	(B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	1,850,000	(B)
Street Improvement Capital Projects Fund	Water Utility Enterprise Fund	100,000	(B)
Street Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	100,000	(B)
General Government Capital Projects Fund	General Fund	12,000,000	(B)
General Government Capital Projects Fund	Street Improvement Capital Projects Fund	1,000,000	(B)
General Government Capital Projects Fund	Solid Waste Reduction and Services Special Revenue Fund	306,800	(B)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	200,000	(B)
Water Utility Enterprise Fund	Street Improvement Capital Projects Fund	7,892	(C)
Water Utility Enterprise Fund	General Government Capital Projects Fund	278,543	(A)
Water Utility Enterprise Fund	Park Improvement Capital Projects Fund	200,000	(A)
Sewer Utility Enterprise Fund	General Government Capital Projects Fund	278,543	(A)
Non-Major Funds:			
Solid Waste Reduction and Services Special Revenue Fund	Sewer Utility Enterprise Fund	80,000	(A)
Park Improvement Capital Projects Fund	General Government Capital Projects Fund	855,000	(B)
Storm Drain Development Capital Projects Fund	General Government Capital Projects Fund	1,200,000	(B)
Equipment Management Internal Service Fund	General Fund	300,000	(A)
	Total Interfund Transfers	$24,065,778	

The reasons for these transfers are set forth below:
(A) Transfer for operating costs
(B) To fund capital projects
(C) To return unexpended project funds

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 advance was repaid during the year ended June 30, 2016.

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, 2016, the balance of the advance was $5,072,208.

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, 2016:

Housing and Community Development Loans:	
Rehabilitation Loans	$3,390,486
Housing Authority Loans:	
Milpitas Housing Associates	4,700,022
Parc Metropolitan Housing Development	111,699
Parc North Associates LLC	822,769
Mid-Peninsula Milpitas Affordable Housing Associates	16,632,537
KB Home South Bay Inc.	1,522,900
Western Pacific Housing Inc.	1,802,845
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	2,868,163
Total Housing Authority Loans Receivable	29,260,935
Total Loans Receivable	$32,651,421

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, 2016 the City had outstanding rehabilitation loans of $3,390,486 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2016, the City received $19,250 from all participants, and made new loans totaling $33,067.

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 2016, a payment of $212,340 was received, interest of $245,270 was accrued, and as of June 30, 2016, principal and accrued interest outstanding totaled $4,700,022.

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, 2016, the Housing Authority received principal payments of $4,657 and as of June 30, 2016, there were $111,699 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 was secured by a third deed of trust on the property. The outstanding principal balance of $859,336 was paid in fiscal year 2016.

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 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. During fiscal year 2016, a new loan of $50,000 was made, principal of $138,058 was paid and as of June 30, 2016, there were $822,769 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 2016, $68,105 was paid, interest of $288,789 was accrued, and as of June 30, 2016, principal and accrued interest outstanding totaled $16,632,537.

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 37th 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.

During fiscal year 2016, $100,000 was paid and as of June 30, 2016, there were $1,522,900 of loans to Parcel C households outstanding. As of June 30, 2016 subsidies totaling $4,707,542 had been provided.

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 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. Principal of $3,966 was repaid in fiscal year 2016 and as of June 30, 2016, there were $605,845 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, 2016, 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, 2016, there were $800,000 of silent second loans outstanding.

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, 2016, the Housing Authority received payments totaling $57,125 and interest accrued during the fiscal year totaled $139,994. As of June 30, 2016, principal and accrued interest totaled $2,868,163.

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, 2016, 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. The remaining units are rented to tenants.

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, 2016, 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. 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 refunding bonds were issued on August 26, 2015 through private funding and the developer refinanced and retired the prior bonds.

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 former 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.

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 with a carrying value of $12,443,137 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, 2016, 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 estimated fee credits totaling $4,355,645 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation. No fee credits were issued during the year ended June 30, 2016 and to date, the City has issued fee credits of $2,952,208.

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 $235,346 of sales tax to KLA during fiscal year 2016.

E. Silicon Graphics International Corporation

In March 2015, the City entered into a Tax Rebate Agreement with Silicon Graphics International Corporation (SGIC). Under the terms of the agreement, in return for SGIC moving its headquarters into downtown Milpitas the City agreed to pay SGIC 50% of the real and personal property taxes paid by SGIC, excluding special assessments, 50% of the sales and use tax paid by SGIC, and 50% of the transient occupancy taxes received by the City arising from payment from hotel guests staying in a Milpitas hotel booked/reserved by SGIC. The City paid $14,751 to SGIC during fiscal year 2016.

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)

F. Milpitas Station (San Jose) Venture, L.L.L.P

In June 2014, the City entered into a Fee Credit Agreement with Milpitas Station (San Jose) Venture, L.L.L.P., which requires the developer to pay TASP fees of $9,932,643 to defray all or a portion of the improvements and facilities costs associated with the Milpitas Station Project. Under the terms of the agreement, Milpitas Station will be entitled to an improvement fee credit totaling $1,500,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling $4,244,486 for the park land dedication to be applied against the TASP fees. During the year ended June 30, 2016, the City issued fee credits in the amount of $364,213.

G. Piper Montague Infrastructure Payment Cost Sharing Agreement

In August 2009, the City entered into a four-party agreement with three developers in the Piper/Montague Subdistrict in which the developers agreed to share in the costs of infrastructure improvements, including street improvements, storm drain installation and a traffic signal, and certain storm water management facilities. Under the terms of the agreement, when one of the developers undertakes a project related to the shared infrastructure improvements or storm water facilities project, that developer receives TASP fee credits equal to the other two developers pro-rata share of the improvements. The other two developers are then to reimburse the City for those TASP fee credits through the payment of the Piper Montague Infrastructure Fee Payment (PMIP), when building permits are issued, as a surcharge to the TASP fee. In the event the developers do not pay the PMIP fees within seven years of the completion date of the improvements, then the City may levy assessments or collect Mello-Roos special taxes from the applicable properties for the applicable share of the improvements. The cost of the shared infrastructure improvements and storm water facilities project is estimated to total $9.8 million. If a developer's TASP fee credits resulting from the installation of the shared infrastructure exceed its aggregate TASP Fee obligations, the developer is not entitled to a cash payment from the City, but they may be entitled to a credit against other development fees.

During fiscal year 2016, one of the developers began construction on one of the shared infrastructure projects and expended $5,019,701. That developer received a TASP fee credit of $2,811,032, which is payable from the other two developers as discussed above. One of those developers began pulling permits during the fiscal year, which resulted in repayment of $198,223. The balance due from the two developers was $2,612,809 as of June 30, 2016.

H. Traverse Partners, LLC.

In October 2014, the City entered into a Fee Credit Agreement with Traverse Partners, LLC., which requires the developer to pay TASP fees of $6,752,886 to defray all or a portion of the improvements and facilities costs associated with the Traverse Residential Project. Under the terms of the agreement, Traverse Partners will be entitled to an improvement fee credit totaling $447,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling $1,876,200 for the park land dedication to be applied against projected TASP fees. During the year ended June 30, 2016, the City issued fee credits in the amount of $524,496.

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 acquisition 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.

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Capital assets not being depreciated:					
Land	$57,566,357				$57,566,357
Construction in progress	21,011,614	$16,251,427		($921,335)	36,341,706
Total capital assets not being depreciated	78,577,971	16,251,427		(921,335)	93,908,063
Capital assets being depreciated:					
Buildings and improvements	162,708,726				162,708,726
Other improvements	26,481,547			545,327	27,026,874
Machinery and equipment	38,826,731	708,432	($552,486)	376,008	39,358,685
Landscape system	29,648,396	7,261			29,655,657
Storm system	74,299,423				74,299,423
Street system	246,934,406	5,945,990			252,880,396
Traffic system	18,920,042	14,282			18,934,324
Total capital assets being depreciated	597,819,271	6,675,965	(552,486)	921,335	604,864,085
Less accumulated depreciation for:					
Buildings and improvements	(57,724,861)	(5,850,189)			(63,575,050)
Other improvements	(18,612,601)	(758,784)			(19,371,385)
Machinery and equipment	(27,675,047)	(2,499,388)	548,179		(29,626,256)
Landscape system	(12,903,819)	(593,379)			(13,497,198)
Storm system	(70,796,249)	(490,478)			(71,286,727)
Street system	(184,126,464)	(5,384,948)			(189,511,412)
Traffic system	(12,872,950)	(615,953)			(13,488,903)
Total accumulated depreciation	(384,711,991)	(16,193,119)	548,179		(400,356,931)
Net capital assets being depreciated	213,107,280	(9,517,154)	(4,307)	921,335	204,507,154
Governmental activities capital assets, net	$291,685,251	$6,734,273	($4,307)		$298,415,217

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2016:

Project	Total Budget	Actual Costs	Unexpended Budget
Alviso Adobe Renovations	$6,424,272	$5,415,684	$1,008,588
Pinewood Park Picnic Renovation	2,000,000	1,821,199	178,801
Higuera Adobe Park	2,000,000	233,260	1,766,740
Park Irrigation System	300,000	139,293	160,707
Park Renovation Project 2015	300,000	69,237	230,763
International Park	500,000	46,938	453,062
McCandless Park	300,000	56,548	243,452
MSX Pool Rehabilitation	1,500,000	1,467,394	32,606
Sports Center Sports Fields	4,585,000	4,019,440	565,560
McCarthy Blvd Landscape	670,000	472,887	197,113
Fire Station Improvements	1,500,000	466,376	1,033,624
City Building Improvements	1,200,000	1,130,928	69,072
Midtown Parking Garage	113,804	56,420	57,384
MSC Facility Improvement	1,900,000	1,510,936	389,064
Public Works/Police Building	300,000	271,850	28,150
Sinclair LMD Improvements	73,000	22,265	50,735
Street Resurfacing 2014	2,579,288	2,306,078	273,210
2015 Finance System Upgrade	170,000	152,022	17,978
City Building, Exterior Painting	100,000		100,000
PD Communications	335,000	230,503	104,497
Storm Drain System	700,000	565,147	134,853
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	326,729	178,348	148,381
Storm Pump Station Improvements	28,590	526	28,064
Dempsey Road Storm Drain	2,000,000	136,489	1,863,511
Penitencia Pump Station	250,000	30,662	219,338
Bart Project-Storm Improvement	250,000		250,000
Minor Storm Drain Project 2016	100,000		100,000
Light Rail Median Lane	6,005,000	1,899,070	4,105,930
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
Lower Penitencia Creek	650,000	72,238	577,762
VTA BART Project	17,000,000	3,600,000	13,400,000
TASP Traverse Development	1,876,200	1,876,200	
TASP Citation-SCS	7,660,876	7,660,876	
TASP Contour Trumark	68,679	68,679	
TASP Pulte	364,213	364,213	
Total construction in progress	$64,518,651	$36,341,706	$28,176,945

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2015	Additions	Balance at June 30, 2016
Capital assets not being depreciated:			
Land	$1,133,079		$1,133,079
Construction in progress	7,054,329	$4,039,930	11,094,259
Total capital assets not being depreciated	8,187,408	4,039,930	12,227,338
Capital assets being depreciated:			
Distribution facilities	79,548,803		79,548,803
Service lines	12,913,949	812,500	13,726,449
Sewer lines	81,841,886		81,841,886
Capacity rights	50,692,629	4,674,329	55,366,958
Total capital assets being depreciated	224,997,267	5,486,829	230,484,096
Less accumulated depreciation for:			
Distribution facilities	(46,634,514)	(1,416,506)	(48,051,020)
Service lines	(5,640,757)	(251,194)	(5,891,951)
Sewer lines	(44,236,313)	(1,306,387)	(45,542,700)
Capacity rights	(16,951,101)	(1,631,414)	(18,582,515)
Total accumulated depreciation	(113,462,685)	(4,605,501)	(118,068,186)
Net capital assets being depreciated	111,534,582	881,328	112,415,910
Business-type activities capital assets, net	$119,721,990	$4,921,258	$124,643,248

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2016:

Project	Total Budget	Actual Costs	Unexpended Budget
Main SPS Site Improvements	$2,302,000	$2,159,797	$142,203
Minor Sewer Projects	35,000	3,933	31,067
Sewer System Replacement 1	1,750,000	455,460	1,294,540
Sewer System Replacement	2,550,000	232,130	2,317,870
TASP Sewer Line Replacement	2,500,000		2,500,000
CCTV Sanitary Sewer	330,000		330,000
Minor Sewer Projects 2015	350,000		350,000
Bart Project-Sewer Improvement	350,000	229,473	120,527
Pressure Reducing Valve Replacement	320,000	263,453	56,547
Well Upgrade Program	2,645,000	1,963,283	681,717
Water System Seismic Improvements	3,187,951	805,080	2,382,871
Ayer Reservoir & Pump Station Improvements	735,000	658,802	76,198
Water System Replacement 08-09	700,000	118,905	581,095
Hydrant Replacement	170,000	621	169,379
Minor Water Projects	95,000	56,903	38,097
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	55,140	19,860
Cathodic Protection I	725,000	627,261	97,739
Minor Water Projects	150,000	134,380	15,620
Abel Street Pipeline Extension	350,000	27,029	322,971
Dempsey Road Water Line Replacement	4,607,772	793,539	3,814,233
Sunnyhills Turnout Pressure	600,000	191	599,809
Automated Water Meter Replacement	545,000	465,259	79,741
Daniel Court Water Service	525,000		525,000
Minor Water Projects 2015	105,000	51,562	53,438
Water Conservation	2,800,000	1,992,058	807,942
Supervisory Control	50,000		50,000
Total construction in progress	$28,702,723	$11,094,259	$17,608,464

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, 2015:

	Balance December 31, 2014	Additions and Transfers	Balance December 31, 2015
Capital assets not being depreciated:			
Land	$1,565,277		$1,565,277
Construction in Progress	208,156	($208,156)	
Total capital assets not being depreciated	1,773,433	(208,156)	1,565,277
Capital assets being depreciated:			
Buildings	11,605,348	351,381	11,956,729
Furniture	283,394		283,394
Office equipment	65,096		65,096
Improvements	2,403,893		2,403,893
Total capital assets being depreciated	14,357,731	351,381	14,709,112
Less accumulated depreciation	(7,057,425)	(420,981)	(7,478,406)
Net capital assets being depreciated	7,300,306	(69,600)	7,230,706
Total capital assets, net	$9,073,739	($277,756)	$8,795,983

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:

Governmental Activities:	
General Government	$5,432,798
Public Works	5,202,334
Engineering	2,801,256
Parks and Recreation	867,140
Police	847,299
Fire	324,781
Internal Service Fund	717,511
Total Governmental Activities	$16,193,119
Business-Type Activities:	
Water Utility	$1,667,699
Sewer Utility	2,937,802
Total Business-Type Activities	$4,605,501
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	$420,981

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 $55,366,958. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2016 the City's operation and maintenance share was approximately 5.809% of the total WPCP operations.

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, 2015	Retirements	Balance June 30, 2016	Current Portion
Governmental Activity Debt:					
Cisco Phone System Capital Lease					
0.620%, due September 18, 2016	$480,302	$185,508	$91,286	$94,222	$94,222
Business-type Activity Debt:					
Sewer Certificates of Participation, 2006 Series A					
3.4% - 4.20%, due November 1, 2026	$9,535,000	$6,490,000	$435,000	$6,055,000	$450,000

B. 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 September 18, 2016.

C. Sewer Certificates of Participation, 2006 Series A

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of $9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2016, net revenues amounted to $8,466,398, which represented coverage of 12.37 over the $684,348 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.

NOTE 9 - LONG TERM DEBT (Continued)

D. Debt Service Requirements

Annual debt service requirements are shown below:

	Governmental Activities		Business-Type Activities	
Year Ending June 30	Total Principal	Total Interest	Total Principal	Total Interest
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			525,000	159,006
2022 - 2026			2,955,000	454,673
2027			665,000	13,965
	$94,222	$3,030	$6,055,000	$1,453,947

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.

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.

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, 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.

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 and may be changed at the discretion of the City Council. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

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

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2016, are below:

		Major Special Revenue Fund	Major Capital Projects				
Fund Balance Classifications	General Fund	Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund	General Government Project Fund	Other Governmental Funds	Total
Nonspendable:							
Prepaids, materials, supplies and deposits	$714,740	$6,629				$6,615	$727,984
Property held for resale	17,600,000						17,600,000
Advance to other funds	5,072,208						5,072,208
Subtotal Nonspendable	23,386,948	6,629				6,615	23,400,192
Restricted for:							
Redevelopment Projects and Programs and Maintenance			$8,424,992			3,238,268	11,663,260
Housing and community development		51,961,048				3,433,823	55,394,871
Law enforcement services						157,272	157,272
Solid waste reduction and services						1,866,106	1,866,106
Assessment district services						763,325	763,325
Hetch-Hetchy ground lease						1,645,325	1,645,325
Community planning						313,001	313,001
Park improvement projects						13,628,750	13,628,750
Storm drain projects						3,584,610	3,584,610
Transit area capital projects				$10,684,750			10,684,750
Subtotal Restricted		51,961,048	8,424,992	10,684,750		28,630,480	99,701,270
Committed to:							
PERS stabilization	8,439,565						8,439,565
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						117,657	117,657
Other contracts	802,603						802,603
General government capital projects	5,433,036				$29,838,135		35,271,171
Subtotal Assigned	9,052,333				29,838,135	117,657	39,008,125
Unassigned:							
General Fund	13,409,516						13,409,516
Subtotal Unassigned	13,409,516						13,409,516
Total fund balances (deficit)	$54,288,362	$51,967,677	$8,424,992	$10,684,750	$29,838,135	$28,754,752	$183,958,668

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. Minimum Fund Balance Policies

The City's Budget Guidelines and Fiscal Policies document the City effort 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.

NOTE 11 - PENSION PLANS

A. General Information

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, 2016, are summarized as follows:

	Miscellaneous		
	Classic Tier I	Classic Tier II	PEPRA
Hire date	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
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	28.57%	28.57%	28.57%

	Safety		
	Classic Tier I	Classic Tier II	PEPRA
Hire date	Prior to April 8, 2012	After April 8, 2012	On or after January 1, 2013
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	39.417%	39.417%	39.417%

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, 2014 and measurement date of June 30, 2015:

	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	311			205		
Inactive employees entitled to but not yet receiving benefits	291			37		
Active employees	159	4	16	123	3	10
Total	761	4	16	365	3	10

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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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, 2014 actuarial valuations were determined using the following actuarial assumptions:

NOTE 11 - PENSION PLANS (Continued)

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.2% - 12.2% (2)	3.4% - 20.0% (2)
Investment Rate of Return	7.65% (3)	7.65% (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	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.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 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.

Change of Assumptions – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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 under the GASB 68 section.

NOTE 11 - PENSION PLANS (Continued)

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.

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 geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

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

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

NOTE 11 - PENSION PLANS (Continued)

C. Changes in the Net Pension Liability

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

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	$192,077,728	$146,622,149	$45,455,579
Changes in the year:			
Service cost	2,664,628		2,664,628
Interest on the total pension liability	14,114,152		14,114,152
Differences between actual and expected experience	(982,598)		(982,598)
Changes in assumptions	(3,463,459)		(3,463,459)
Changes in benefit terms			
Contribution - employer		4,076,975	(4,076,975)
Contribution - employee (paid by employer)			
Contribution - employee		1,326,989	(1,326,989)
Net investment income		3,281,429	(3,281,429)
Administrative expenses		(164,523)	164,523
Benefit payments, including refunds of employee contributions	(8,930,516)	(8,930,516)	
Net changes	3,402,207	(409,646)	3,811,853
Balance at June 30, 2015	$195,479,935	$146,212,503	$49,267,432

	Safety Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	$280,282,332	$200,237,534	$80,044,798
Changes in the year:			
Service cost	4,808,751		4,808,751
Interest on the total pension liability	20,535,893		20,535,893
Differences between actual and expected experience	(2,363,470)		(2,363,470)
Changes in assumptions	(5,052,089)		(5,052,089)
Changes in benefit terms			
Contribution - employer		6,604,951	(6,604,951)
Contribution - employee (paid by employer)			
Contribution - employee		1,887,408	(1,887,408)
Net investment income		4,420,615	(4,420,615)
Administrative expenses		(224,227)	224,227
Benefit payments, including refunds of employee contributions	(13,656,196)	(13,656,196)	
Net changes	4,272,889	(967,449)	5,240,338
Balance at June 30, 2015	$284,555,221	$199,270,085	$85,285,136
Grand Totals - Both Plans	$480,035,156	$345,482,588	$134,552,568

NOTE 11 - PENSION PLANS (Continued)

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	6.65%	6.65%
Net Pension Liability	$75,436,922	$123,542,281
Current Discount Rate	7.65%	7.65%
Net Pension Liability	$49,267,432	$85,285,136
1% Increase	8.65%	8.65%
Net Pension Liability	$27,654,763	$53,758,605

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

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

For the year ended June 30, 2016, the City recognized pension expense of $10,359,064. At June 30, 2016, 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	$4,236,931	
Differences between actual and expected experience		($491,299)
Changes in assumptions		(1,731,729)
Net differences between projected and actual earnings on plan investments		(1,353,680)
Total	$4,236,931	($3,576,708)

NOTE 11 - PENSION PLANS (Continued)

	Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$7,341,742	
Differences between actual and expected experience		($1,772,602)
Changes in assumptions		(3,789,067)
Net differences between projected and actual earnings on plan investments		(1,829,335)
Total	$7,341,742	($7,391,004)
Grand Totals - Both Plans	$11,578,673	($10,967,712)

$11,578,673 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, 2017. 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
2017	($3,191,245)
2018	(968,217)
2019	(968,219)
2020	1,550,973

Safety Plan:

Year Ended June 30	Annual Amortization
2017	($3,173,474)
2018	(3,173,474)
2019	(3,173,474)
2020	2,129,418

NOTE 11 - PENSION PLANS (Continued)

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 $24,579 and the employee's required contributions of $92,355 were made during the fiscal year ending June 30, 2016.

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, 2016 there were 244 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.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired before July 1, 1995	At least 5	If retirement occurred after July 1, 1990 but before September 1, 2002: - Any employee only medical premium rate If retirement occurs after August 31, 2002: - Benefit cap
	After June 30, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA)	Hired before July 1, 1995	At least 5	Benefit cap
	Hired after June 30, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired before July 1, 1995	At least 5	Benefit cap
	Hired after June 30, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Fire Safety (IAFF)	Hired before January 1, 1995 and retired before January 1, 1990	N/A	PEMHCA Minimum Only
	Hired before January 1, 1995 and retired after December 31, 1989 but before January 1, 1995	N/A	Any employee only premium
	Hired before January 1, 1995 and retired after December 31, 1994 but before February 21, 2007	1 but less than 10	50% of the benefit cap
		At least 10	100% of the benefit cap
	Hired before January 1, 1995 and retired after February 20, 2007	1 but less than 10	Up to 50% of the lesser of the retiree cap and the premium rate
		At least 10	Up to 100% of the lesser of the retiree cap and the premium rate
	Hired after December 31, 1994 and retired before February 21, 2007	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
	Hired after December 31, 1994 and retired after February 21, 2007	1 but less than 10	25% of the lesser of the retiree cap and premium rate
		10 but less than 15	50% of the lesser of the retiree cap and premium rate
		15 but less than 20	75% of the lesser of the retiree cap and premium rate
		At least 20	100% of the lesser of the retiree cap and premium rate

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Hired before January 1, 1996 and retired before January 1, 1989	N/A	PEMHCA Minimum Only
	Hired before January 1, 1996 and retired after December 31, 1988 but before July 1, 2003	At least 5	Any employee only medical premium rate
	Hired before January 1, 1996 and retired after June 30, 2003	At least 5	Up to the Retiree Cap
	Hired after December 31, 1995 and retired before June 30, 2003	1 but less than 9	Up to 25% of any employee only premium
		9 but less than 14	Up to 50% of any employee only premium
		14 but less than 19	Up to 75% of any employee only premium
		At least 19 full years of service	Up to 100% of any employee only premium
	Hired after December 31, 1995 and retired after June 30, 2003	1 but less than 9	Up to 25% of the retiree cap
		9 but less than 14	Up to 50% of the retiree cap
		14 but less than 19	Up to 75% of the retiree cap
		At least 19	Up to 100% of the retiree cap
Employee Association (MEA)	Hired before July 1, 1996	At least 5	If retirement occurred after July 17, 1989 but before March 19, 2003: -Any employee only medical premium rate If retirement occurred after March 18, 2003: -Benefit cap
	Hired after June 30, 1996	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Supervisors (MSA)	Hired before 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 after June 30, 1995 and retired after November 27, 2007	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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, 2016 was determined as part of a July 1, 2015 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% for explicit subsidy benefits and 4% for implicit subsidy benefits investment rate of return, (b) 3.25% projected annual salary increase, and (c) health costs trend rates of 4.50%-7.50% 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.

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, 2015, the actuarial accrued liability was estimated to be $72,175,202.

Changes of Assumptions

To comply with newly revised Actuarial Standard of Practice No. 6 (ASOP 6), the July 1, 2015 actuarial valuation includes an implicit subsidy liability. This liability was not calculated in prior reports because of the former "community rating" exemption for employers participating in large pooled health plans like CalPERS. When premiums for retirees are determined using a blend of active employee and retiree experience, it creates an implicit subsidy to the retirees, since retiree healthcare costs are generally higher than active employees. ASOP 6 effectively requires most public agencies to calculate an implicit subsidy liability whenever their retirees participate in the group medical plans, but only pay the same premiums as active employees. ASOP 6 is effective for all actuarial valuations with a measurement date on or after March 31, 2015.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Changes of assumptions since the prior actuarial valuation were:

- The discount rate was changed from 7.50% to 7.0% for explicit subsidy benefits and 4.0% for implicit subsidy benefits based on updated expectations of long·term returns on trust and general City assets.
- Assumed wage inflation rate decreased from 3.25% to 3.0%
- General inflation rate decreased from 3.0% to 2.75%.
- Healthcare, dental and vision trend rates were reset to reflect updated cost increase expectations.
- Medical plan premium rates are assumed to increase by lower rates than were assumed in the prior valuation. Where only the PEMHCA minimum benefit is payable, it is assumed 4.5% increases in this benefit.
- Assumed mortality, termination, disability and retirement rates were updated from those in the CalPERS 2010 experience study report to those provided in the CalPERS 2014 experience study report. Rates of mortality were updated to the rates in the midpoint year of the CalPERS 2014 experience study (2008), then projected on a generational basis by Bickmore Scale 2014.

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, 2016, the City contributed the explicit ARC of $3,186,458 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:

	Explicit	Implicit	Plan Total
Calculation of the Annual OPEB Cost:			
Annual Required Contribution (ARC)	$3,186,458	$1,625,993	$4,812,451
Interest on Net OPEB Obligation (Asset)	0	0	0
Adjustment to the ARC	0	0	0
Annual OPEB Cost	3,186,458	1,625,993	4,812,451
Contributions Made:			
Contribution to OPEB trust	(3,186,458)	0	(3,186,458)
Estimated implicit subsidy	0	(719,811)	(719,811)
Total Contributions	(3,186,458)	(719,811)	(3,906,269)
Change in Net OPEB Obligation (Asset)	0	906,182	906,182
Net OPEB Obligation (Asset) June 30, 2015	0	0	0
Net OPEB Obligation (Asset) June 30, 2016	$0	$906,182	$906,182

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2015, amounted to $72,175,202, 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 $34,744,928 as of June 30, 2016, which partially funds the actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2014, 2015 and 2016 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2014	$3,710,039	$3,710,039	100%	$0
June 30, 2015	3,848,712	3,848,712	100%	0
June 30, 2016	4,812,451	3,906,269	81%	906,182

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
7/1/2015	$32,569,037	$72,175,202	$39,606,165	45.12%	$35,552,000	111.40%

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, 2016, sick leave benefits payable decreased by $36,789 and vacation benefits payable decreased by $523,532. 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.

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, 2015	$4,499,818	$297,558	$3,984,060	$306,862
Additions	3,431,868	239,544	489,017	96,755
Payments and adjustments	(3,444,671)	(263,532)	(1,008,551)	(100,753)
Balance as of June 30, 2016	$4,487,015	$273,570	$3,464,526	$302,864
General Government	$424,577		$117,251	
Building	122,592		126,093	
Public Works	180,424		71,730	
Engineering	121,609		156,434	
Planning	40,075			
Recreation	86,480		55,196	
Police	2,380,875		1,141,022	
Fire	1,062,708		1,759,482	
Water Utility		$136,785		$151,432
Sewer Utility		136,785		151,432
Internal Service	67,675		37,318	
Total	$4,487,015	$273,570	$3,464,526	$302,864
Long-Term Portion:				
Governmental activities	$3,973,109		$3,182,480	
Business-type activities		$53,892		$232,410
Total long term portions	$3,973,109	$53,892	$3,182,480	$232,410
Current Portion:				
Governmental activities	$513,906		$282,046	
Business-type activities		$219,678		$70,454
Total current portions	$513,906	$219,678	$282,046	$70,454

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

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides $5,000,000 of self-funded general liability and auto coverage and $25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's $100,000 deductible. ABAG Plan also provides $2,000,000 employee theft coverage in excess of the City's $10,000 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, 2016 the City contributed $555,146 or 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, 2016 the City paid $623,942 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

NOTE 13 - RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

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

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

	2016			
	Worker's Compensation	General Liability	Total	2015
Beginning balance	$4,815,413	$598,302	$5,413,715	$6,367,215
Liability for current fiscal year claims	950,316	83,418	1,033,734	2,191,246
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	39,917	(490,389)	(450,472)	(2,199,304)
Claims paid	(729,429)	(85,319)	(814,748)	(945,442)
Ending balance	$5,076,217	$106,012	$5,182,229	$5,413,715
Due in one year	$782,053	$168,577	$950,630	$955,731

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.

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, 2016 were as follows:

Major Governmental Funds:	
General Fund	$802,603
Housing Authority	32,000
Street Improvement Fund	659,430
Transit Area Impact Fee Fund	136,035
Non-Major Governmental Funds	2,297,661
Total Encumbrances	$3,927,729

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, 2016. The VTA has submitted additional invoices for reimbursement during fiscal year 2016 totaling $8.7 million, however the VTA and the City disagree on the amount of funding available for roadway improvements in order to reimburse the VTA. The City is conducting research and will meet with the VTA to determine the next steps. No provision for liabilities resulting from the outcome of this uncertain matter has been recorded in the accompanying financial statements.

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 5.809% 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.

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 $1,344,492 during fiscal year 2016, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2017 is estimated to be $1,009,537.

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 Phase II of 1996 was fully retired in August 2015. The outstanding balance of the remaining issues as of June 30, 2016 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities: Annual Amount	Principal Maturities: Fiscal Years Ended	Outstanding June 30, 2016
LID #18	1999	5.85%	$255,000 - 285,000	2017-2019	$810,000
LID #20	1999	5.70%	1,190,000 - 1,330,000	2017-2019	3,780,000
Total					$4,590,000

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, 2016 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, 2016.

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 discussed in Note 16F2, pursuant to the terms of the Long Range Property Management Plan, the Agency transferred one parcel with a carrying value of $3,798,884 to the County.

During the year ended June 30, 2016, the Agency reviewed the net realizable value for each of the parcels held and, as a result of pending sale agreements or value appraisals, has reduced the carrying value of the parcels by $1,208,690.

As of June 30, 2016, property totaling $13,021,241 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.

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, 2015	Retirements	Balance June 30, 2016	Current Portion
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	$22,135,274	$2,923,396	$19,211,878	$2,784,187
2015 Tax Allocation Bonds				
2%-5%, due September 1, 2032	127,790,000	7,375,000	120,415,000	6,045,000
Plus: Unamortized bond premium	21,040,328	1,190,962	19,849,366	
Total	$170,965,602	$11,489,358	$159,476,244	$8,829,187

2. 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, which were redeemed on March 23, 2015. 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.

3. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of $135,000,000, as mentioned in Note 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 $19,211,878 at June 30, 2016, representing the present value of future payments due under this Agreement.

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

4. Debt Service Requirements

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

Year Ending June 30	Principal	Interest
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	9,818,669	7,821,331
2022-2026	46,140,904	23,926,346
2027-2031	39,140,000	6,389,000
2032-2033	7,695,000	389,375
	139,626,878	$70,451,047
Plus: Unamortized bond premium	19,849,366	
	$159,476,244	

5. Defeased Bonds

As of June 30, 2016, the outstanding balance of defeased debt was $17,605,000 for the Redevelopment Agency 1997 Tax Allocation Bonds.

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

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.

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.

NOTE 17 – SUBSEQUENT EVENTS

In August 2016, the City entered into a purchase and sale agreement with Milpitas Unified School District under which property held for resale with a carrying value of $13,400,000, will be sold for $20,670,800. Under the terms of the purchase and sale agreement, the District will pay 50% in cash, less agreed-upon site preparation costs, and the City will hold a promissory note, secured by a deed of trust on the property, for the balance of $10,335,400 at zero payable in one year.

In August 2016, the Successor Agency entered into a purchase and sale agreement with a private party to sell property held for resale with a carrying value of $401,690. The property was sold in September 2016 for $223,000.

In July 2016, the Successor Agency entered into a purchase and sale agreement with a developer to sell property held for resale with a carrying value of $6,988,800. The property was sold in October 2016 for $7 million.

REQUIRED SUPPLEMENTARY INFORMATION

City of Milpitas
Required Supplementary Information
For the Year Ended June 30, 2016

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
7/1/2011	$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%
7/1/2015	32,569,037	72,175,202	39,606,165	45.12%	35,552,000	111.40%

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, 2014	$3,710,039	$3,710,039	100%	$0
June 30, 2015	3,848,712	3,848,712	100%	0
June 30, 2016	4,812,451	3,906,269	81%	906,182

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 Pension	**2013-14**	**2014-15**
Total Pension Liability		
Service Cost	$2,652,510	$2,664,628
Interest	13,600,615	14,114,152
Differences between expected and actual experience	-	(982,598)
Changes in assumptions	-	(3,463,459)
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)
Net change in total pension liability	7,871,791	3,402,207
Total pension liability - beginning	184,205,937	192,077,728
Total pension liability - ending (a)	$192,077,728	$195,479,935
Plan fiduciary net position		
Contributions - employer	$3,356,909	$4,076,975
Contributions - employee	1,439,932	1,326,989
Net investment income	22,034,637	3,281,429
Administrative expense		(164,523)
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)
Net change in plan fiduciary net position	18,450,144	(409,646)
Plan fiduciary net position - beginning	128,172,005	146,622,149
Plan fiduciary net position - ending (b)	$146,622,149	$146,212,503
Net pension liability - ending (a)-(b)	$45,455,579	$49,267,432
Plan fiduciary net position as a percentage of the total pension liability	76.33%	74.80%
Covered payroll	$15,682,538	$16,009,660
Net pension liability as percentage of covered payroll	289.85%	307.74%

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. 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. GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

* Fiscal year 2015 was the 1st year of implementation.

Source: CalPERS Accounting Valuation

City of Milpitas
Required Supplementary Information

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

Fiscal Year Ended June 30	**2015**	**2016**
Actuarially determined contribution	$3,252,668	$4,236,931
Contributions in relation to the actuarially determined contributions	3,252,668	4,236,931
Contribution deficiency (excess)	$0	$0
Covered payroll	$16,009,660	$15,644,915
Contributions as a percentage of covered payroll	20.32%	27.08%
Notes to Schedule		
Valuation date:	6/30/2012	6/30/2013

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.

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	**6/30/14**	**6/30/15**
Total Pension Liability		
Service Cost	$4,932,970	$4,808,751
Interest	19,838,662	20,535,893
Differences between expected and actual experience	-	(2,363,470)
Changes in assumptions	-	(5,052,089)
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)
Net change in total pension liability	11,695,003	4,272,889
Total pension liability - beginning	268,587,329	280,282,332
Total pension liability - ending (a)	$280,282,332	$284,555,221
Plan fiduciary net position		
Contributions - employer	$5,856,270	$6,604,951
Contributions - employee	1,839,234	1,887,408
Net investment income	30,157,647	4,420,615
Administrative expense		(224,227)
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)
Net change in plan fiduciary net position	24,776,522	(967,449)
Plan fiduciary net position - beginning	175,461,012	200,237,534
Plan fiduciary net position - ending (b)	$200,237,534	$199,270,085
Net pension liability - ending (a)-(b)	$80,044,798	$85,285,136
Plan fiduciary net position as a percentage of the total pension liability	71.44%	70.03%
Covered payroll	$18,310,535	$18,810,920
Net pension liability as percentage of covered payroll	437.15%	453.38%

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. Golden Handshakes).

Changes in assumptions. GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

* Fiscal year 2015 was the 1st year of implementation.

Source: CalPERS Accounting Valuation

City of Milpitas
Required Supplementary Information

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

Fiscal Year Ended June 30	**2015**	**2016**
Actuarially determined contribution	$5,904,019	$7,346,983
Contributions in relation to the actuarially determined contributions	5,904,019	7,346,983
Contribution deficiency (excess)	$0	$0
Covered payroll	$18,810,920	$20,170,400
Contributions as a percentage of covered payroll	31.39%	36.42%
Notes to Schedule		
Valuation date:	6/30/2012	6/30/2013

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
Investment rate of return	7.50%, net of pension plan investment expense,
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period
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.

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

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

	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	$3,226,290	$38,565	$339,830	$1,856,137	$220,847
Receivables:					
Accounts				83,792	
Due from other governments		11,529	24,317		
Interest	11,978		1,325	6,856	815
Loans receivable		3,390,486			
Prepaids, materials, supplies and deposits		118		1,911	587
Total Assets	$3,238,268	$3,440,698	$365,472	$1,948,696	$222,249
LIABILITIES					
Accounts payable		$6,524	$169	$41,377	$9,917
Accrued payroll		233		8,104	1,299
Unearned revenue			208,031	12,355	
Refundable deposits				18,843	
Total Liabilities		6,757	208,200	80,679	11,216
FUND BALANCE					
Fund Balances:					
Nonspendable		118		1,911	587
Restricted	$3,238,268	3,433,823	157,272	1,866,106	210,446
Assigned					
Total Fund Balances	3,238,268	3,433,941	157,272	1,868,017	211,033
Total Liabilities and Fund Balances	$3,238,268	$3,440,698	$365,472	$1,948,696	$222,249

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
$593,402	$1,645,163	$311,105	$117,224	$14,321,188	$3,612,561	$26,282,312
		756				84,548
4,922						40,768
2,180	162	1,155	433	52,900	13,407	91,211
						3,390,486
1,369	2,630					6,615
$601,873	$1,647,955	$313,016	$117,657	$14,374,088	$3,625,968	$29,895,940
$41,612		$15		$733,595	$40,032	$873,241
6,013				11,743	1,326	28,718
						220,386
						18,843
47,625		15		745,338	41,358	1,141,188
1,369	$2,630					6,615
552,879	1,645,325	313,001		13,628,750	3,584,610	28,630,480
			$117,657			117,657
554,248	1,647,955	313,001	117,657	13,628,750	3,584,610	28,754,752
$601,873	$1,647,955	$313,016	$117,657	$14,374,088	$3,625,968	$29,895,940

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Other taxes				$430,450	$327,563
Use of money and property	$28,701	$1,488	$2,384	17,578	1,540
Intergovernmental	1,584,278	409,990	235,211	223,173	
Charges for services				340,397	
Developer contributions					
Other				4,174	
Total Revenues	1,612,979	411,478	237,595	1,015,772	329,103
EXPENDITURES:					
Current:					
General Government		18,253		27,480	
Public Works				9,126	245,674
Engineering				736,687	11,094
Planning		391,476			
Police			266,626		
Capital outlay					
Total Expenditures		409,729	266,626	773,293	256,768
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,612,979	1,749	(29,031)	242,479	72,335
OTHER FINANCING SOURCES (USES)					
Transfers in				80,000	
Transfers (out)	(1,850,000)			(583,800)	
Total Other Financing Sources (Uses)	(1,850,000)			(503,800)	
NET CHANGE IN FUND BALANCES	(237,021)	1,749	(29,031)	(261,321)	72,335
Fund balances at beginning of year	3,475,289	3,432,192	186,303	2,129,338	138,698
FUND BALANCES AT END OF YEAR	$3,238,268	$3,433,941	$157,272	$1,868,017	$211,033

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
$1,225,349						$1,983,362
4,084	$38,116	$2,240	$1,400	$179,860	$31,668	309,059
						2,452,652
		288,313				628,710
				2,615,115	371,540	2,986,655
			2,400			6,574
1,229,433	38,116	290,553	3,800	2,794,975	403,208	8,367,012
5,715	30,870		14,550			96,868
680,410						935,210
						747,781
						391,476
						266,626
				5,869,959	308,902	6,178,861
686,125	30,870		14,550	5,869,959	308,902	8,616,822
543,308	7,246	290,553	(10,750)	(3,074,984)	94,306	(249,810)
				855,000	1,200,000	2,135,000
(200,000)	(7,500)	(200,000)		(200,000)		(3,041,300)
(200,000)	(7,500)	(200,000)		655,000	1,200,000	(906,300)
343,308	(254)	90,553	(10,750)	(2,419,984)	1,294,306	(1,156,110)
210,940	1,648,209	222,448	128,407	16,048,734	2,290,304	29,910,862
$554,248	$1,647,955	$313,001	$117,657	$13,628,750	$3,584,610	$28,754,752

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, 2016

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	$10,000	$28,701	$18,701		$1,488	$1,488
Intergovernmental	2,079,000	1,584,278	(494,722)	$375,000	409,990	34,990
Charges for services						
Other						
Total Revenues	2,089,000	1,612,979	(476,021)	375,000	411,478	36,478
EXPENDITURES						
Current:						
General Government:						
Finance				15,000	13,558	1,442
Non-departmental				11,695	4,695	7,000
Public Works						
Engineering						
Planning and Neighborhood Services				711,646	412,766	298,880
Police						
Total Expenditures				738,341	431,019	307,322
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,089,000	1,612,979	(476,021)	(363,341)	(19,541)	343,800
OTHER FINANCING SOURCES (USES)						
Transfers in	200,000		(200,000)			
Transfers (out)	(2,050,000)	(1,850,000)	200,000			
Total Other Financing Sources (Uses)	(1,850,000)	(1,850,000)				
NET CHANGE IN FUND BALANCES	$239,000	(237,021)	($476,021)	($363,341)	(19,541)	$343,800
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					21,290	
Encumbrance adjustments						
Fund balances at beginning of year		3,475,289			3,432,192	
Fund balances at end of year		$3,238,268			$3,433,941	

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)
			$423,000	$430,450	$7,450	$323,000	$327,563	$4,563
	$2,384	$2,384	13,000	17,578	4,578		1,540	1,540
$217,489	235,211	17,722	166,224	223,173	56,949			
			325,000	340,397	15,397			
				4,174	4,174			
217,489	237,595	20,106	927,224	1,015,772	88,548	323,000	329,103	6,103
			32,300	27,480	4,820			
			11,626	9,126	2,500	277,022	245,674	31,348
			896,375	776,291	120,084	11,635	11,094	541
319,446	288,562	30,884						
319,446	288,562	30,884	940,301	812,897	127,404	288,657	256,768	31,889
(101,957)	(50,967)	50,990	(13,077)	202,875	215,952	34,343	72,335	37,992
			80,000	80,000				
			(583,800)	(583,800)		(75,000)		75,000
			(503,800)	(503,800)		(75,000)		75,000
($101,957)	(50,967)	$50,990	($516,877)	(300,925)	$215,952	($40,657)	72,335	$112,992
	21,936			39,604				
	186,303			2,129,338			138,698	
	$157,272			$1,868,017			$211,033	

(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, 2016

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	$950,000	$1,225,349	$275,349			
Use of money and property		4,084	4,084	$20,000	$38,116	$18,116
Intergovernmental						
Charges for services						
Other						
Total Revenues	950,000	1,229,433	279,433	20,000	38,116	18,116
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	5,000	5,715	(715)	37,000	30,870	6,130
Public Works	812,102	680,410	131,692			
Engineering						
Planning and Neighborhood Services						
Police						
Total Expenditures	817,102	686,125	130,977	37,000	30,870	6,130
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	132,898	543,308	410,410	(17,000)	7,246	24,246
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(200,000)	(200,000)		(7,500)	(7,500)	
Total Other Financing Sources (Uses)	(200,000)	(200,000)		(7,500)	(7,500)	
NET CHANGE IN FUND BALANCES	($67,102)	343,308	$410,410	($24,500)	(254)	$24,246
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Encumbrance adjustments						
Fund balances at beginning of year		210,940			1,648,209	
Fund balances at end of year		$554,248			$1,647,955	

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)
						$1,696,000	$1,983,362	$287,362
	$2,240	$2,240		$1,400	$1,400	43,000	97,531	54,531
						2,837,713	2,452,652	(385,061)
$200,000	288,313	88,313				525,000	628,710	103,710
				2,400	2,400		6,574	6,574
200,000	290,553	90,553		3,800	3,800	5,101,713	5,168,829	67,116
						15,000	13,558	1,442
			$36,000	14,550	21,450	121,995	83,310	38,685
						1,100,750	935,210	165,540
						908,010	787,385	120,625
$55,062		55,062				766,708	412,766	353,942
						319,446	288,562	30,884
55,062		55,062	36,000	14,550	21,450	3,231,909	2,520,791	711,118
144,938	290,553	145,615	(36,000)	(10,750)	25,250	1,869,804	2,648,038	778,234
						280,000	80,000	(200,000)
(200,000)	(200,000)					(3,116,300)	(2,841,300)	275,000
(200,000)	(200,000)					(2,836,300)	(2,761,300)	75,000
($55,062)	90,553	$145,615	($36,000)	(10,750)	$25,250	($966,496)	(113,262)	$853,234
							21,290	
							61,540	
	222,448			128,407			11,571,824	
	$313,001			$117,657			$11,541,392	

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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, 2016

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Employee Benefit				
Assets				
Cash and investments available for operations	$1,631,501	$14,707	$165,823	$1,480,385
Receivables:				
Interest	3,351	5,491	3,351	5,491
Total Assets	$1,634,852	$20,198	$169,174	$1,485,876
Liabilities				
Refundable deposits	$1,634,852	$20,198	$169,174	$1,485,876
Total Liabilities	$1,634,852	$20,198	$169,174	$1,485,876
Senior Advisory Commission				
Assets				
Cash and investments available for operations	$8,152	$1,748	$1,691	$8,209
Receivables:				
Interest	16	30	16	30
Total Assets	$8,168	$1,778	$1,707	$8,239
Liabilities				
Refundable deposits	$8,168	$1,778	$1,707	$8,239
Total Liabilities	$8,168	$1,778	$1,707	$8,239
LID #18 - Reassessment and Refunding				
Assets				
Cash and investments available for operations	$677,818	$318,224	$659,695	$336,347
Cash and investments held by trustees	641,154	1,817	386,182	256,789
Receivable:				
Interest	1,351	1,264	1,351	1,264
Due from other governments	398		398	
Total Assets	$1,320,721	$321,305	$1,047,626	$594,400
Liabilities				
Due to Local Improvement Districts	$1,320,721	$321,305	$1,047,626	$594,400
Total Liabilities	$1,320,721	$321,305	$1,047,626	$594,400

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
LID #20				
Assets				
Cash and investments available for operations	$1,354,077	$1,512,992	$1,384,950	$1,482,119
Cash and investments held by trustees	1,217,891	73		1,217,964
Receivables:				
Interest	2,699	5,503	2,699	5,503
Due from other governments	30,213		30,213	
Total Assets	$2,604,880	$1,518,568	$1,417,862	$2,705,586
Liabilities				
Due to Local Improvement Districts	$2,604,880	$1,518,568	$1,417,862	$2,705,586
Total Liabilities	$2,604,880	$1,518,568	$1,417,862	$2,705,586
TOTAL AGENCY FUNDS				
Assets				
Cash and investments available for operations	$3,671,548	$1,847,671	$2,212,159	$3,307,060
Cash and investments held by trustees	1,859,045	1,890	386,182	1,474,753
Receivables:				
Interest	7,417	12,288	7,417	12,288
Due from other governments	30,611		30,611	
Total Assets	$5,568,621	$1,861,849	$2,636,369	$4,794,101
Liabilities				
Refundable deposits	$1,643,020	$21,976	$170,881	$1,494,115
Due to Local Improvement Districts	3,925,601	1,839,873	2,465,488	3,299,986
Total Liabilities	$5,568,621	$1,861,849	$2,636,369	$4,794,101

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 – Schedule10
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:

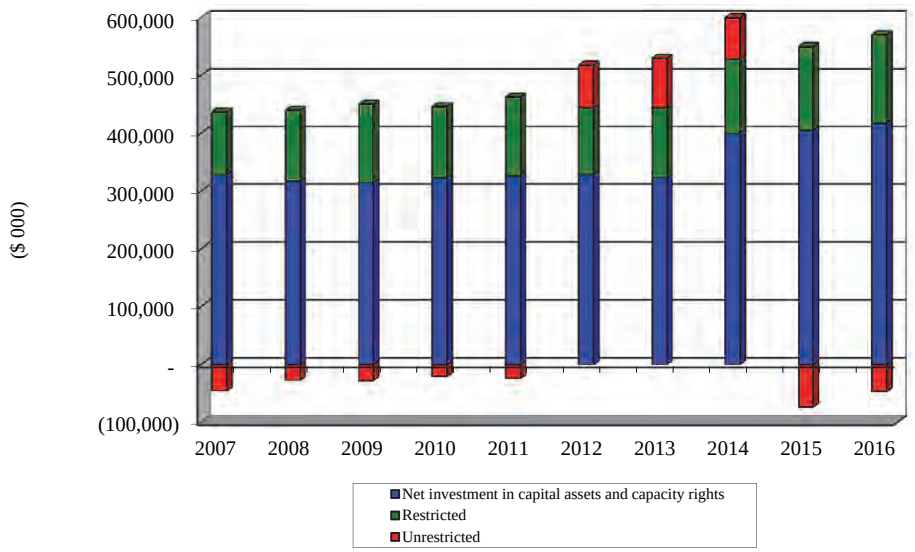
Bimonthly Sewer Rates by Customer Class – Schedule 17
Demographic and Economic Statistics – Schedule 18
Principal Employers – Schedule 19

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)



	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Governmental activities					
Net investment in capital assets and capacity rights	$232,841	$224,603	$221,744	$218,878	$218,116
Restricted	92,504	104,161	110,463	98,426	115,474
Unrestricted	(62,097)	(50,764)	(41,574)	(38,500)	(44,592)
Total governmental activities net position	$263,248	$278,000	$290,633	$278,804	$288,998
Business-type activities					
Net investment in capital assets and capacity rights	$95,300	$92,028	$92,576	$104,370	$107,707
Restricted	16,179	18,252	24,911	24,059	20,743
Unrestricted	16,652	23,603	14,172	17,851	20,577
Total business-type activities net position	$128,131	$133,883	$131,659	$146,280	$149,027
Primary government					
Net investment in capital assets and capacity rights	$328,141	$316,631	$314,320	$323,248	$325,823
Restricted	108,683	122,413	135,374	122,485	136,217
Unrestricted	(45,445)	(27,161)	(27,402)	(20,649)	(24,015)
Total primary government net position	$391,379	$411,883	$422,292	$425,084	$438,025

	Fiscal Year Ended June 30				
	2012	2013 (a)	2014	2015 (b)	2016
Governmental activities					
Net investment in capital assets and capacity rights	$219,034	$217,002	$291,704	$291,500	$298,321
Restricted	90,878	88,147	90,758	103,829	117,927
Unrestricted	53,417	64,876	51,315	(84,598)	(61,968)
Total governmental activities net position	$363,329	$370,025	$433,777	$310,731	$354,280
Business-type activities					
Net investment in capital assets and capacity rights	$109,146	$106,489	$107,816	$113,232	$118,588
Restricted	25,239	32,889	37,254	40,867	35,130
Unrestricted	19,838	19,799	20,880	11,586	15,261
Total business-type activities net position	$154,223	$159,177	$165,950	$165,685	$168,979
Primary government					
Net investment in capital assets and capacity rights	$328,180	$323,491	$399,520	$404,732	$416,909
Restricted	116,117	121,036	128,012	144,696	153,057
Unrestricted	73,255	84,675	72,195	(73,012)	(46,707)
Total primary government net position	$517,552	$529,202	$599,727	$476,416	$523,259

(a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term “net assets” with the term “net position”
(b) 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,			
	2007	2008	2009	2010
Expenses				
Governmental activities				
General Government	$16,297	$18,130	$18,184	$33,535 (a)
Building and Safety	2,334	2,626	2,401	1,972
Public Works	20,647	20,745	19,605	22,843
Engineering				
Planning and Neighborhood Services	2,396	3,239	3,249	2,874
Parks and Recreation	7,301	6,527	6,518	6,096
Police	21,452	22,440	22,514	22,771
Fire	14,329	15,411	15,260	14,748
Interest on Long Term Debt	9,419	11,534	9,402	9,570
Total governmental activities expenses	94,175	100,652	97,133	114,409
Business-type activities				
Water Utility	10,673	11,567	12,545	11,788
Recycled Water Utility	337	481	576	476
Sewer Utility	8,210	8,626	12,312	8,730
Total business-type activities expenses	19,220	20,674	25,433	20,994
Total primary government expenses	$113,395	$121,326	$122,566	$135,403
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	$662	$996	$956	$1,165
Building and Safety	5,029	4,194	2,897	2,031
Public Works	2,817	2,410	1,996	2,571
Engineering				
Planning and Neighborhood Services	436	459	358	182
Parks and Recreation	1,599	1,663	1,655	1,642
Police	1,406	1,351	1,425	1,091
Fire	1,109	1,144	1,108	1,137
Operating grants and contributions	4,600	4,617	4,920	3,892
Capital grants and contributions	16,056	15,242	9,801	8,840
Total government activities program revenues	33,714	32,076	25,116	22,551
Business-type activities				
Charges for services:				
Water Utility	14,523	14,937	13,873	14,051
Recycled Water Utility	1,203	1,323	1,288	1,260
Sewer Utility	9,833	10,041	9,849	10,393
Operating grants and contributions				79
Capital grants and contributions	2,418	956	471	6,406
Total business-type activities program revenue	27,977	27,257	25,481	32,189
Total primary government program revenues	$61,691	$59,333	$50,597	$54,740
Net (Expense)/Revenue				
Governmental activities	($60,461)	($68,576)	($72,017)	($91,858)
Business-type activities	8,757	6,583	48	11,195
Total primary government net expense	($51,704)	($61,993)	($71,969)	($80,663)

(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.

(g) Public Works and Engineering are separate departments beginning in fiscal year 2016.

2011	2012	2013 (c)	2014	2015	2016
$21,474 (a)	$17,418 (b)	$15,329	$21,074	$18,118	$18,614
1,984	2,029	2,293	2,684	2,617	2,513
16,777	21,787	17,700 (d)	18,664	17,509	12,761
					5,790 (g)
2,155	2,144	2,553	2,119	2,372	2,649
6,529	5,823	3,107 (d)	3,012	3,098	4,090
22,661	22,620	21,702	23,373	24,699	24,556
15,085	14,904	15,810	15,159	16,301	16,400
9,536	2,050	227	240	67	56
96,201	88,775	78,721	86,325	84,781	87,429
12,766	15,229	17,195	17,369	18,344	19,743
470	599	(e)	(e)	(e)	(e)
9,240	8,399	9,418	11,008	10,426	10,872
22,476	24,227	26,613	28,377	28,770	30,615
$118,677	$113,002	$105,334	$114,702	$113,551	$118,044
$1,071	$1,349	$1,700	$1,819	$1,063	$2,065
2,823	3,436	4,554	6,445	5,128	5,963
1,826	2,440	2,668	2,472	2,644	(g)
					2,863 (g)
139	237	301	432	700	747
1,662	1,833	1,987	1,958	2,060	1,981
1,263	1,134	1,051	1,091	1,151	1,138
1,210	1,292	1,508	2,120	1,885	2,440
4,869	6,146	7,487	6,195	6,201	7,320
5,704	8,294	8,286	15,483	14,711	35,195
20,567	26,161	29,542	38,015	35,543	59,712
15,201	16,773	19,801	21,354	21,136	18,709
1,300	1,447	(e)	(e)	(e)	(e)
11,406	12,445	12,632	12,753	14,453	15,964
70	43	111	57	127	63
163	1,629	1,975	1,402	710	1,103
28,140	32,337	34,519	35,566	36,426	35,839
$48,707	$58,498	$64,061	$73,581	$71,969	$95,551
($75,634)	($62,614)	($49,179)	($48,310)	($49,238)	($27,717)
5,664	8,110	7,906	7,189	7,656	5,224
($69,970)	($54,504)	($41,273)	($41,121)	($41,582)	($22,493)

(Continued)

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

	Fiscal Year Ended June 30,			
	2007	2008	2009	2010
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	$44,565	$49,061	$53,917	$58,012 (a)
Less: Educational Revenue Augmentation Fund payment				
Sales and use taxes	16,765	15,551	15,670	14,725
Hotel/Motel taxes	6,427	7,195	5,550	5,297
Other taxes	125	602	416	407
Franchise fees	2,912	2,968	3,151	2,993
Motor vehicle in lieu	357	296	237	209
Investment earnings	2,225	4,100	1,553	700
Gain on sale of capital assets/property	18,257	34	35	171
Miscellaneous	355	109	92	85
Redevelopment expense				
Transfers	2,638	3,411	4,029	(2,570)
Extraordinary item				
Special Item				
Total government activities	94,626	83,327	84,650	80,029
Business-type activities				
Investment earnings	1,714	2,580	1,756	857
Transfers	(2,638)	(3,411)	(4,029)	2,570
Total business-type activities	(924)	(831)	(2,273)	3,427
Total primary government	$93,702	$82,496	$82,377	$83,456
Change in net position				
Governmental activities	$34,165	$14,751	$12,633	($11,829)
Business-type activities	7,833	5,752	(2,225)	14,622
Total primary government	$41,998	$20,503	$10,408	$2,793

(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.

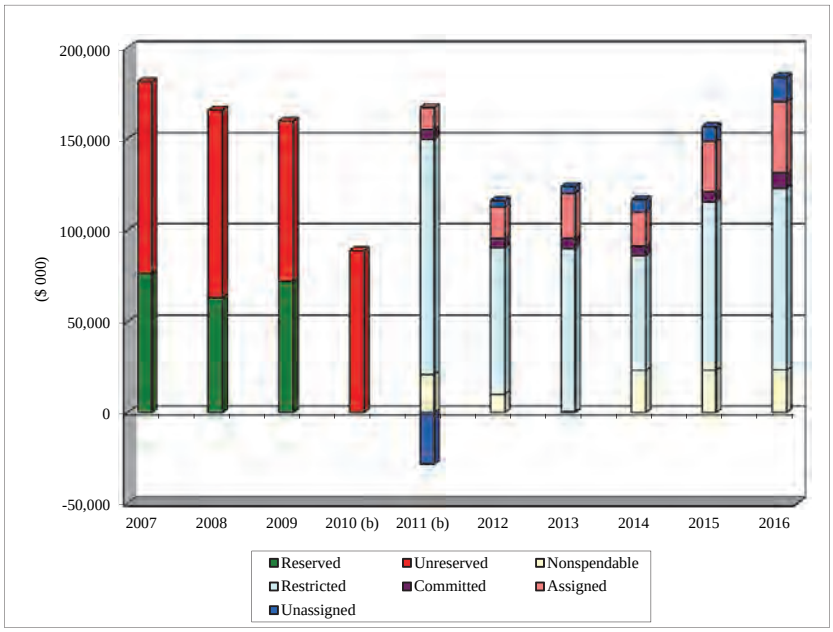
(f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

(g) Public Works and Engineering are separate departments beginning in fiscal year 2016.

2011	2012	2013 (c)	2014	2015	2016
$55,655 (a)	$34,029	$20,469	$27,607	$24,927	$27,068
16,429	18,758	20,196	19,014	18,779	23,924
6,124	7,068	7,933	9,336	10,917	11,757
380	491	516	672	664	822
3,083	3,218	3,270	3,453	3,659	3,841
323	35	37	31	29	29
399	1,093	260	844	379	913
		46			
62	67	103	200	333	287
3,374	3,304	3,045	3,402	1,627	2,625
	68,882 (b)				
			49,799 (f)	(f)	(f)
85,829	136,945	55,875	114,358	61,314	71,266
455	390	94	690	383	695
(3,374)	(3,304)	(3,045)	(3,402)	(1,627)	(2,625)
(2,919)	(2,914)	(2,951)	(2,712)	(1,244)	(1,930)
$82,910	$134,031	$52,924	$111,646	$60,070	$69,336
$10,195	$74,331	$6,696	$66,048	$12,076	$43,549
2,745	5,196	4,955	4,477	6,412	3,294
$12,940	$79,527	$11,651	$70,525	$18,488	$46,843

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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



	Fiscal Year Ended June 30,										
	2007	2008	2009	2010 (b)	2011 (b)	2012	2013	2014	2015	2016	
General Fund											
Reserved	$21,753	$21,749	$21,542								
Unreserved	26,716	29,359	29,293								
Nonspendable				$20,977	$20,970	$577	$468	$23,279	$23,265	$23,387	
Restricted					24,555						
Committed				5,433	5,433	5,433	5,433	5,433	5,433	8,440	
Assigned				9,465	9,698	13,904	10,434	6,658	7,013	9,052	
Unassigned				14,920	15,448	15,800	16,444	13,521	13,864	13,410	
Total General Fund	$48,469	$51,108	$50,835	$50,795	$76,104	$35,714	$32,779	$48,891	$49,575	$54,289	
All Other Governmental Funds											
Reserved	$54,763	$41,416	$50,608								
Unreserved, reported in:											
Special revenue funds	4,025	4,213	4,603								
Capital project funds	74,178	69,028	53,845								
Debt service funds											
Nonspendable				$115	$23	$9,788	$11	$32	$11	$13	
Restricted				96,873	104,290	80,112	89,821	62,661	92,347	99,701	
Assigned				2,196	2,127	2,892	14,244	11,808	20,806	29,956	
Unassigned				(10,219)	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)		
Total all other governmental funds	$132,966	$114,657	$109,056	$88,965	$62,816	$80,558	$91,121	$67,891	$107,232	$129,670	(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.

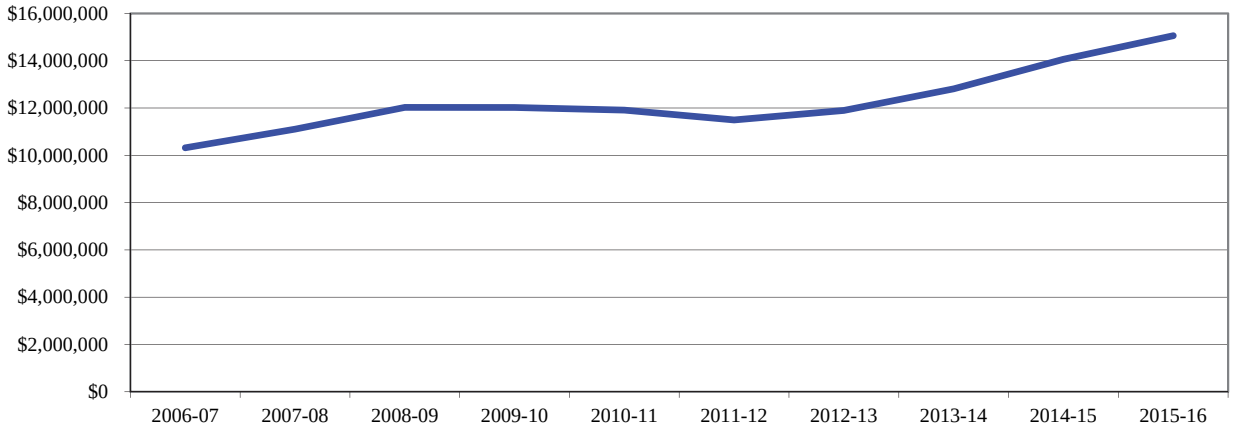
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenues					
Property taxes	$44,289	$49,060	$53,917	$58,012 (b)	$55,655 (b)
Less: Educational Revenue Augmentation Fund payment					
Sales taxes	17,383	16,173	16,251	15,268	16,994
Other taxes	10,508	11,636	9,937	9,495	10,917
Licenses and fines	6,958	5,991	4,619	3,481	4,309
Use of money and property	8,292	11,096	8,984	7,168	3,948
Intergovernmental	5,589	4,092	6,004	6,362	5,082
Charges for services	4,715	4,612	4,146	3,704	4,020
Developer contributions	1,217	2,884	2,558	4,739	3,360
Other	8,978	584	816	933	1,039
Total Revenues	107,929	106,128	107,232	109,162	105,324
Expenditures					
Current:					
General Government	34,136	15,079	17,834	20,602 (b)	19,003 (b)
Building and Safety	2,232	2,566	2,420	1,992	1,975
Human Resources and Recreation					
Recreation	6,486 (a)	6,513	6,416	6,052	5,688
Public Works	10,646 (a)	11,016	10,066	13,619	7,960
Engineering	(a)				
Planning and Neighborhood Services	2,329 (a)	2,528	2,576	2,180	2,267
Police	20,081	21,701	21,602	22,071	21,682
Fire	13,717	14,664	15,279	14,249	14,994
Supplemental educational revenue augmentation fund payment				11,774	2,424
Capital outlay	46,076	33,133	21,585	16,938	12,940
Debt service:					
Principal	8,508	8,490	8,481	8,169	8,225
Interest and fees	15,250	11,528	11,516	11,982	12,386
Total Expenditures	159,461	127,218	117,775	129,628	109,544
Excess (deficiency) of revenues over (under) expenditures	(51,532)	(21,090)	(10,543)	(20,466)	(4,220)
Other Financing Sources (Uses)					
Proceeds from debt issuance	20,455				
Payments to refunded debt escrow agent					
Proceeds from sale of properties		1,868	14	4	5
Loss from sale of property					
Transfers in	22,561	20,420	23,278	23,590	119,213
Transfers (out)	(19,924)	(16,869)	(18,624)	(23,259)	(115,839)
Total other financing sources (uses)	23,092	5,419	4,668	335	3,379
Extraordinary Items					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
Special Item					
Assets transferred to/from Successor Agency and County					
Net Change in fund balances	($28,440)	($15,671)	($5,875)	($20,131)	($841)
Debt service as a percentage of noncapital expenditures	26.5%	21.3%	20.8%	17.9%	18.5%

(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.
However starting in fiscal year 2016, the recreation was separated out from Human Resources as an individual 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.
(f) Human Resources is a component of General Government and Recreation is a separate department beginning in fiscal year 2016.

Fiscal Year Ended June 30				
2012	2013	2014	2015	2016
$34,029 (c)	$20,466	$27,608	$24,927	$27,068
19,403	20,908	19,766	19,572	24,719
12,230	13,343	14,992	17,505	18,737
4,956	5,875	8,193	6,971	8,051
5,303	1,538	2,964	2,032	3,037
4,834	5,842	5,216	5,482	6,104
4,725	5,550	5,735	6,449	7,196
7,549	7,987	13,975	11,614	29,410
578	715	1,144	205	113
93,607	82,224	99,593	94,757	124,435
12,753 (c)	11,871	13,204	12,814	13,771
2,060	2,278	2,658	2,706	2,885
	3,087 (d)	3,124	3,329	(f)
5,261	(d)	(d)	(d)	3,383 (f)
8,772	9,124	8,535	9,199	6,020
				3,257
2,196	2,030	2,202	2,570	2,805
21,733	20,978	22,165	24,193	26,124
14,562	15,420	14,587	15,605	17,470
28,876	7,510	10,035	14,376	24,811
13,153	4,209	3,828	6,000	
6,823	668	223	61	54
116,189	77,175	80,561	90,853	100,580
(22,582)	5,049	19,032	3,904	23,855
21,780				
	46			
8		6	4	160
	(512)			
34,994	13,780	7,499	25,558	23,001
(31,690)	(10,735)	(4,098)	(19,305)	(19,864)
25,092	2,579	3,407	6,257	3,297
17,274 (c)				
(42,431) (c)				
		(27,261) (e)		
($22,647)	$7,628	$22,439	$10,161	$27,152
22.9%	7.0%	5.7%	7.5%	0.1%

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



Fiscal Year	Real Property: Residential Property	Real Property: Commercial Property	Real Property: Industrial Property	Real Property: Other	Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
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%
2015-16	8,629,667	1,445,665	2,788,984	583,379	1,844,591	(233,528)	15,058,758	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)

	City Direct Rates		Overlapping Rates (a)		
Fiscal Year	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
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
2015-16	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 2015-16 and 2006-07

	2015-2016			2006-2007		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Technology Inc.	$901,953,758	1	5.99%	$231,488,905	2	2.24%
KLA Tencor Corporation	379,480,551	2	2.52%	175,283,107	4	1.70%
Milpitas Mills LP	310,981,136	3	2.07%	287,214,589	1	2.78%
Sandbox Expansion LLC	191,556,360	4	1.27%			
California Diversified LLC	163,399,376	5	1.09%			
Essex Portfolio LP	149,865,177	6	1.00%			
Hudson Campus Center LLC	124,123,113	7	0.82%			
Linear Technology Corporation	117,010,507	8	0.78%	91,971,452	6	0.89%
Regency Tasman Holdings LLC	115,775,000	9	0.77%			
Headway Technologies Inc.	114,487,120	10	0.76%	129,846,681	5	1.26%
Richard T. Peery Trustee				182,133,926	3	1.76%
Seagate Technology				91,664,176	7	0.89%
Lifescan Inc.				89,966,518	8	0.87%
Trinet Milpitas Associates				84,876,974	9	0.82%
Magic Technology Inc				82,088,174	10	0.80%
Subtotal	$2,568,632,098		17.06%	$1,446,534,502		14.02%

Fiscal Year 2015-2016 Total Net Assessed Valuation	$15,058,758,945
Fiscal Year 2006-2007 Total Net Assessed Valuation	$10,319,333,406

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2015/16 Combined Tax Rolls

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

Fiscal Year		Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
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%
2015-16		27,068	27,068	100.00%	0	27,068	100.00%

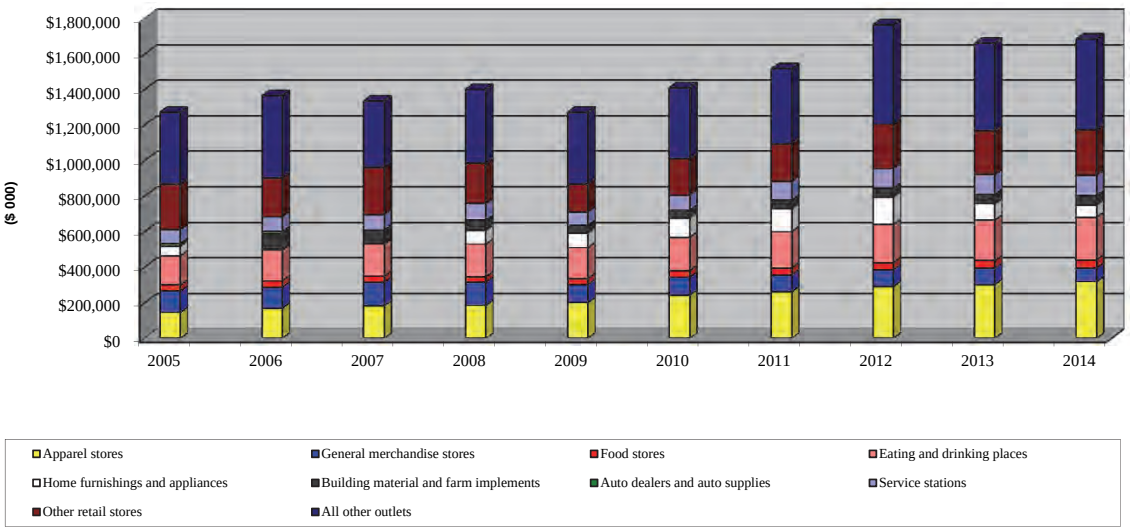
(a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

(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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Apparel stores	$145,317	$168,985	$181,878	$185,023	$200,140	$241,992	$261,414	$291,268	$302,168	$317,680
General merchandise stores	120,297	118,348	131,594	130,193	101,561	100,790	94,828	92,652	91,224	75,862
Food stores	33,592	34,979	34,362	31,105	34,453	38,004	39,344	40,725	43,238	46,833
Eating and drinking places	164,694	173,424	181,668	183,049	174,016	187,002	203,411	214,065	227,952	240,470
Home furnishings and appliances	54,906	(a)	(a)	77,669	80,746	108,491	130,572	155,616	91,325	66,160
Building material and farm implements	(a)	91,571	79,360	57,594	44,818	45,501	48,131	51,128	54,486	55,746
Auto dealers and auto supplies	15,132	12,221	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Service stations	76,455	82,868	85,468	93,324	73,280	83,100	102,231	108,073	109,326	114,791
Other retail stores	255,805	220,862	266,915	225,954	158,982	204,074	215,350	250,826	246,769	253,155
All other outlets	405,111	460,265	373,394	417,099	402,516	401,569	420,024	558,935	491,929	511,564
Total	$1,271,309	$1,363,523	$1,334,639	$1,401,010	$1,270,512	$1,410,523	$1,515,305	$1,763,288	$1,658,417	$1,682,261
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 2015 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	
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	(c)	6.50	(d)
2013-14	1.00	1.25		6.50	
2014-15	1.00	1.25		6.50	
2015-16	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 2015 and 2005
IN ALPHABETICAL ORDER

2015	2005
Best Buy Stores	Best Buy Stores
Burlington Coat Factory	Burlington Coat Factory
Calvin Klein	Chevron Service Stations
Chevron Service Stations	Chili's Grill & Bar
Cisco System Inc.	Contract Office Group
Coach Stores	Credence System Corp.
Consolidated Electrical Distributors	Dave & Buster's
Dave & Busters	Force 10 Networks
Eplus Technology	Hanson Concrete Products
Flextronics	Headway Technologies
Home Depot	Home Depot
Hoya	KLA Tencor Corporation
KLA Tencor Corporation	Magic Technologies
Kohl's Department Stores	Marshall's Stores
Marshall's Stores	Maxtor Corporation
Mazak	McDonald's Restaurant
Michael Kors Stores	Mervyn's Department Stores
Milpitas Materials Company	Milpitas Materials Company
Nike Factory Store	Nike Factory Store
Piercey Toyota & Scion	One Workplace L. Ferrari
Safeway Stores	Orchard Supply Hardware
Shell Service Stations	Rackable Systems
South Bay Honda	Saks Fifth Avenue
Wal-Mart Stores	Sportmart
	WalMart Stores

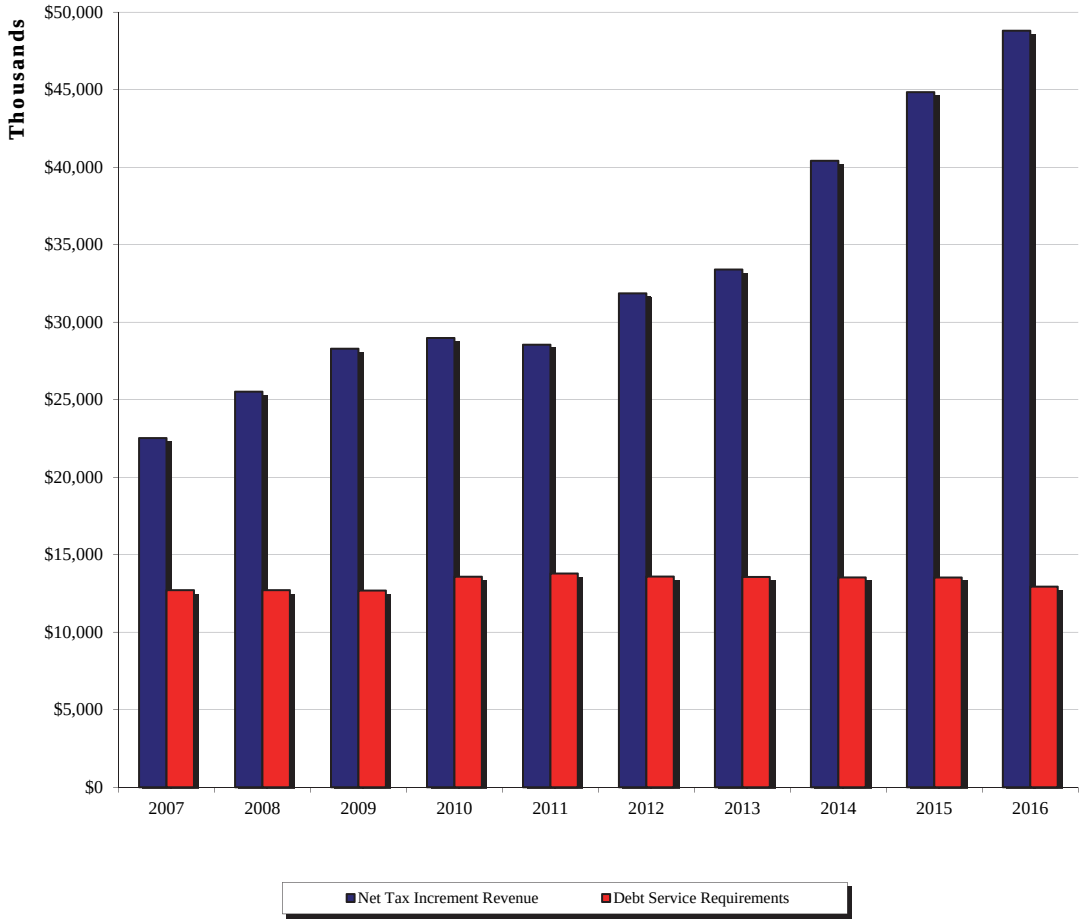
Source: MBIA MuniServices Company

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

	Governmental Activities					Business-type Activities			
Fiscal Year	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
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	0.00%	96
2015-16	0	0	0	0	94	6,055	6,149	(c)	81

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 2015-16 not available until May of 2017.

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



Fiscal Year	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements Principal	Interest	Total	Coverage
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
2016	48,810,216 (d)	0 (b)	48,810,216	7,375,000 (d)	5,567,028 (d)	12,942,028	3.77

(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, 2016

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2015-16 Assessed Valuation, Direct and Overlapping Debt		$15,058,758,945
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Santa Clara County	3.937%	$30,760,224
San Jose- Evergreen Community College District	12.044%	55,613,295
Milpitas Unified School District	99.002%	109,951,298
East Side Union High School District	0.322%	2,301,020
Berryessa Union School District	2.111%	1,244,552
Santa Clara Valley Water District Benefits Assessment District	3.937%	3,844,519
City of Milpitas 1915 Act Bonds	100%	4,590,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		208,304,908
DIRECT AND OVERLAPPING GENERAL FUND DEBT		
Santa Clara County General Fund Obligations	3.937%	26,517,946
Santa Clara County Pension Obligations	3.937%	14,247,863
Santa Clara County Board of Education Certificates of Participation	3.937%	247,608
San Jose- Evergreen Community College District OPEB Bonds	12.044%	5,757,583
East Side Union High School District OPEB Bonds	32.200%	93,160
Berryessa Union School District Certificates of Participation	2.111%	115,745
City of Milpitas	**100%**	**0**
Santa Clara County Vector District Certifications of Participations	3.937%	112,161
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		47,092,066
Less: Santa Clara County supported obligations		(14,208,558)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$32,883,508
OVERLAPPING TAX INCREMENT DEBT (Successor Agency)	100%	$120,415,000
TOTAL DIRECT DEBT		**$0**
TOTAL GROSS OVERLAPPING DEBT		$375,811,974
TOTAL NET OVERLAPPING DEBT		$361,603,416
GROSS COMBINED TOTAL DEBT		$375,811,974 (2)
NET COMBINED TOTAL DEBT		$361,603,416

(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 2015-16 Assessed Valuation:	
Total Overlapping Tax and Assessment Debt	1.38%
Ratios to Assessed Valuation:	
Direct Debt %	0.00%
Total Gross Debt %	2.50%

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 2015-16

Assessed value (net) - June 30, 2016		$15,058,758
Debt limit: 3.75% of assessed value (a)		$564,703
Debt applicable to limit		
Total Bonded Debt	$0	
Less: Tax Allocation Bonds not subject to limit	0	
Amount of Debt subject to limit		0
Legal debt margin		$564,703

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
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	527,280	0	527,280	0.0%
2015-16	564,703	0	564,703	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 NINE 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
2015-16	16,408,718	7,687,848	8,720,870	435,000	249,248	684,248	12.75

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

	Residential			Commercial	
Fiscal Year	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
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
2015-16	90.27	69.32	56.97	14.97	3.94 - 8.34

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
(Personal Income in Thousands)

Calendar Year	Population	Population Density (Sq. Mile)	Total Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate (%)	Land Area (Sq. Mile)
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
2015	75,521	5,529	2,374,221	31,437	10,291	3.90%	13.66

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

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2015-16 and 2006-2007

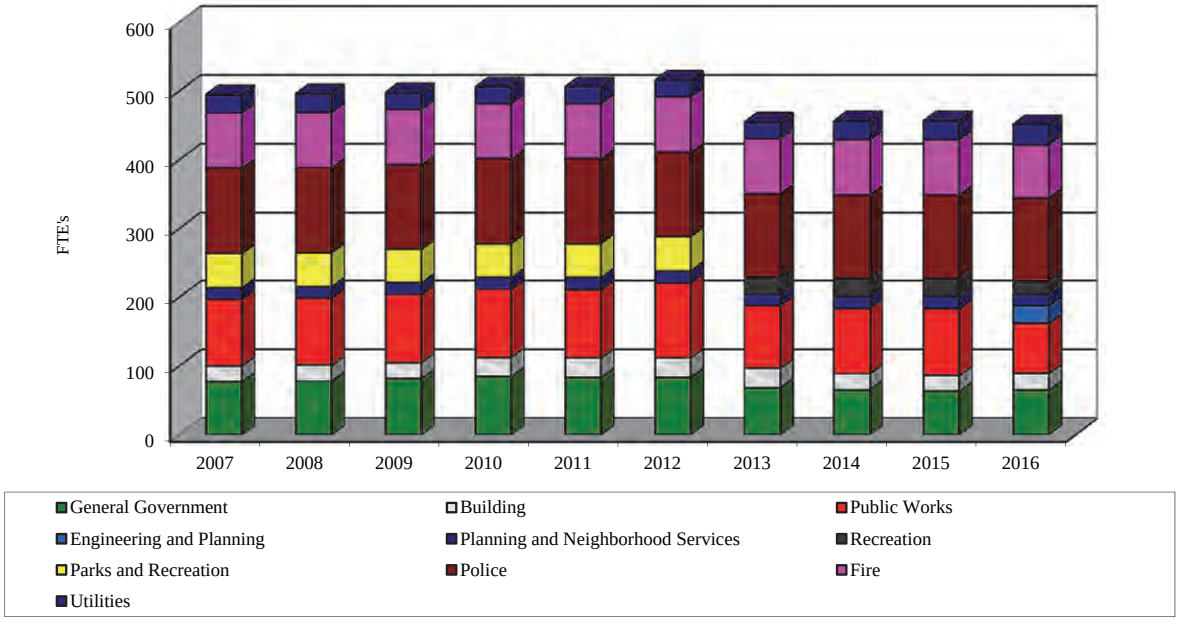
	2015-16			2006-2007		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,816	1	9.81%	3,710	1	4.54%
KLA-Tencor Corporation	1,922	2	4.94%	1,000	8	1.22%
San Disk Corporation	1,876	3	4.82%	1,200	6	1.47%
Flextronics International	1,400	4	3.60%	1,300	5	1.59%
Linear Technology Corporation	1,200	5	3.08%	1,000	9	1.22%
Milpitas Unified School District	900	6	2.31%	864	10	1.06%
FireEye, Inc.	778	7	2.00%			
Headway Technologies	600	8	1.54%			
Kaiser Permanente	375	9	0.96%			
Wal-Mart	350	10	0.90%			
Great Mall				3,180	2	3.89%
Lifescan, Inc.				2,500	3	3.06%
LSI Logic Corporation				1,320	4	1.62%
Seagate Technology				1,100	7	1.35%
Subtotal	13,217		33.98%	17,174		21.03%
Total Labor Force			38,900			81,646

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS

AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Function										
General Government	77.0	78.0	82.0	84.5	83.5	83.5	68.5	65.5	63.0	64.8
Building and Safety	23.0	23.0	23.0	28.0	28.0	28.0	28.0	23.0	23.0	24.0
Public Works	97.0 (a)	98.0	99.0	99.0	99.0	109.0	91.0	94.5	97.0	73.0
Engineering										26.0 (c)
Planning and Neighborhood Services	16.5 (a)	16.5	17.0	17.0	18.0	18.0	16.5	18.5	18.5	17.0 (c)
Recreation	(a)						25.5 (b)	25.5	25.5	18.0
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	94.5	94.5	94.5	94.0	91.5	92.0	92.0	92.0
Civilians	30.5	30.5	29.0	29.0	29.0	29.0	29.5	30.0	30.0	30.0
Fire:										
Officers	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	68.0	66.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	12.0	11.0
Utilities	27.0	27.0	25.0	24.5	24.5	24.5	24.0	27.5	27.5	29.5
Total	495.0	496.0	498.0	506.0	506.0	515.5	454.5	456.5	456.5	451.3

(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.
(c) Beginning in fiscal year 2016, Public Works and Engineering are separate departments.

Source: City of Milpitas, final budget

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Function/Program					
Building and Safety					
Building permits issued	3,500	3,500	3,500	2,700	2,800
Plan checked performed	1,000	1,000	1,000	800	800
Public Works					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,208	3,500	3,924	3,900	3,000
Development projects reviewed	190	150	100	118	225
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	1,470	1,100	1,250	980	800
Applications to Planning Commission	165	150	112	84	45
Parks and Recreation					
Sports Center members	7,885	8,278	8,500	10,000	1,200
Senior nutrition meals served	20,667	21,165	23,228	24,056	23,076
Athletic Field maintenance (hours)	1,947	1,946	2,242	2,100	1,641
Police					
Avg response time to emergency calls (minutes)	3:06	3:06	2:46	2:47	2:49
Number of anti-terrorist patrol checks	12,300	3,500	3,500	1,469	1,469
Crime prevention presentations	190	240	275	266	281
Number of vehicle citations issued	10,624	12,386	11,558	11,391	8,544
DARE presentations: schools/students	14/1572	14/1492	13/1440	12/850	11/845
Fire					
Emergency calls for service	4,000	4,368	4,300	4,400	4,400
Public education events	65	80	70	90	80
Permits Inspections	4,300	5,400	4,000	4,000	4,000
Plan Review	1,000	750	995	1,000	900
Utility					
Clean sewer lines (feet)	500,000	500,000	500,000	500,000	550,000
Repair, replace or set water meters	600	580	700	500	380
Average daily consumption (thousands of gallons)	9,693	9,693	8,870	9,200	8,100

Source: City of Milpitas, final budget

Fiscal Year				
2012	2013	2014	2015	2016
2,800	3,400	4,300	4,300	4,200
800	1,100	1,500	1,400	1,500
139	139	139	139	139
3,350	3,500	2,880	2,800	2,794
200	200	205	190	178
725	725	725	755	755
96	106	159	236	92
1,400	1,600	1,450	1,504	1,600
23,304	22,090	20,656	21,231	20,158
n/a	n/a	n/a	n/a	n/a
2:42	2:32	2:33	2:32	2:40
1,693	1,996	2,550	2,300	2,400
235	201	200	200	125
6,901	4,120	3,516	3,600	5,900
12/770	0	0	0	0
4,075	4,356	4,356	4,950	5,000
120	45	45	80	100
4,334	4,510	4,510	4,666	7,600
671	807	807	983	1,200
500,000	329,313	640,255	500,000	500,000
491	149	298	279	189
8,200	9,340	9,300	9,300	7,800

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Function/Program					
Public Works					
Miles of streets	139	139	138	139	139
Street lights	4,354	4,435	4,460	4,496	4,496
Square feet of buildings maintained (in thousands)	350	350	350	350	427
City vehicles	635	630	617	622	622
Signs	7,400	8,000	8,131	8,363	8,363
Signal lights	68	68	71	71	71
City Parks	29	32	32	29	31
Acres of Parkland	172	172	179	179	178
Playgrounds	30	29	37	33	33
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	4	4	3	4	4
Tennis courts	22	22	24	20	17
Football field	1	1	1	1	1
Baseball fields	21	21	21	15	15
Soccer fields	13	13	13	5	2
Basketball courts	5	5	6	5	5
Volleyball courts	7	7	7	5	4
Handball courts	4	4	4	1	1
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	28	27	28	28	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	16	14	14	13	15
Fire hydrants	1,756	1,809	1,756	1,840	1,840
Utility					
Miles of water mains	204	206	204	213	213
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	173	177	173	178	178
Miles of storm drain	105	107	106	110	110
Miles of recycled water main	11	11	11	3	3

Source: City of Milpitas, final budget

Fiscal Year				
2012	2013	2014	2015	2016
287	287	287	298	298
4,500	4,500	4,500	4,577	4,577
376	376	376	376	376
247	242	252	260	264
8,534	8,534	5,500	5,700	5,700
72	72	72	70	71
31	33	34	34	33
179	179	180	180	180
33	24	25	34	34
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
20	20	20	21	21
1	1	1	1	1
12	8	8	9	9
3	9	9	12	14
4	8	8	7	9
5	4	9	7	10
1	5	5	2	2
2	2	2	2	2
27	27	29	28	34
4	4	4	4	4
13	22	19	19	13
1,840	1,840	1,847	2,033	2,033
213	213	214	213	203
16	16	16	16	16
179	179	179	179	173
110	110	110	110	99
4	4	4	23	23

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

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CITY OF MILPITAS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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CITY OF MILPITAS

SINGLE AUDIT REPORT
For The Year Ended June 30, 2016

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CITY OF MILPITAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2016

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP: 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 2 CFR 200.516(a)? ____ Yes X No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

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

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 21, 2016 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

Our audit did not disclose any findings or questioned costs required to be reported in accordance with Uniform Guidance.

CITY OF MILPITAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development **Direct** Program:				
Community Development Block Grant/Entitlement Grants	14.218			
Loan Expenditures				$21,290
Program Expenditures				89,028
Subgrants			$324,792	324,792
Loan program cash balance at end of year				49,922
Total Department of Housing and Urban Development			324,792	485,032
U.S. Department of Transportation **Pass-Through** Programs From:				
State of California Department of Transportation				
Highway Planning and Construction				
2014 Road Rehabilitation	20.205	STPL-5314(010)		1,652,000
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	AL1553		1,752
Avoid the 13th Under the Influence Campaign	20.608	AL1630		3,984
Program Subtotal				5,736
Total Department of Transportation				1,657,736
U.S. Department of Homeland Security				
Direct Programs:				
Assistance to Firefights - Fire Prevention and Safety Grant	97.004			48,713
National Urban Search and Rescue (US&R) Response System	97.025			1,651
Pass-Through Program From:				
County of Santa Clara Office of Emergency Services				
Homeland Security Grant Program	97.067	FIPS#085-00000,Grant#2015-00078		5,709
Total Department of Homeland Security				56,073
U.S. Department of Health and Human Services **Pass-Through** Programs From:				
County of Santa Clara Public Health Department				
Center for Chronic Disease & Injury Prevention				
Partnerships to Improve Community Health	93.331	1U58DP1005764		9,934
County of Santa Clara Social Services Agency				
Department of Aging and Adult Services				
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	AP-1516-10		12,101
Nutrition Services Incentive Program	93.053	AP-1516-10		7,153
Total Department of Health and Human Services				29,188
Total Expenditures of Federal Awards			$324,792	$2,228,029

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF MILPITAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

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, except for federal awards of the Terrace Gardens, Inc. Federal awards expended by the Terrace Gardens, Inc., if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the full accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3 – INDIRECT COST ELECTION

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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MAZE & ASSOCIATES

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

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, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the Terrace Gardens, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

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 21, 2016 which is an integral part of our audits and should be read in conjunction with this report.

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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 or other matters 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 21, 2016 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.

Maze & Associates

Pleasant Hill, California
October 21, 2016

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 THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Milpitas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the basic financial statements of the City as of and for the year ended June 30, 2016. We issued our report thereon dated October 21, 2016 which contained unmodified opinions 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 the Uniform Guidance 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.

Maze & Associates

Pleasant Hill, California
October 21, 2016

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MAZE & ASSOCIATES

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES FOR COMPLIANCE WITH THE PROPOSITION 111 2015-2016 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, 2016. These procedures, which were suggested by the League of California Cities and presented in their Article XIIIB Appropriations Limitation Uniform Guidelines were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIIIB 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 (Attachment No. 1 to the Resolution) and determined that the 2015-2016 Appropriations Limit of $86,130,096 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 2015-2016 Appropriations Limit by multiplying the 2014-2015 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.

Maze & Associates

Pleasant Hill, California
May 19, 2016

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CITY OF MILPITAS

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2016

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CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2016

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MAZE & ASSOCIATES

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, 2016, and have issued our report thereon dated October 21, 2016. 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

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.

Maze & Associates

Pleasant Hill, California
October 21, 2016

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SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016-01 Personnel Action Form Documentation

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 2, 2016, we noted that the PAFs for the three Milpitas Employee Association (MEA) employees tested did not agree to the pay rates in the payroll register. However, the pay rates in the payroll register did agree to the MOU in effect for that pay period.

Human Resource staff indicated that the pay rates in the system were updated at the same time from the new MOU and an automated process used to create the PAFs for all MEA employees erroneously extracted data from the MOU effective February 2015, rather than the updated MOU effective June 2015. The PAFs were filed in the employees' personnel files without being reviewed for accuracy. However, we understand the City's policy is to update pay rates in the payroll system ***after*** PAFs have been reviewed and approved.

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. In addition, it may lead to further errors when the next negotiated MOU increase for MEA employees takes effect in July 2016.

The City should ensure that the PAFs for all MEA employees are corrected as soon as possible. And, City staff should ensure future PAFs generated by large-scale MOU changes are updated accurately and subject to the same review and approval process for other changes in pay rates throughout the fiscal year.

> ***Management's Response:***
> The Human Resources Department (HR) prepares special Personnel Action Forms (PAFs) for any automatically generated (via file export) pay increases, such as increases due to negotiated Memorandum of Understanding (MOU). HR has taken immediate corrective process action and replaced the February 2015 Special PAFs for all members of MEA to accurately reflect the changes that were made in the system at the time. The incorrect PAFs have been shredded. Going forward, the HR department will ensure that all special PAFs are reviewed for accuracy. In this discussion, it is key to note that all employee pay rates were properly recorded in the finance/payroll system resulting in no employee paycheck inaccuracies.

2016-02 Charging Permit Fees in Accordance with Master Fee Schedule

Charges assessed to the City's customers should be consistent with the City's Master Fee Schedule.

During our testing of 25 receipts for mathematical accuracy and supporting documentation, we noted two receipts contained charges that were not in agreement with the Master Fee Schedule, which indicates a 2.5% Permit Automation Fee and a 5% Community Planning Fee (per unit) are to be assessed for Residential and Commercial building permits. The two building permits tested were not assessed the Permit Automation Fee or Community Planning Fee.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016-02 **Charging Permit Fees in Accordance with Master Fee Schedule (Continued)**

Based on our calculations, the permits were undercharged as follows:

Surcharge Type	Rate	Fees Recalculated	Fees Collected	Variance
Permitting Automation Fee	2.5%	$539.33	$460.59	($78.74)
Community Planning Fee	5%	937.25	779.77	(157.48)
Total		$1,476.58	$1,240.36	($236.22)

Building and Safety staff indicated that a computer error did not take the entire permit fee into account when applying the fee percentages caused the miscalculation of the fees.

Although the individual miscalculations are not significant, City staff should review procedures to determine if there are other permits that were not charged correctly and whether it is a system error or a user error. The City should ensure that all fee calculations are reviewed by a second person for accuracy and compliance with the applicable Master Fee Schedule, and in the event the fees charged are different from the Master Fee Schedule, documentation for the cause of the difference should be retained. In addition, fee schedules in the system should be reviewed and tested in detail at least annually, and of course each time there is a fee change, to ensure accuracy of the fee schedule and in the system's calculation.

After we brought this issue to the attention of City staff, they determined that during fiscal year 2016 six permits did not include the permit automation and community planning fees and the total amount of total amount of fees that should have been charged was $1,720.

Management's Response:
Invoices generated by Permit Center staff are randomly checked for accuracy by permit department staff. That process will be emphasized and expanded going forward to include evidence of supervisory review on a random and consistent basis. Furthermore, the City will investigate taking advantage of existing permit software capabilities to evaluate if application verifications, variance reports and controls can be set into place.

SCHEDULE OF OTHER MATTERS

2016-03 Purchasing Policy Conflicts

Provisions of the City's purchasing policies and contract authority limitations should not conflict with one another.

In June 2015, the City amended Municipal Code Section I-4-2.01 to modify the City Manager's contract authority and allow him to enter into and execute certain contracts up to $100,000 without the prior approval of the City Council. However, section I-2-3.03 of the Municipal Code requires that purchases of supplies and services of $20,000 or more use formal sealed bid procedures and be approved by City Council.

Conflicts in the Purchasing and Contract Authority sections of the Municipal Code could result in contract approvals being in compliance with one section while out of compliance with the other.

It appears that the Contract Authority of the City Manager section was added to the Municipal Code without reviewing whether the dollar threshold limits were in conflict with the other purchasing requirements and thresholds of the Municipal Code.

The City should revise or amend the Municipal Code to eliminate the conflicts between Sections I-4-2.01 and I-2-3.03 . In addition, the City should review both the Purchasing and Contract Authority sections of the Municipal Code to ensure there are no other conflicts between the various authorization thresholds that need to be resolved.

> ***Management's Response:***
> Staff has identified this as a matter of "clean-up" as they have embarked this year in a process of "Standard Operating Procedure" (SOP) updates and reviews. This process started in earnest in 15-16 and continues into 16-17. Accordingly, staff will act to update the municipal code as indicated above. The updating of overall purchasing procedures has begun. Finance staff continues to keep a diligent eye on and a close review of the appropriate signature approval levels as invoices and contracts are received from departments.

2016-04 Clarification and Consistency of City Departments

The City's operations encompass various departments and divisions. The departments should be consistent in all publications and documents of the City, including the Municipal Code, annual budget, general ledger and financial statements.

In June 2015, the City amended Municipal Code Section VI-3-1.00, Establishment of Departments of City. When reviewing the annual budget for this change, we noted that the budget includes separate departments for Human Resources and Recreation, but Recreation is not listed as a department in Municipal Code Section VI-3-1.00.

When a City function is reported as a department in one authoritative document and a division in another, reports to City Council and other third parties may be confusing.

SCHEDULE OF OTHER MATTERS

2016-04 Clarification and Consistency of City Departments (Continued)

Over the years, there have been a number of reorganizations of departments, in which certain departments were revised to be divisions of other departments and vice versa, including Recreation being a division under the Human Resources Department, which may have contributed to the inconsistencies between the documents.

The City should determine the organizational structure of the departments and divisions and ensure that the information is consistent throughout the Municipal Code, annual budget, general ledger and annual financial statements.

Management's Response:
In line with the preceding comment, staff has identified this as a matter of "clean-up" as they have embarked this year in a process of "Standard Operating Procedure" (SOP) updates and reviews. This process started in earnest in 15-16 and continues into 16-17. It is key to note that department designations are in-line with the annual budget as adopted by Resolution at City Council. Nonetheless, the municipal code clarification is necessary and will be realized in 2016-17.

2016-05 Information Systems Best Practices

We conducted an Information Systems Review with our audit which encompassed the City's financial information system and the network environment that houses it. We expanded our work in previous years beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever increasing sophistication of hackers and criminals.

Currently, there are no Information Systems standards to which local governments are required to conform. Indeed there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. A voluntary risk-based Cybersecurity Framework has been developed by the National Institute of Standards and Technology (NIST) per Presidential Executive Order 13636 (12 FEB 2013). The *Framework for Improving Critical Infrastructure Cybersecurity* version 1.0 (12 FEB 2014) offers a number of appropriate standards. Our Information Systems auditors have reviewed the voluntary framework and concluded that the risk management framework developed by NIST for the Federal Information Security Management Act (FISMA) is the most appropriate for local governments[1]. The NIST risk management framework represents the minimum security requirements for federal government agencies and recommends these controls for private industry and state and local governments.

[1] "State, local, and tribal governments, as well as private sector organizations are encouraged to consider using these guidelines, as appropriate." NIST SP 800-37 Rev 1 pg 11

SCHEDULE OF OTHER MATTERS

2016-05 Information Systems Best Practices (Continued)

While the results of our work did not indicate material weaknesses, we noted a few areas which could be improved. A summary of these recommendations which we believe are "best practices" are as follows:

Payment Card Industry Compliance
The City is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the City accepts credit cards as a form of payment, the City must be compliant with the applicable controls.

Business Continuity Planning with Regards to Information Technology
The City does not have a formal written information technology business continuity policy. As organizations rely more and more on information technology and electronic data storage for an increasingly wider scope of processes, it becomes more and more important to develop a plan to make those resources available during and after some form of disaster. A formal disaster recovery business continuity policy serves to show management's intent and due diligence for the continuity of operations. A disaster recovery policy or contingency plan should address what to do in case of a disaster and how to prepare for a disaster that cripples or closes the computer center such as a fire, flood, natural or manmade disaster. The City should consider developing and implementing an IT contingency plan which would include procedures for periodic information backup and offsite storage, along with an alternative processing site that would allow the City to continue to operate in the event of a disaster.[2]

Management's Response:
Payment Card Industry Compliance – The City obtained a PCI DSS Certificate of Compliance as soon as the matter was brought to City staff's attention. In the future, the City will complete the compliance requirements on an annual basis.

Business Continuity Planning with Regards to Information Technology – The City will work on developing a formal written information technology business continuity policy for fiscal year 2016-2017.

[2] For more information see "Contingency Planning Guide for Information Technology Systems" NIST SP 800-34.

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

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

EFFECTIVE FISCAL 2016/17:

GASB 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***

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

SCHEDULE OF OTHER MATTERS

GASB 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

SCHEDULE OF OTHER MATTERS

GASB 77 - *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended.*

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2017/18:

GASB 75 – ***Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

SCHEDULE OF OTHER MATTERS

GASB 81 – *Irrevocable Split-Interest Agreements*

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

How the Changes in This Statement Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

STATUS OF PRIOR YEAR 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.

> ***Current Status:***
> A letter was issued in July 2015 to correct the Work out of Class Pay in the IAFF Memorandum of Understanding.
>
> 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.

STATUS OF PRIOR YEAR 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.

Current Status:
The City has activated the logging report in the financial system and tested the log to ensure the log is keeping track of the changes in the vendor database. However, the log is not working properly. The City will continuously work with our financial system to fix this issue. Once it is working, we will also develop a procedure to periodically review the logging report.

STATUS OF PRIOR YEAR 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.

Update For June 30, 2016:
We reviewed the bank reconciliations for November 2015 and January 2016 and noted the following:

- Worker's Compensation bank reconciliations had no indication of when they were prepared or reviewed and no indication of who prepared them.
- General Checking and Payroll bank reconciliations had no indication of when they were prepared or reviewed.
- Successor Agency bank reconciliation (November only) had no indication of when it was reviewed.

We reviewed the bank reconciliations for June 2016 and noted that they included documentation of the preparer and the date of the review, but the General Checking bank reconciliation was not reviewed until September 8, 2016, which is not within the usual 30-45 days of month end.

Although the bank reconciliations tested were reviewed and approved, the City should include the date on which the reconciliations were prepared and reviewed to provide evidence they were prepared and reviewed in a timely manner, and ensure they are prepared and reviewed timely throughout the fiscal year.

Current Status:
The City has developed a procedure to ensure the bank reconciliation will be reviewed in a timely manner. Prepared date and reviewed date are now documented on the bank reconciliations.

STATUS OF PRIOR YEAR OTHER MATTERS

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.

Current Status:
Implemented - The City developed a procedure to ensure all employees including temporary employees that are receiving a pay rate increase have the proper documentation in their folder.

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.

Current Status:
The Assistant Finance Director (formerly Accounting Manager) needs to have Super User Rights to troubleshoot the system issues. In order to mitigate the potential internal control issues, log and reconciliation process will be reviewed by another Finance staff on a timely basis.

STATUS OF PRIOR YEAR OTHER MATTERS

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.

Current Status:
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.

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.

Current Status:
The City is working on developing a log of signatures for bank and investment accounts. The City is also developing a procedure to review this log when the employee leaves the City.

STATUS OF PRIOR YEAR OTHER MATTERS

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.

Current Status:
Implemented - The City will continuously monitor this account monthly to withdraw amounts above the FDIC insured limit.

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.

Current Status:
Implemented - All information has been included in the investment report.

STATUS OF PRIOR YEAR OTHER MATTERS

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.

> ***Current Status:***
> Implemented - The City Clerk's office will continuously document the efforts made to seek compliance with each filer.

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.

STATUS OF PRIOR YEAR
OTHER MATTERS

Single Audit - *Uniform Guidance (Continued)*

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.

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.

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, 2016. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2015, which represent 1.46%, 1.91%, and 1.09% 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 *Uniform Guidance*.

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. 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.

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.

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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).

The pronouncement became effective and affected the notes to the financial statements, but did not have a material effect on the financial statements. See Notes I and 3 to the financial statements for current year disclosures.

GASB Statement No. 82 – ***Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73***

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The pronouncement is effective in fiscal year 2017, but management early-implemented the provisions of the statement in fiscal year 2016 as disclosed in the Pension-Related Required Supplementary Information Schedules.

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

GASB Statement No. 76 - ***The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

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 non-authoritative 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 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.

GASB Statement No. 79 – ***Certain External Investment Pools and Pool Participants***

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

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, 2016, the City held approximately $209.8 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, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.

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 Net OPEB Liability: Management's estimate of the net OPEB liability is disclosed in Note 12 to the financial statements and is based on actuarial study determined by a consultant, which is 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, except for the entry to offset the Transit Area Impact Fee's long-term receivables with unavailable revenue and to post the City's post-closing adjustments to record the GASB Statement 68-related activity and the transfer from the General Fund to the General Government Project Capital Projects Fund.

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 21, 2016.

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.

We were not engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. Such information has 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.

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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.

Maze & Associates

Pleasant Hill, California
October 21, 2016