



# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

## Celebrating Milpitas



Halloween, The Enchanted Forest



Summer Concert



Veterans Day Ceremony



Red, White, & Boom Concert & Fireworks Show

**City of Milpitas**  
CALIFORNIA



**CITY OF MILPITAS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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



**CITY OF MILPITAS**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2011**

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# CITY OF MILPITAS

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

November 1, 2011

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, 2011. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

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

## THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Redevelopment Agency (the Agency), the Milpitas Economic Development Corporation (the EDC), the Milpitas Housing Authority (the Housing Authority) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. In accordance with the criteria of the Government Accounting Standards Board Statement 14, the basic financial statements include the financial activity of the City, the Agency, the EDC, and Terrace Gardens. During fiscal year 2011, the Milpitas Housing Authority did not have any financial activities. The Agency, EDC, Housing Authority, and Terrace Gardens are separate legal entities from the City and are controlled by the City. The Agency, the EDC and the Housing Authority have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Agency and Terrace Gardens Inc. issue their own component unit financial statements.

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

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

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

## ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

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

There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks and 550 manufacturing plants. An estimated 350 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

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

Milpitas Redevelopment Agency is one of the top ten RDAs in the State. With the 2003 expansion of the Agency, Redevelopment Area 1 encompasses 2,230 acres or 26% of the City. The Project Area produces over \$35 million in annual tax increment. In November 2003 the Agency issued \$200 million in tax allocation bonds to generate funds for key City and Agency projects including a new library, major infrastructure improvements and a new senior center.

In April 2010, the Redevelopment Agency Board approved an amendment to the Project Area No. 1 Redevelopment Plan to extend the time limit of the Plan and the time limit to collect tax increment,

increase the tax increment limit and bonded indebtedness limit, and add approximately 600 acres to the Project Area.

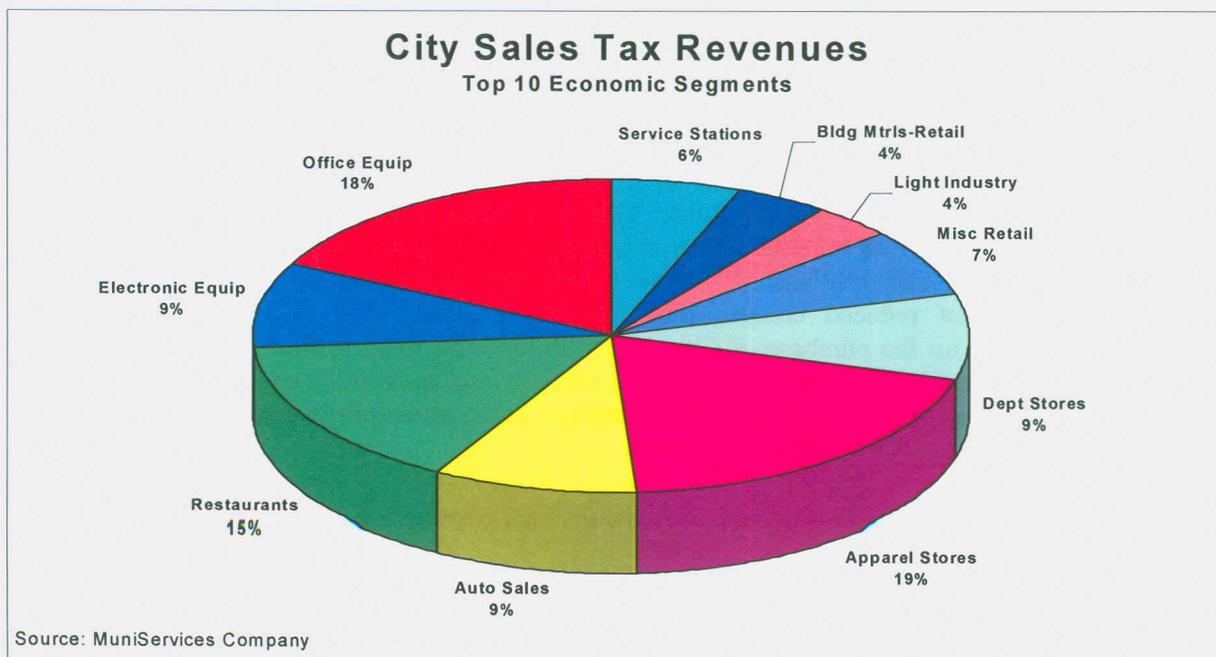
**Consumer Confidence Level**

Although consumer confidence recovered from its all time low in February 2009, the latest report showed that the index declined significantly in March 2011 due to inflation expectation particularly attributed to sharp increases in gasoline prices. Consumers continue to express concerns about current business and labor market conditions. Their outlook for the next six months is still unfavorable which may impact consumer spending in the near term.



**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 \$14.1 million, with the top ten economic segments generating about \$12.1 million. Sectors such as apparel stores and auto sales increased over a year ago while office equipment, department stores, and building materials decreased.



Many of the major activities initiated in FY10-11 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

### **Major Development Activities in the City**

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

*Transit Area Specific Plan* – The City adopted a Transit Area Specific Plan in June 2008 which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. In February 2009, the Council approved the first high density residential project in this area. The project consisted of 639 housing units and will be developed by Citation Homes. However, there is no estimated construction start date yet.

*Residential Development* – Residential development activities were impacted by the soft housing market. Several residential developments that received their application approvals were on hold. Nevertheless, Milpitas represents one of the more affordable alternatives in Santa Clara County, with the median home price at around \$475,500. Residential developments that are under construction include Cerrano (374 apartment units) and Paragon (141 townhouse units).

*Non-residential Development* – One of the larger commercial developments includes the conversion of the vacant Home Depot Pro site into a Seafood Market shopping mall that includes a 33,000 square foot grocery store and several restaurants. The mall had its grand opening in August 2010. Other non-residential development primarily consists of tenant improvements in existing commercial buildings.

### **Budget Strategies in Fiscal 2010-11**

The City's General Fund has been challenged with structural budget deficits since early this decade. The fiscal 2011 budget anticipated an overall decrease of 2.4% in revenue due to continued deterioration of the local economy. To resolve the long-term structural deficit issue, the City Council appointed a Citizens Task Force to study and recommend ideas to resolve the on-going General Fund budget structural deficit by FY 2012-13. The results of the study culminated to a list of recommendations presented to the City Council in November 2010. The recommendations, associated with the estimated fiscal impact, cover areas such as salaries and benefits reductions, cost recovery and additional revenues. To balance the fiscal 2011 General Fund budget, the City utilized several short-term strategies including a furlough program that reduced compensation by 7%, demand of a loan payment from the Redevelopment Agency for the purchase of City properties, and use of \$2 million of the General Fund unrestricted reserve. The City continued to maintain services and programs and implemented several major capital improvement projects to serve the community. These accomplishments will be discussed in the next section, City Annual Performance Report.

## CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2010-2011, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

### **Fire**

- Responded to 4,380 emergency incidents with an average response time of 4.2 minutes.
- Presented fire prevention information at over 80 public events.
- Conducted 900 plan reviews, issued 965 approvals/permits and performed 1,172 fire inspections.
- Certified 235 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

### **Police**

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 31.8%, to a 40-year low.
- Maintained response time to emergency calls at 2:47 minutes in 2010, the second lowest emergency response time average in the last ten years.
- Increased Gang Awareness presentations by 31% to 21 presentations in 2010.
- Increased car seat inspections by 5.9% to 216 inspections in 2010 and created Spanish language flyers and local cable-access advertisement.

### **Engineering**

- Completed construction of the new Senior Center, improvements to the City Civic Center, Alviso Adobe and Phase 1 of the Cardoza Park.
- Completed the Storm Drain Master Plan, 2010 Urban Water Management Plan MRP stormwater permit provisions.
- Obtained a FEMA grant for the Berryessa Pump Station and reduced Special Flood Hazard Area for approximately 370 residents.
- Completed Great Mall Parkway recycled water main installation and Gibraltar Pump Station rehabilitation project.

### **Public Works Maintenance**

- Completed State mandated water distribution operator training for Utilities Maintenance staff and appropriate standby personnel.
- Investigated 3,091 customer service requests and provided immediate response for urgent/safety related service requests.
- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Responded immediately to all roadway hazards, graffiti abatement, and emergency storm service requests.

### **Planning/Neighborhood Services**

- Initiated the development of a citywide Climate Action Plan.
- Updated the General Plan to incorporate the Parks and Trails Master Plans.
- Completed the reports for impediments to Fair Housing and the Community Development Block Grant (CDBG) Consolidated Plan.

- Fully automated the Abandoned Vehicle Abatement Service Authority (AVASA) reporting process.

### **Parks and Recreation**

- Received a State CRPS Achievement Award in the Recreation and Community services – health and Wellness category for the Playground.
- Secured \$5,000 sponsorship from Headway Technologies to assist with the cost of the 4<sup>th</sup> of July Festivities that served over 20,000 community members.
- Hosted a Sports Center Open House that included various class demonstrations, health screenings and vendors. The success of the event increased Sports Center membership by 81 members.
- Responded effectively and efficiently to customers' program requests and the use of Parks and Recreation facilities that resulted in a 90% good or better marks on customer evaluations.

### **Building Inspection**

- Expanded on-line permits and design guidelines and updated checklists on-line for plan check, submittal and inspection.
- Continued cross-training staff to improve consistency and promote a working environment where learning is encouraged, new ideas are welcome and a friendly atmosphere prevails as the most productive approach to business.
- Continued to utilize same inspector from start to finish, provided same day and outside business hours services as requested.
- Organized outreach programs such as Building Safety Month, to promote building safety awareness in the community.

### **Administration**

- Implemented financial strategies that ensure cost effective City service delivery while limiting budget expenditures.
- Continued to reorganize City departments and divisions to improve staff utilization, increase efficiency, accountability and savings to the City.
- Negotiated agreements with SunPower and Flextronics Americas for the only U.S. manufacturing of SunPower solar panels.
- Completed a new Five Year Redevelopment Implementation Plan.

### **City Attorney**

- Provided training on Brown Act, open government, and ethics.
- Provided hands-on legal guidance through furlough process.
- Completed City Sign Ordinance amendment to allow freeway signs.
- Partnered with Planning Department in creating equity sharing program for moderate-income housing units.

### **Human Resources**

- In cooperation with the City Attorney's Office, developed a discipline manual for the Fire Department.
- Introduced and trained employees on the newly developed Work Place Violence Prevention Policy.
- Provided one-on-one behind the wheel driver's training to all employees who are required to drive on the job.

- Successfully rehired from the reinstatement list six employees affected by previous layoff.

### **Information Services**

- Completed the Computer Aided Dispatch (CAD) system upgrade.
- Completed the Online Permitting system upgrade.
- Continued with the replacement plan to replace servers.
- Added a Geographic Information System (GIS) service component to the City's Web site.

### **Finance**

- Implemented a new comprehensive utility remittance process to improve timeliness of payments.
- Developed a plan to transition old financial records in storage and implemented electronic imaging for new records in lieu of storage.
- Provided financial analysis support to the Citizens' Budget Task Force.
- Provided accurate and timely reports within 15 days from month-end to assist departments in monitoring their budget.

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

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

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

### Category and Fund Type

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

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

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

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

### FINANCIAL ANALYSIS

General 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 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, 2010. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-two of the last twenty-three years (fiscal years ended 1988-2010). The 1992-93 report was not submitted to GFOA due to timing delays.

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

#### ACKNOWLEDGMENTS

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

Respectfully submitted,



Emma C. Karlen, CPA  
Director of Financial Services

# DIRECTORY OF OFFICIALS

June 30, 2011

## **City Council**

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

## **City Manager**

Thomas C Williams

### **Police Chief**

Dennis Graham

### **Director of Financial Services**

Emma Karlen, CPA

### **Fire Chief**

Brian Sturdivant

### **City Clerk**

Mary Lavelle

### **City Attorney**

Michael Ogaz

### **Chief Information Officer**

William Marion

### **Human Resources Director**

Carmen Valdez

### **Public Works Director/City Engineer**

Greg Armendariz

### **Planning & Neighborhood Svc Director**

James Lindsay

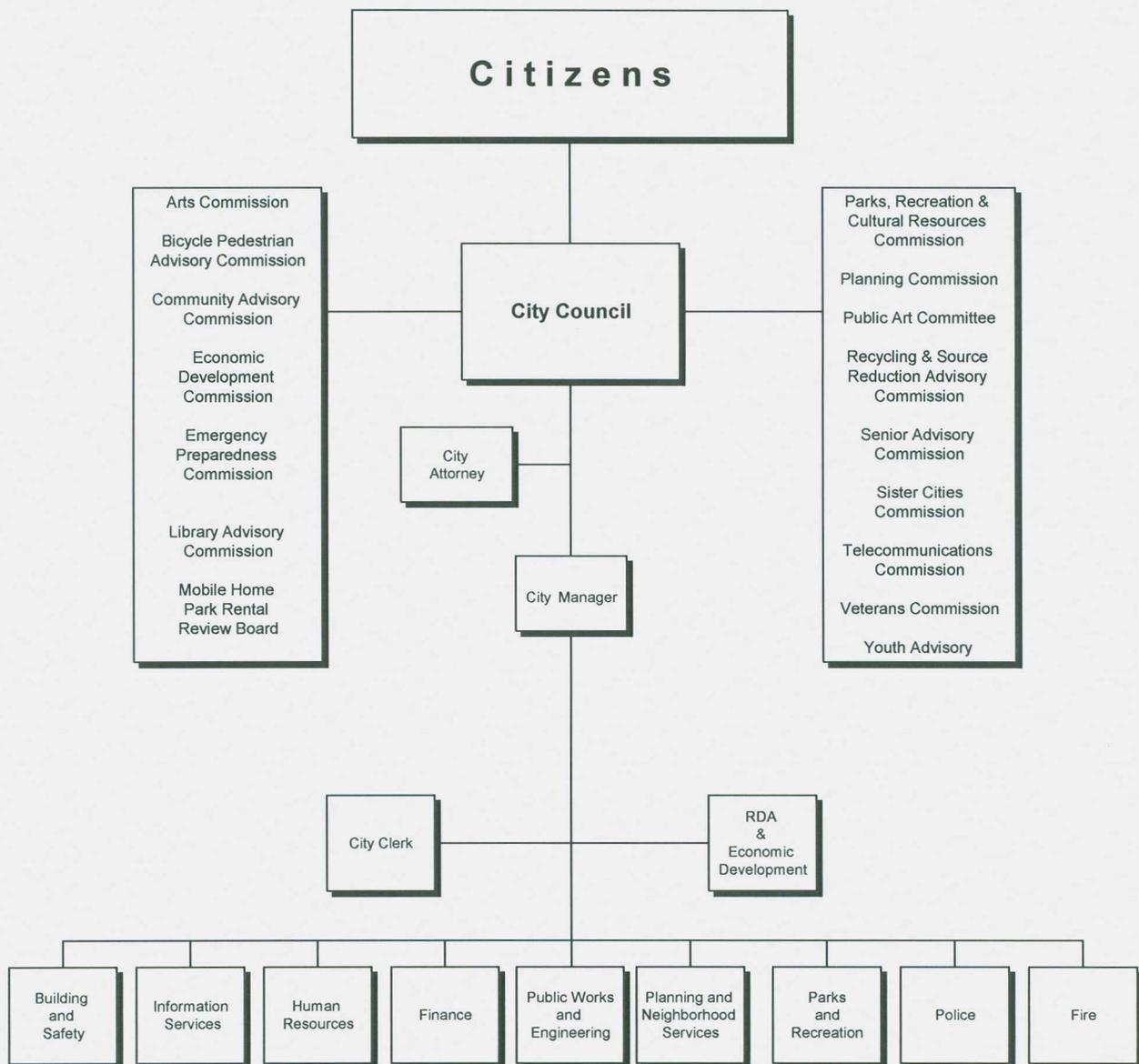
### **Chief Building Officer**

Keyvan Irannejad

### **Parks and Recreation Director**

Bonnie Greiner





# 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, 2010

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



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director



## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

**ACCOUNTANCY CORPORATION**  
3478 Buskirk Ave. - Suite 215  
Pleasant Hill, California 94523  
(925) 930-0902 · FAX (925) 930-0135  
maze@mazeassociates.com  
www.mazeassociates.com

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2010, which represent 1.54%, 1.28%, and 2.09% of the assets, revenues, and capital assets of the reporting, respectively. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic 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, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2011 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As disclosed in Note 17, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City and the Economic Development Corporation, including those discussed in Notes 4 and 6, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the ability of the Milpitas Redevelopment Agency, a component unit of the City, to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Milpitas Redevelopment Agency will continue as a going concern. The activities of the Milpitas Redevelopment Agency are included in the Housing Reserve Special Revenue Fund and Redevelopment Project Capital Projects Fund of the accompanying financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. As discussed in Note 10 to the financial statements, the provisions of this Statement affect the classification of fund balances reported in the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Moze Associates". The signature is written in a cursive style with a long horizontal flourish extending to the right.

September 30, 2011

## 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, 2011. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL 2011 FINANCIAL HIGHLIGHTS**

The City's revenues in fiscal 2011 reflect an slowly improving but somewhat mixed economic recovery. The relatively weak economic growth is primarily due to a stagnant housing market and high unemployment rate. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2011 was at 10.4%, a small improvement from the unemployment rate of 11.4% a year ago. The meltdown of the housing market caused by the sharp decline of home prices and sub-prime mortgages greatly affected residential developments and property values. However, sales taxes, building permit fees and Transient Occupancy Tax revenues were better than last fiscal year, reflecting a gradual, albeit slow, economic recovery.

In fiscal 2011, the Redevelopment Agency began reporting tax increment revenue gross of pass-through payments and administrative fees withheld by the County. The revenues and expenses derived from the fiscal year 2010 financial statements have been restated in this Management Discussion and Analysis to facilitate comparison between the two fiscal years.

Fiscal 2011 financial highlights include the following:

#### *City-wide:*

- The City's total net assets were \$438 million at June 30, 2011. Of this total, \$289 million were Governmental assets and \$149 million were Business-type assets.
- City-wide revenues include program revenues of \$48.7 million and general revenues and transfers of \$82.9 million, totaling \$131.6 million, a decrease of \$2.9 million from the prior year's total of \$134.5 million.
- Total City-wide expenses were \$118.7 million, a decrease of \$16.7 million from the prior year's \$135.4 million.

#### *Fund Level:*

- Governmental Fund balances were \$138.9 million, a decrease of \$0.9 million from fiscal 2010.
- Governmental Fund revenues were \$105.3 million in fiscal 2011, down \$3.8 million from the prior year's \$109.1 million.
- Governmental Fund expenditures were \$109.5 million in fiscal 2011, a decrease of \$20.1 million from fiscal 2010's level of \$129.6 million.
- General Fund revenues of \$55.5 million represented an increase of \$1.2 million from fiscal 2010's revenues of \$54.3 million.
- Total other financing sources of the General Fund was \$33.5 million in fiscal 2011, \$24.1 million more than fiscal 2010's \$9.4 million.
- General Fund balance of \$76.1 million at the fiscal 2011 year-end, \$25.3 million more than the fund balance at fiscal 2010 year-end.

## OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

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

### **The Basic Financial Statements**

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

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

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

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

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

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

### ***The City-wide Financial Statements***

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks & recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The basic financial statements can be found in pages 21-23 of this report.

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

The City's governmental activities include the activities of four separate legal entities, the Milpitas Redevelopment Agency (RDA), Milpitas Economic Development Corporation (EDC), the Milpitas Housing Authority (Housing Authority), and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities. However, during fiscal 2011, the Housing Authority did not have any financial activities.

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

### ***Fund Financial Statements***

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

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

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

The City has five other Major Governmental Funds in fiscal 2011 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Reserve Fund, the Redevelopment Project Fund, the Street Improvement Fund and the Transit Area Impact Fee Fund, each of which is discussed in detail below.

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

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

### ***Fiduciary Statements***

The City is the agent for certain local improvement districts, holding amounts collected from property owners which await transfer to these Districts' bond trustees. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

## CITYWIDE FINANCIAL ANALYSIS

The analysis focuses on the net assets and changes in net assets of the City as a whole. Comparisons of the current year's net assets and activities with fiscal 2010 are presented in table form. Any significant changes are analyzed and discussed.

### *Governmental Activities*

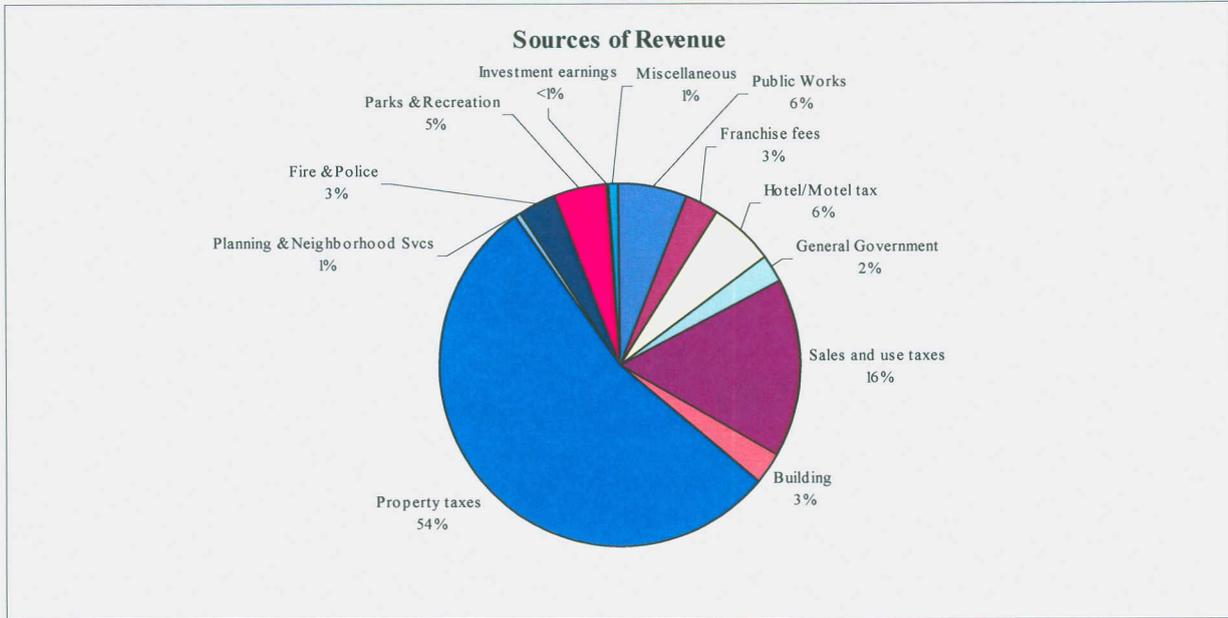
**Table 1**  
**Governmental Net Assets at June 30**  
**(in Millions)**

	Governmental Activities	
	2011	2010
Cash and investments	\$129.9	\$134.1
Other assets	58.3	54.0
Capital assets	326.2	326.5
<b>Total assets</b>	<b>514.4</b>	<b>514.6</b>
Long-term debt outstanding	194.7	202.9
Other liabilities	30.7	32.9
<b>Total liabilities</b>	<b>225.4</b>	<b>235.8</b>
Net assets:		
Invested in capital assets, net of related debt	218.1	218.9
Restricted	115.5	98.4
Unrestricted	(44.6)	(38.5)
<b>Total net assets</b>	<b>\$289.0</b>	<b>\$278.8</b>

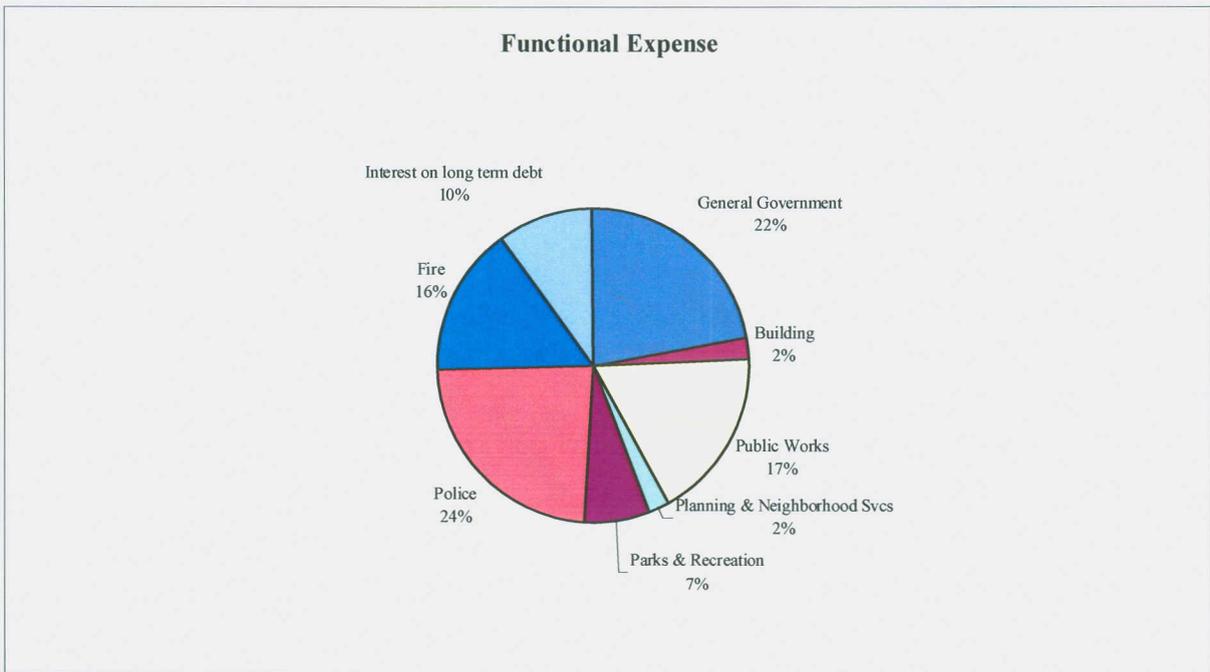
The City's governmental net assets were \$289 million at June 30, 2011, an increase of \$10.2 million from 2010. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments decreased \$4.2 million principally due to increased expenditure of bond proceeds for the Senior Center and other capital improvement projects.
- Other assets increased \$4.3 million from last year primarily due to increased loan receivable from developers and the First Time Homebuyer Program in addition to the purchase of several affordable housing units in the Redevelopment project area.
- Capital assets decreased \$0.3 million from last year, as a result of \$14.6 million asset additions net of retirements in fiscal 2011, reduced by \$14.9 million depreciation of the capital assets.
- Long-term debt decreased \$8.2 million due to payments on outstanding bonds and the Installment Purchase Agreement.
- Other liabilities decreased \$2.2 million due to decreased accounts payable and refundable deposits.

## Fiscal Year 2011 Governmental Activities



As the Sources of Revenue Chart above shows, \$55.6 million or 54% of the City’s fiscal 2011 governmental activities revenue came from property taxes, while \$16.4 million or 16% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, investment earnings and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City’s capital assets. The composition of Fiscal 2011’s additions is shown in detail at Table 8.

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

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<b>Expenses</b>		
General Government	\$21.4	\$33.5
Building	2.0	2.0
Public Works	16.8	22.8
Planning & Neighborhood Svcs	2.2	2.9
Parks & Recreation	6.5	6.1
Police	22.7	22.8
Fire	15.1	14.7
Interest on long term debt	9.5	9.6
Total expenses	<u>96.2</u>	<u>114.4</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	10.0	9.8
Operating contributions and grants	4.9	3.9
Capital Grants	5.7	8.8
Total program revenues:	<u>20.6</u>	<u>22.5</u>
General revenues:		
Taxes:		
Property taxes	55.6	58.0
Sales and uses taxes	16.4	14.7
Hotel/Motel taxes	6.1	5.3
Other taxes	0.4	0.4
Franchise fees	3.1	3.0
Motor vehicle in lieu	0.3	0.2
Investment earnings	0.4	0.7
Miscellaneous	0.1	0.1
Gain on sale of capital assets		0.2
Total general revenues	<u>82.4</u>	<u>82.6</u>
Total Revenues	<u>103.0</u>	<u>105.1</u>
Surplus (Deficit) before transfers	6.8	(9.3)
Transfers	3.4	(2.5)
Changes in net assets	10.2	(11.8)
Beginning net assets	<u>278.8</u>	<u>290.6</u>
<b>Ending net assets</b>	<b><u>\$289.0</u></b>	<b><u>\$278.8</u></b>

Table 2 compares fiscal 2011 expenses and revenues with those of fiscal 2010. Expenses decreased \$18.2 million in fiscal 2011, attributed to an \$11.8 million payment to the Supplemental Education Revenue Augmentation Fund (SERAF) as mandated by the State, and increased public works expense due to a one-time purchase of additional capacity rights at the San Jose/Santa Clara Wastewater Treatment Plant in fiscal 2010. In fiscal 2011, the SERAF payment was \$2.4 million.

Table 2 shows that total government revenues decreased \$2.1 million in fiscal 2011. Program revenues and general revenues decreased \$1.9 and \$0.2 million respectively. The decrease in program revenues was due to decreased capital grants. The decrease in general revenues was due to a combination of decreased property tax revenue and increased sales tax revenue and transient occupancy tax revenue. Property tax revenue in fiscal 2011 was \$2.4 million less than last year primarily due to lower assessed valuation on residential properties and successful appeals on the assessed valuation of several commercial properties. Sales tax revenue in fiscal 2011 was \$1.7 million more than fiscal 2010, reflecting improved consumer spending in the apparel stores and auto sales economic segments. Transient Occupancy Tax increased \$0.8 million in fiscal 2011 after two consecutive years of decline, reflecting a gradual economic recovery.

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, planning & neighborhood services, parks & recreation, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased \$16.3 million due to an \$11.8 million payment to SERAF as mandated by the State and a one-time purchase of additional capacity rights at the Wastewater Treatment Plant in fiscal 2010. The decreased net program cost also reflects savings from the furlough program and other cost cutting measures.

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

	Net (Expenses) Revenue From Services	
	2011	2010
General Government	\$(18.9)	\$(30.1)
Building	0.8	0.1
Public Works	(10.5)	(12.3)
Planning & Neighborhood	(1.6)	(2.2)
Parks & Recreation	(1.6)	(3.5)
Police	(20.6)	(20.8)
Fire	(13.7)	(13.5)
Interest on long term debt	(9.5)	(9.6)
<b>Totals</b>	<b>\$(75.6)</b>	<b>\$(91.9)</b>

## *Business-type Activities*

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

	Business-Type Activities	
	2011	2010
Cash and investments	\$36.4	\$37.7
Other assets	7.1	6.8
Capital assets	115.8	112.8
<b>Total assets</b>	<b>159.3</b>	<b>157.3</b>
Other liabilities	2.6	2.9
Long-term Debt	7.7	8.1
<b>Total liabilities</b>	<b>10.3</b>	<b>11.0</b>
Net assets:		
Invested in capital assets	107.7	104.4
Restricted	20.7	24.0
Unrestricted	20.6	17.9
<b>Total net assets</b>	<b>\$149.0</b>	<b>\$146.3</b>

The net assets of business-type activities were \$149 million in fiscal 2011, an increase of \$2.7 million from fiscal 2010. Total assets increased \$2.0 million while total liabilities decreased \$0.7 million. The increase in net assets was due to increased customer service charges for the Water, Sewer and Recycled Water Funds.

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

	Business-Type Activities	
	2011	2010
<b>Expenses</b>		
Water Utility	\$12.8	\$11.8
Recycled Water Utility	0.5	0.5
Sewer Utility	9.2	8.7
Total expenses	<u>22.5</u>	<u>21.0</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	27.9	25.7
Operating Grant	0.1	0.1
Capital Grants	0.2	6.4
Total program revenues:	<u>28.2</u>	<u>32.2</u>
General revenues:		
Investment earnings	0.4	0.8
Total general revenues	<u>0.4</u>	<u>0.8</u>
Total Revenues	<u>28.6</u>	<u>33.0</u>
Excess before transfers	6.1	12.0
Transfers	<u>(3.4)</u>	<u>2.6</u>
Changes in net assets	2.7	14.6
Beginning net assets	<u>146.3</u>	<u>131.7</u>
<b>Ending net assets</b>	<b><u>\$149.0</u></b>	<b><u>\$146.3</u></b>

Table 5 compares fiscal 2011 expenses and revenues with those of fiscal year 2010. Expenses increased \$1.5 million in total in fiscal 2011 due to increased water purchase expense and increased usage. Total program revenue decreased by \$4.0 million primarily due to decreased capital contributions received from developers. Total general revenue shows a decrease of \$0.4 million from last year primarily due to decreased interest earnings. The net transfers represent a combination of reimbursements for administration costs to the General Fund and the capital contributions received from governmental funds for capital improvement projects.

## 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)**

	2011	2010
Total assets	\$225.8	\$213.8
Total liabilities	86.9	74.0
Total fund balances	138.9	139.8
Total revenues	105.3	109.2
Total expenditures	109.6	129.6
Total other financing sources	3.4	0.3

At June 30, 2011, the City's governmental funds reported combined fund balances of \$138.9 million, a decrease of \$0.9 million from last year. The fund balances of the General Fund, and Other Governmental Funds increased \$25.3 million, and \$4.1 million respectively while the fund balances of the Housing Reserve Fund, Redevelopment Project Fund, Transit Area Impact Fee Fund and Street Improvement Fund decreased \$7.2 million, \$73.5 million, \$1.2 million and \$0.8 million, respectively. The Economic Development Corporation, a new entity that was formed in fiscal 2011, had an ending fund balance of \$52.4 million at June 30, 2011.

Revenues at the fund level totaled \$105.3 million, a decrease of \$3.9 million. Revenues for the General Fund and Other Governmental Funds increased \$1.2 million and \$2.2 million respectively while the Housing Reserve Fund, Redevelopment Project Fund, and Street Improvement Fund declined \$0.2 million, \$3.9 million and \$3.3 million, respectively. The Transit Area Impact Fee Fund did not receive any revenue in fiscal 2011 other than a nominal amount of interest income. The EDC is a new entity that is considered a major fund of the City and received \$0.1 million in interest income in fiscal 2011.

Expenditures decreased \$20 million this year to \$109.6 million from last year's \$129.6 million. The expenditures of the Housing Reserve Fund Redevelopment Project Fund, Street Improvement Fund, Transit Area Impact Fee Fund and Other Governmental Funds decreased by \$0.3 million, \$11.9 million, \$0.6 million, \$4.8 million and \$2.5 million, respectively. The General Fund expenditures remained at almost the same level of \$68.7 million as last year while the EDC expended less than \$0.1 million in fiscal 2011.

### *Analyses of Major Governmental Funds*

#### **General Fund**

General Fund revenues increased to \$55.5 million this fiscal year, up \$1.2 million from the prior fiscal year. Increases came from sales taxes, other taxes, licenses and fines, intergovernmental, and charges for services categories. Property tax revenue decreased \$0.5 million due to decreased assessed valuation on residential properties and resolution of some of the property tax appeals by property owners.

Sales tax increased by approximately \$1.7 million reflecting improved consumer spending in the apparel stores and auto sales economic segments. Other taxes increased by \$0.8 million due to increased Transient Occupancy Tax revenue. Licenses and permits increased \$0.8 million primarily from the building permit and inspection fees collected from one major residential development project that consisted of 374 apartment units. Intergovernmental revenues increased by \$0.6 million due to increased operating grant revenues and reimbursement of staff costs from the Valley Transportation Authority for the BART expansion project of approximately \$350,000. Charges for services also increased by \$0.2 million due to increased revenues for planning and engineering fees received from private developments.

Interest income was down \$2.5 million due to lower interest earnings from the investment portfolio as reinvestment yields declined. Another factor that contributed to the decreased interest income was due to a \$2 million interest payment received from the Redevelopment Agency on a promissory note. In fiscal 2010, a similar interest payment received from the Redevelopment Agency was \$4.4 million.

General Fund expenditures decreased less than \$0.1 million to \$63.7 million in fiscal 2011. Despite increases in employee benefits such as employer's contribution to CalPERS and increased medical premiums, the furlough program saved the Fund approximately \$3.2 million in fiscal 2011.

Net transfers were approximately \$33.6 million, up \$24.1 million from last year. Net transfers consist of \$9.5 million reimbursements from other funds for administrative and overhead expenditures and capital project funding. It also includes properties transferred in of approximately \$24.5 million from the Redevelopment Agency and a transfer out of \$0.5 million to the Street Improvement Fund for capital project funding. The properties transferred from the RDA to the City were for the purpose of aiding and co-operating in the planning, construction and management of redevelopment projects. Findings were made by the Agency Board to determine that the transfer of properties to the City will ultimately benefit the project areas in the elimination of blight.

Compared to the final budget, expenditures were under budget by \$2.8 million. The savings were primarily from attritions of work force and careful monitoring of expenditures. The differences between the original budget and final budget were primarily attributable to additional budget appropriations related to operating grant revenues.

### **Economic Development Corporation**

The fund accounts for the activities of the Economic Development Corporation. The EDC is a tax-exempt organization that was formed in fiscal 2011 for the purpose of facilitating and fostering the City's economic development and elimination of blight through public-private partnerships. During fiscal 2011, its only source of income was from interest earnings of approximately \$0.1 million. Expenditures of \$21,000 were primarily for consulting services

The EDC entered into an operating agreement with the Redevelopment Agency whereby the Agency will transfer an initial start up working capital of up to \$50 million cash to the EDC along with net current assets. During fiscal 2011, the Agency transferred \$62 million which consisted of cash and net current assets to the EDC. The transfer in was offset by a transfer out of \$9.7 million to the Agency to pay for administrative costs and capital improvement project costs incurred by the Agency during fiscal 2011.

Simultaneously, the EDC entered into a service agreement with the City to engage it in completing the activities necessary to eliminate blight, provide affordable housing, facilitate public and private developments and other appropriate purposes allowed by the California Redevelopment Law.

## **Housing Reserve**

This Fund accounts for Redevelopment Agency activities designed to increase the amount of low and moderate-income housing available in the City. In fiscal 2011, the balances of loans to developers increased from \$27.7 million to \$29.8 million, due to a new loan provided to a developer for the development of a 101-unit multi-family project restricted for very low-income households. Total expenditures of \$3.3 million primarily consisted of housing grants and loans for affordable housing.

Principal payments and in many cases interest payments on the “Silent Second” loan program to assist qualified low-income families to purchase homes in Milpitas are deferred until the property is sold or re-financed, and are not considered revenues until they are received. Principal and interest on loans to non-profit developers of such properties typically are at below-market rates and payments are deferred for considerable periods of years to assist these non-profit organizations in their efforts to develop affordable housing. All these loans are secured by deeds of trust on the underlying properties, and if the facilities constructed with these loans are not used for the purposes intended, the loans become due and payable immediately.

Revenue from interest income at \$0.4 million in fiscal 2011 was approximately the same as prior year. The net transfers out of \$5.5 million comprised of a transfer in of \$11.7 million tax increment revenue for the set-aside housing reserve requirement, and transfers out of \$1 million to the General Fund and \$0.4 million to the Redevelopment Project Fund for the Housing Reserve Fund’s share of the administrative costs and debt service payments. In addition, the Housing Reserve Fund transferred eleven affordable housing units and parcels of land to the City valued at \$15.8 million. The property transfer from the Housing Reserve Fund to the City was for the purpose of aiding and co-operating in the planning, construction and management of redevelopment projects. Findings were made by the Agency Board to determine that the transfer of properties to the City will ultimately benefit the project areas in the elimination of blight.

## **Redevelopment Project**

This Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency’s project areas. The Fund’s revenues were \$39.6 million in fiscal 2011, a decrease of \$3.9 million from fiscal 2010. Property tax increment revenue was \$39 million in fiscal 2011, a decrease of \$1.8 million or 4.4% from fiscal 2010 due to reduced assessed valuation on residential properties and resolution of appeals on several commercial properties. Interest income decreased by \$0.6 million due to reduced interest earnings from bond proceeds as the proceeds were spent on projects and reduced investment yields generated from the pooled portfolio. Intergovernmental revenue at \$0.1 million was \$1.5 million less than fiscal 2010 due to grant funding which did not recur.

Fund expenditures were \$36 million in fiscal 2011, a decrease of \$11.9 million. Interest and principal payments totaling \$19.9 million included \$13.6 million debt service payments for the 2003 Tax Allocation Bonds, \$4 million installment payment pursuant to a Purchase and Sale Agreement with the County of Santa Clara, and \$2.0 million interest expenditure on a promissory note related to the purchase of properties from the City and \$0.3 million accrued interest on advances from other funds. The advances bear simple interest of 5% annually. Fund expenditures also included capital improvement project expenditures of \$8.9 million, a decrease of \$1.6 million from prior year due to substantial completion of the Senior Center project. Fund expenditures also included a \$2.4 million payment to the Supplemental Education Augmentation Revenue Fund, as mandated by the State; the fiscal 2010 payment was \$11.8 million.

### **Street Improvement Capital Project**

This Capital Project Fund accounts for the majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were \$1.7 million in fiscal 2011, a decrease of \$3.2 million from fiscal 2010. The decrease was due to decreased intergovernmental revenues and decreased developer contributions.

Fund expenditures were \$2.9 million in fiscal 2011, a decrease of \$0.5 million from fiscal 2010 due to decreased capital outlay.

### **Transit Area Impact Fee**

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2011, fund expenditures were \$1.2 million, consisted of \$0.6 million capital improvement project expenditures and \$0.6 million for accrued interest on advances received from other funds. The advances bear simple interest of 5% annually.

### **Other Governmental Funds**

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

### **Fund Balance Classifications**

In February 2009, the Government Accounting Standards Board (GASB) issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" that is applicable to the financial statements issued by governmental entities for the reporting period ended June 30, 2011. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Before GASB 54, fund balances for the governmental funds were classified in three categories: reserved, unreserved designated and unreserved undesignated. Under GASB Statement No. 54, 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.

For analytical and discussion purposes, fund balances of the major governmental funds for fiscal 2010 have been reclassified in the Table 7.

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

	2011	2010
General Fund		
Nonspendable	\$21.0	\$21.0
Restricted	24.6	
Committed	5.4	5.4
Assigned	9.7	9.5
Unassigned	15.4	14.9
Total	<u>\$76.1</u>	<u>\$50.8</u>
EDC Fund		
Restricted	<u>\$52.4</u>	
Housing Reserve fund		
Restricted	<u>\$20.3</u>	<u>\$27.5</u>
Redevelopment Project Fund		
Nonspendable		\$ 0.1
Restricted		41.2
Unassigned	\$(32.2)	
Total	<u>\$(32.2)</u>	<u>\$41.3</u>
Street Improvement Fund		
Restricted	<u>\$11.9</u>	<u>\$12.8</u>
Transit Area Impact Fee Fund		
Unassigned	<u>\$(11.5)</u>	<u>\$(10.2)</u>

At June 30, 2011, the fund balance of the General Fund was \$76.1 million. \$21 million was classified as nonspendable, comprised of \$20.5 million interfund loans and \$0.5 million prepaid materials and supplies. \$5.4 million for PERS Rate Stabilization was classified as committed. \$9.7 million of the fund balance comprised of \$6.6 million for library and performance arts programs, \$2.8 million for uninsured claims payable and \$0.3 million for encumbrances, was classified as assigned. \$15.4 million was classified as unassigned. With the exception of \$24.6 million restricted fund balance, the amounts in the nonspendable, committed, assigned and unassigned classifications were similar to prior fiscal year. \$24.6 of the fund balance comprised of properties held for resale that were transferred from the Housing Reserve Fund and Redevelopment Project Fund during fiscal 2011, was classified as restricted.

The fund balances of the Economic Development Corporation Fund, Housing Reserve Fund and Street Improvement Fund were classified as restricted as the amounts were restricted for specific purposes.

The fund balances of the Redevelopment Project Fund and Transit Area Impact Fee Fund were classified as unassigned due to their negative amounts.

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

Total operating revenues of Business-type Activities increased \$2.2 million from last year, while operating expenses increased \$1.5 million. Total revenues and total operating expenses were \$27.9 million and \$22.2 million respectively. Non-operating revenues of \$0.2 million in fiscal 2011 were \$0.4 million lower than the prior year primarily due to decreased interest income. Capital contributions decreased by \$9.2 million while net transfers out increased by \$2.9 million.

### **Water Utility**

Water fund revenues were \$15.2 million in fiscal 2011, up \$1.1 million from the prior year. The increase in revenues was primarily due to increased water rates. Expenses were \$12.8 million in fiscal 2011, up \$1 million from the prior year primarily due to increased purchased water expense. Net assets of the Water Utility Fund increased almost \$2 million in the current year to a total of \$62.8 million. The increase comprised \$2.4 million in operating income for the current year, \$0.1 million in non-operating revenues, \$0.1 million capital contributions from developers, offset by net transfers out of \$0.6 million. Transfers in of \$1.2 million represent reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the other enterprise funds. Transfers out of \$1.8 million were for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Assets includes \$46.4 million invested in capital assets, \$11.8 million in restricted net assets, and \$4.6 million in unrestricted net assets.

### **Recycled Water Utility**

Recycled Water fund revenues were \$1.3 million in fiscal 2011, approximately \$0.1 million more than prior year. Expenses were \$0.5 million in fiscal 2010, same as last fiscal year. Net assets of the Fund decreased \$0.4 million in the current year to a total of approximately \$1 million. This decrease included \$0.8 million in operating income and \$0.1 million in non-operating income, offset by transfers out totaling \$1.3 million. Transfers out were primarily reimbursements for the cost of capital assets constructed by the Water Enterprise Fund and other capital project funds for the Recycled Water Fund.

This Fund's Net Assets includes \$0.2 million invested in capital assets and \$0.8 million in unrestricted net assets.

### **Sewer Utility**

Sewer fund revenues were \$11.4 million in fiscal 2011, up \$1 million from the prior year due to increased sewer rates. Expenses were \$8.9 million in fiscal 2011, up \$0.5 million from the prior year due to increased contribution requirements for the City's share of the operating expenses at the Waste Water Treatment Plant and increased depreciation expense. Non-operating revenues in fiscal year 2011 consisted of \$0.3 million interest income and \$0.3 million interest expense. Net assets of the Sewer Utility Fund increased \$1.2 million in the current year to a total of \$85.3 million. This increase comprised of \$2.5 million in operating income, \$0.1 million in capital contributions by developers, and net transfers out of \$1.4 million for reimbursements of administration costs incurred by the General Fund.

\$15.2 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, \$61.1 million was invested in capital assets and \$9 million was restricted as to use.

## CAPITAL ASSETS

The City recorded 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 2011, 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)**

	2011	2010
<i><b>Governmental Activities:</b></i>		
Land	\$ 65.3	\$ 57.5
Construction in progress	86.0	85.0
Buildings and improvements	96.3	96.3
Other improvements	24.4	24.3
Machinery and equipment	35.3	34.6
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	221.6	217.7
Traffic system	18.5	17.6
Less accumulated depreciation	(325.1)	(310.4)
<b>Totals</b>	<b>\$326.2</b>	<b>\$326.5</b>
<i><b>Business-type Activities:</b></i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	18.8	26.9
Distribution facilities	67.3	67.3
Service lines	12.5	12.5
Sewer lines	72.6	59.8
Capacity rights	39.7	37.5
Less accumulated depreciation	(96.2)	(92.3)
<b>Totals</b>	<b>\$115.8</b>	<b>\$112.8</b>

The principal additions in fiscal 2011 were land, street system, storm system and construction-in-progress. A majority of the street system additions was related to completion of the capital improvement projects in the Midtown and street resurfacing project. Construction in progress included the Senior Center, Alviso Adobe Renovation, Calle Oriente Park, and Cardoza Park Playground renovation. Further detail on capital assets, current year additions and construction in progress can be found in Note 8.

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

## DEBT ADMINISTRATION

Substantially all of the City's debt was issued to finance redevelopment projects and Sewer infrastructure improvements. These debt issues are secured by the tax increment revenue of the Redevelopment Agency, and sewer revenue. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2011 the City's debt comprised:

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

	Balance June 30, 2011	Balance June 30, 2010
<b>Governmental Activity Debt:</b>		
<b>Redevelopment Agency 2003 Tax Allocation Bonds</b> 2% - 5.25%, due September 1, 2032	\$168.9	\$174.2
<b>Installment Purchase Agreement with the County Of Santa Clara, due June 30, 2023</b>	34.0	36.9
Total Governmental Activity Debt	\$202.9	\$211.1
 <b>Business-type Activity Debt:</b>		
<b>Sewer Certificates of Participation, 2006 Series A</b> 3.4% -4.2%, due November 1, 2026	\$ 8.1	\$ 8.5
Total Business-type Activity Debt	\$ 8.1	\$ 8.5

## 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, 2011, a total of \$16 million in local improvement district debt was outstanding, issued by three 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.

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring substantial annual contributions to local schools and special districts. Although the City agendized the introduction of an Ordinance to opt in to the Voluntary program on August 16, it was not able to enact the Ordinance due to the Court stay discussed below.

On July 18, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx 26 and 27 to the California Supreme Court. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

Please refer to Note 17 for further discussion on the potential consequences to the Agency from the decision of the Supreme Court.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

CITY OF MILPITAS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
<b>ASSETS</b>				
Cash and investments available for operations (Note 3)	\$122,438,452	\$36,466,078	\$158,904,530	\$20,165
Restricted investments (Note 3)	7,514,703		7,514,703	1,073,563
Receivables:				
Accounts:				
Due from other governments	1,349,843	1,843,749	3,193,592	435
Interest	2,910,631	70,637	2,981,268	
Internal balances (Note 4)	402,057	126,791	528,848	
Loans receivable (Note 5)	(4,791,600)	4,791,600		
Prepays, materials, supplies and deposits	33,200,892		33,200,892	
Property held for resale (Note 6)	669,272	241,794	911,066	25,690
Capital assets and capacity rights (Note 8):				
Land and construction in progress	24,554,898		24,554,898	
Depreciable capital assets, net	151,331,524	19,948,899	171,280,423	1,565,277
	174,825,396	95,848,287	270,673,683	7,685,481
<b>Total assets</b>	<b>514,406,068</b>	<b>159,337,835</b>	<b>673,743,903</b>	<b>10,370,611</b>
<b>LIABILITIES</b>				
Accounts payable	2,833,930	1,488,655	4,322,585	74,072
Accrued payroll	2,782,461	122,866	2,905,327	14,553
Interest payable	2,727,628	51,088	2,778,716	
Uninsured claims payable (Note 13):				
Due within one year	1,015,516		1,015,516	
Due in more than one year	2,436,905		2,436,905	
Refundable deposits	1,219,666	162,548	1,382,214	76,332
Unearned revenue	206,834		206,834	1,231
Accrued vacation (Note 12):				
Due within one year	560,560	115,642	676,202	
Due in more than one year	4,438,985	119,806	4,558,791	
Sick leave payable (Note 12):				
Due within one year	301,612	43,370	344,982	
Due in more than one year	3,965,509	117,262	4,082,771	
Long term debt (Note 9):				
Due within one year	8,252,725	380,000	8,632,725	
Due in more than one year	194,665,242	7,710,000	202,375,242	
<b>Total liabilities</b>	<b>225,407,573</b>	<b>10,311,237</b>	<b>235,718,810</b>	<b>166,188</b>
<b>NET ASSETS (Note 10)</b>				
Invested in capital assets and capacity rights, net of related debt	218,116,371	107,707,186	325,823,557	9,250,758
Restricted for:				
Capital projects	27,037,637	20,742,389	47,780,026	
Redevelopment and community development activities	88,436,512		88,436,512	
<b>Total restricted net assets</b>	<b>115,474,149</b>	<b>20,742,389</b>	<b>136,216,538</b>	
Unrestricted	(44,592,025)	20,577,023	(24,015,002)	953,665
<b>Total net assets</b>	<b>\$288,998,495</b>	<b>\$149,026,598</b>	<b>\$438,025,093</b>	<b>\$10,204,423</b>

See accompanying notes to financial statements

CITY OF MILPITAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$21,473,504	\$1,070,588	\$992,444	\$508,544	(\$18,901,928)	
Building	1,984,508	2,822,889			838,381	
Public Works	16,776,989	1,826,357	2,064,233	2,351,945	(10,534,454)	
Planning and Neighborhood Services	2,155,474	139,044	428,461		(1,587,969)	
Parks and Recreation	6,528,858	1,661,639	443,952	2,843,441	(1,579,826)	
Police	22,661,278	1,262,940	779,891		(20,618,447)	
Fire	15,084,541	1,209,914	160,507		(13,714,120)	
Interest on long term debt	9,535,704				(9,535,704)	
Total Governmental Activities	96,200,856	9,993,371	4,869,488	5,703,930	(75,634,067)	
Business-type Activities:						
Water Utility	12,765,657	15,201,319		51,570		\$2,487,232
Recycled Water Utility	470,250	1,300,374	70,072			900,196
Sewer Utility	9,239,935	11,405,480		111,926		2,277,471
Total Business-type Activities	22,475,842	27,907,173	70,072	163,496		5,664,899
Total Primary Government	\$118,676,698	\$37,900,544	\$4,939,560	\$5,867,426	(75,634,067)	5,664,899
<b>Component Unit:</b>						
Terrace Gardens Inc.	\$1,692,439	\$1,672,176				
General revenues:						
Taxes:						
Property taxes					55,655,317	
Sales and use taxes					16,429,262	
Hotel/Motel taxes					6,124,182	
Other taxes					380,009	
Franchise fees, unrestricted					3,082,533	
Motor vehicle in lieu					323,360	
Investment earnings					398,580	455,117
Miscellaneous					61,434	
Transfers (Note 4)					3,373,980	(3,373,980)
Total general revenues and transfers					85,828,657	(2,918,863)
Change in Net Assets					10,194,590	2,746,036
Net Assets-Beginning					278,803,905	146,280,562
Net assets-Ending					\$288,998,495	\$149,026,598

See accompanying notes to financial statements

Total	Net (Expense) Revenue and Changes in Net Assets Component Unit Terrace Gardens Inc.
(\$18,901,928)	
838,381	
(10,534,454)	
(1,587,969)	
(1,579,826)	
(20,618,447)	
(13,714,120)	
(9,535,704)	
(75,634,067)	
2,487,232	
900,196	
2,277,471	
5,664,899	
(69,969,168)	
	(\$20,263)
55,655,317	
16,429,262	
6,124,182	
380,009	
3,082,533	
323,360	
853,697	6,655
61,434	
82,909,794	6,655
12,940,626	(13,608)
425,084,467	10,218,031
\$438,025,093	\$10,204,423





CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011

	General	Economic Development Corporation	Housing Reserve	Redevelopment Project	Street Improvement
<b>ASSETS</b>					
Cash and investments available for operations (Note 3)	\$32,529,518	\$36,167,721	\$11,687,354	\$375,738	\$11,973,658
Restricted investments (Note 3)		7,514,703			
Receivables:					
Accounts	1,258,610			196	62,943
Due from other governments	2,037,986			163,221	414,491
Interest	103,668	133,381	40,049		42,346
Advances to other funds (Note 4)	23,225,237	9,359,194	8,925,177		
Loans receivable (Note 5)			29,832,457		
Prepays, materials, supplies and deposits	514,352		3,822	15,868	
Property held for resale (Note 6)	24,554,898				
<b>Total Assets</b>	<b>\$84,224,269</b>	<b>\$53,174,999</b>	<b>\$50,488,859</b>	<b>\$555,023</b>	<b>\$12,493,438</b>
<b>LIABILITIES</b>					
Accounts payable	\$1,368,103	\$6,801	\$20,025	\$517,556	\$536,653
Accrued payroll	2,677,540	919	9,456	37,468	22,639
Refundable deposits	1,198,323		2,500		
Deferred revenue	2,877,360	730,033	30,157,634		
Advances from other funds (Note 4)				32,150,414	
<b>Total Liabilities</b>	<b>8,121,326</b>	<b>737,753</b>	<b>30,189,615</b>	<b>32,705,438</b>	<b>559,292</b>
<b>FUND BALANCES</b>					
Fund balances (Note 10):					
Nonspendable	20,969,543		3,822	15,868	
Restricted	24,554,898	52,437,246	20,295,422		11,934,146
Committed	5,432,703				
Assigned	9,697,740				
Unassigned	15,448,059			(32,166,283)	
<b>TOTAL FUND BALANCES</b>	<b>76,102,943</b>	<b>52,437,246</b>	<b>20,299,244</b>	<b>(32,150,415)</b>	<b>11,934,146</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$84,224,269</b>	<b>\$53,174,999</b>	<b>\$50,488,859</b>	<b>\$555,023</b>	<b>\$12,493,438</b>

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

**CAPITAL ASSETS**

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

**ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS**

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

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.

**LONG TERM ASSETS AND LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

- Long-term debt
- Interest payable
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
\$2,794,415	\$18,351,495	\$113,879,899
		7,514,703
	28,094	1,349,843
	294,933	2,910,631
1,691	50,951	372,086
		41,509,608
	3,368,435	33,200,892
	3,201	537,243
		24,554,898
<u>\$2,796,106</u>	<u>\$22,097,109</u>	<u>\$225,829,803</u>
\$100,911	\$211,887	\$2,761,936
2,572	13,393	2,763,987
	18,843	1,219,666
	99,520	33,864,547
14,150,794		46,301,208
<u>14,254,277</u>	<u>343,643</u>	<u>86,911,344</u>
	3,201	20,992,434
	19,622,759	128,844,471
		5,432,703
	2,127,506	11,825,246
(11,458,171)		(28,176,395)
<u>(11,458,171)</u>	<u>21,753,466</u>	<u>138,918,459</u>
<u>\$2,796,106</u>	<u>\$22,097,109</u>	
		326,156,920
		8,551,965
		33,657,713
		(202,917,967)
		(2,727,628)
		(9,188,546)
		(3,452,421)
		<u>\$288,998,495</u>

CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011

	General	Economic Development Corporation	Housing Reserve	Redevelopment Project	Street Improvement
<b>REVENUES</b>					
Property taxes	\$16,651,635			\$39,003,681	
Sales taxes	16,994,002				
Other taxes	9,898,176				
Licenses and fines	4,309,019				
Use of money and property	2,745,499	\$117,539	\$377,576	416,709	\$93,258
Intergovernmental	1,148,666			112,731	1,458,529
Charges for services	3,658,956				
Developer contributions			425,000	101,167	138,499
Other	90,074		940,876	3,221	1,500
<b>Total Revenues</b>	<b>55,496,027</b>	<b>117,539</b>	<b>1,743,452</b>	<b>39,637,509</b>	<b>1,691,786</b>
<b>EXPENDITURES</b>					
Current:					
General Government	11,885,491		3,057,528	3,830,950	110,241
Building and Safety	1,974,820				
Public Works	6,304,456	13,983		444,216	186,991
Planning and Neighborhood Services	1,199,410		288,963	356,686	
Parks and Recreation	5,688,045				
Police	21,636,783				
Fire	14,994,417				
Supplemental educational revenue augmentation fund payment (Note 16)				2,424,140	
Capital outlay	64,421	6,786		8,953,948	2,564,643
Debt service:					
Principal				8,224,862	
Interest and fees				11,748,543	
<b>Total Expenditures</b>	<b>63,747,843</b>	<b>20,769</b>	<b>3,346,491</b>	<b>35,983,345</b>	<b>2,861,875</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(8,251,816)</b>	<b>96,770</b>	<b>(1,603,039)</b>	<b>3,654,164</b>	<b>(1,170,089)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of property	5,116				
Transfers in (Note 4)	34,054,456	62,047,926	11,668,669	10,555,357	744,439
Transfers (out) (Note 4)	(500,000)	(9,707,450)	(17,227,386)	(87,680,381)	(423,903)
<b>Total Other Financing Sources (Uses)</b>	<b>33,559,572</b>	<b>52,340,476</b>	<b>(5,558,717)</b>	<b>(77,125,024)</b>	<b>320,536</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>25,307,756</b>	<b>52,437,246</b>	<b>(7,161,756)</b>	<b>(73,470,860)</b>	<b>(849,553)</b>
Fund balances (deficits) at beginning of period	50,795,187		27,461,000	41,320,445	12,783,699
<b>FUND BALANCES (DEFICITS) AT END OF PERIOD</b>	<b>\$76,102,943</b>	<b>\$52,437,246</b>	<b>\$20,299,244</b>	<b>(\$32,150,415)</b>	<b>\$11,934,146</b>

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
		\$55,655,316
		16,994,002
	\$1,018,660	10,916,836
		4,309,019
\$825	196,798	3,948,204
	2,361,719	5,081,645
	361,260	4,020,216
	2,695,030	3,359,696
	3,050	1,038,721
<u>825</u>	<u>6,636,517</u>	<u>105,323,655</u>
	119,150	19,003,360
		1,974,820
	1,010,140	7,959,786
	422,392	2,267,451
		5,688,045
	45,035	21,681,818
		14,994,417
		2,424,140
602,414	747,478	12,939,690
		8,224,862
637,381		12,385,924
<u>1,239,795</u>	<u>2,344,195</u>	<u>109,544,313</u>
(1,238,970)	4,292,322	(4,220,658)
		5,116
	142,112	119,212,959
	(299,859)	(115,838,979)
	(157,747)	3,379,096
(1,238,970)	4,134,575	(841,562)
<u>(10,219,201)</u>	<u>17,618,891</u>	<u>139,760,021</u>
<u>(\$11,458,171)</u>	<u>\$21,753,466</u>	<u>\$138,918,459</u>

CITY OF MILPITAS  
 Reconciliation of the  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2011

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$841,562)

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 \$702,099 have already been added to capital assets)	13,882,826
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$732,560 which has already been allocated to serviced funds.)	(14,195,066)

LONG TERM DEBT PAYMENTS

Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of principal is added back to fund balance	8,224,862
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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	29,615
Non-current portion of uninsured claims payable	(138,163)
Interest payable	59,941
Deferred revenue	2,930,093

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds	242,044
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$10,194,590
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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, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$17,217,500	\$17,217,500	\$16,651,635	(\$565,865)
Sales taxes	15,364,697	15,364,697	16,994,002	1,629,305
Other taxes	9,019,750	9,019,750	9,898,176	878,426
Licenses and fines	3,306,000	3,316,000	4,309,019	993,019
Use of money and property	729,000	729,000	2,745,499	2,016,499
Intergovernmental	351,000	595,104	1,148,666	553,562
Charges for services	3,658,100	3,658,100	3,658,956	856
Other	68,000	71,670	90,074	18,404
Total Revenues	<u>49,714,047</u>	<u>49,971,821</u>	<u>55,496,027</u>	<u>5,524,206</u>
Expenditures				
Current:				
General Government:				
City Manager	2,037,247	2,040,747	1,921,438	119,309
City Attorney	646,200	646,200	646,198	2
Finance	2,416,573	2,416,573	2,300,427	116,146
Information Services	2,751,327	2,751,327	2,655,219	96,108
Human Resources	1,014,885	1,014,885	787,669	227,216
Non-departmental	4,962,185	4,381,998	3,735,863	646,135
Building and Safety	1,978,287	1,978,287	1,974,820	3,467
Public Works	6,618,931	6,633,066	6,327,271	305,795
Planning and Neighborhood Services	1,290,944	1,290,944	1,199,410	91,534
Parks and Recreation	6,310,915	6,315,730	5,688,509	627,221
Police	22,121,728	22,191,628	21,639,617	552,011
Fire	14,243,187	14,999,451	14,994,554	4,897
Total Expenditures	<u>66,392,409</u>	<u>66,660,836</u>	<u>63,870,995</u>	<u>2,789,841</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(16,678,362)</u>	<u>(16,689,015)</u>	<u>(8,374,968)</u>	<u>8,314,047</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	3,000	3,000	5,116	2,116
Transfers in	9,699,558	20,280,558	34,054,456	13,773,898
Transfers (out)	(350,000)	(500,000)	(500,000)	
Total Other Financing Sources (Uses)	<u>9,352,558</u>	<u>19,783,558</u>	<u>33,559,572</u>	<u>13,776,014</u>
Net change in fund balance	<u>(\$7,325,804)</u>	<u>\$3,094,543</u>	25,184,604	<u>\$22,090,061</u>
Adjustment to budgetary basis:				
Capital outlay			(64,421)	
Encumbrance expenditures			187,573	
Fund balance, July 1			<u>50,795,187</u>	
Fund balance, June 30			<u>\$76,102,943</u>	

See accompanying notes to financial statements

CITY OF MILPITAS  
HOUSING RESERVE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Use of money and property	\$283,000	\$283,000	\$377,576	\$94,576
Developer contributions			425,000	425,000
Other			940,876	940,876
<b>Total Revenues</b>	<b>283,000</b>	<b>283,000</b>	<b>1,743,452</b>	<b>1,460,452</b>
<b>Expenditures</b>				
Current:				
General Government:				
City Manager	60,970	60,970	56,608	4,362
Non-departmental	7,098,110	7,098,110	3,002,072	4,096,038
Planning and Neighborhood Services	318,285	318,285	288,963	29,322
<b>Total Expenditures</b>	<b>7,477,365</b>	<b>7,477,365</b>	<b>3,347,643</b>	<b>4,129,722</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(7,194,365)</b>	<b>(7,194,365)</b>	<b>(1,604,191)</b>	<b>5,590,174</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	8,027,000	11,668,669	11,668,669	
Transfers (out)	(1,453,488)	(1,453,488)	(17,227,386)	(15,773,898)
<b>Total Other Financing Sources (Uses)</b>	<b>6,573,512</b>	<b>10,215,181</b>	<b>(5,558,717)</b>	<b>(15,773,898)</b>
<b>Net change in fund balance</b>	<b>(\$620,853)</b>	<b>\$3,020,816</b>	<b>(7,162,908)</b>	<b>(\$10,183,724)</b>
Adjustment to budgetary basis:				
Encumbrance expenditures			1,152	
Fund balance, July 1			27,461,000	
Fund balance, June 30			\$20,299,244	

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
<b>ASSETS</b>					
Current Assets					
Cash and investments available for operations (Note 3)	\$16,684,694	\$851,667	\$18,929,717	\$36,466,078	\$8,558,553
Receivables:					
Accounts	1,045,048	66,699	732,002	1,843,749	
Due from other governments	44,340		26,297	70,637	
Interest	58,392	3,981	64,418	126,791	29,971
Prepays, materials, supplies and deposits	217,791	1,104	22,899	241,794	132,029
<b>Total current assets</b>	<b>18,050,265</b>	<b>923,451</b>	<b>19,775,333</b>	<b>38,749,049</b>	<b>8,720,553</b>
Noncurrent assets:					
Advance to other funds (Note 4)			4,791,600	4,791,600	
Capital assets and capacity rights (Note 8):					
Land and construction in progress	13,167,994		6,780,905	19,948,899	
Depreciable capital assets, net	33,211,179	230,570	62,406,538	95,848,287	3,960,136
<b>Total noncurrent assets</b>	<b>46,379,173</b>	<b>230,570</b>	<b>73,979,043</b>	<b>120,588,786</b>	<b>3,960,136</b>
<b>Total assets</b>	<b>64,429,438</b>	<b>1,154,021</b>	<b>93,754,376</b>	<b>159,337,835</b>	<b>12,680,689</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,334,120	39,368	115,167	1,488,655	71,994
Accrued payroll	80,384	2,821	39,661	122,866	18,474
Interest payable			51,088	51,088	
Refundable deposits	24,120	138,428		162,548	
Accrued vacation (Note 12)	57,821		57,821	115,642	18,014
Sick leave payable (Note 12)	21,685		21,685	43,370	6,281
Certificates of Participation (Note 9)			380,000	380,000	
<b>Total current liabilities</b>	<b>1,518,130</b>	<b>180,617</b>	<b>665,422</b>	<b>2,364,169</b>	<b>114,763</b>
Non-current liabilities:					
Accrued vacation (Note 12)	59,903		59,903	119,806	36,844
Sick leave payable (Note 12)	58,631		58,631	117,262	16,981
Certificates of Participation (Note 9)			7,710,000	7,710,000	
<b>Total non-current liabilities</b>	<b>118,534</b>	<b></b>	<b>7,828,534</b>	<b>7,947,068</b>	<b>53,825</b>
<b>Total liabilities</b>	<b>1,636,664</b>	<b>180,617</b>	<b>8,493,956</b>	<b>10,311,237</b>	<b>168,588</b>
<b>NET ASSETS (Note 10)</b>					
Invested in capital assets and capacity rights, net of related debt	46,379,173	230,570	61,097,443	107,707,186	3,960,136
Restricted for capital projects	11,779,588		8,962,801	20,742,389	
Unrestricted	4,634,013	742,834	15,200,176	20,577,023	8,551,965
<b>Total net assets</b>	<b>\$62,792,774</b>	<b>\$973,404</b>	<b>\$85,260,420</b>	<b>\$149,026,598</b>	<b>\$12,512,101</b>

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
OPERATING REVENUES					
Charges for services	\$15,064,558	\$1,293,881	\$11,338,337	\$27,696,776	\$2,308,071
Other operating revenue	136,761	6,493	67,143	210,397	
Total Operating Revenues	<u>15,201,319</u>	<u>1,300,374</u>	<u>11,405,480</u>	<u>27,907,173</u>	<u>2,308,071</u>
OPERATING EXPENSES					
Purchased water	8,040,216	337,076		8,377,292	
Sewer treatment services			4,449,565	4,449,565	
Personnel services	2,371,799	104,731	1,355,538	3,832,068	602,927
Services and supplies	880,084	8,226	566,354	1,454,664	680,238
Depreciation	1,367,876	20,217	2,502,009	3,890,102	732,560
Repairs and maintenance	105,682		49,158	154,840	372,603
Total Operating Expenses	<u>12,765,657</u>	<u>470,250</u>	<u>8,922,624</u>	<u>22,158,531</u>	<u>2,388,328</u>
Operating Income (Loss)	<u>2,435,662</u>	<u>830,124</u>	<u>2,482,856</u>	<u>5,748,642</u>	<u>(80,257)</u>
NONOPERATING REVENUES					
Interest income	105,866	2,369	346,882	455,117	60,528
Interest expense			(317,311)	(317,311)	
Subventions and grants		70,072		70,072	
Gain on sale of assets					9,662
Total Nonoperating Revenues	<u>105,866</u>	<u>72,441</u>	<u>29,571</u>	<u>207,878</u>	<u>70,190</u>
Income (Loss) Before Contributions and Transfers	2,541,528	902,565	2,512,427	5,956,520	(10,067)
Capital contributions					252,111
Capital contributions - connection fees	51,570		111,926	163,496	
Transfers in (Note 4)	1,179,000	620	15,580	1,195,200	
Transfers (out) (Note 4)	<u>(1,788,178)</u>	<u>(1,310,010)</u>	<u>(1,470,992)</u>	<u>(4,569,180)</u>	
Change in net assets	1,983,920	(406,825)	1,168,941	2,746,036	242,044
Total net assets-beginning	<u>60,808,854</u>	<u>1,380,229</u>	<u>84,091,479</u>	<u>146,280,562</u>	<u>12,270,057</u>
Total net assets-ending	<u>\$62,792,774</u>	<u>\$973,404</u>	<u>\$85,260,420</u>	<u>\$149,026,598</u>	<u>\$12,512,101</u>

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$15,152,068	\$1,328,811	\$11,359,354	\$27,840,233	\$2,308,071
Payments to suppliers	(9,537,688)	(339,684)	(5,046,661)	(14,924,033)	(1,053,929)
Payments to employees	(2,343,710)	(106,663)	(1,333,254)	(3,783,627)	(591,981)
Net cash provided by operating activities	<u>3,270,670</u>	<u>882,464</u>	<u>4,979,439</u>	<u>9,132,573</u>	<u>662,161</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Subventions and grants		70,072		70,072	
Advance to other funds			(217,800)	(217,800)	
Transfers in	1,179,000	620	15,580	1,195,200	
Transfers (out)	(1,788,178)	(1,310,010)	(1,470,992)	(4,569,180)	
Cash Flows from Noncapital Financing Activities	<u>(609,178)</u>	<u>(1,239,318)</u>	<u>(1,673,212)</u>	<u>(3,521,708)</u>	
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>					
Principal paid on long-term debt			(370,000)	(370,000)	
Interest paid			(319,468)	(319,468)	
Proceeds from sale of capital assets					9,662
Acquisition of capital assets	(3,724,217)		(3,132,578)	(6,856,795)	(449,988)
Capital contributions - connection fees	51,570		111,926	163,496	
Cash Flows from Capital and Related Financing Activities	<u>(3,672,647)</u>		<u>(3,710,120)</u>	<u>(7,382,767)</u>	<u>(440,326)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	139,005	9,474	358,375	506,854	71,347
Cash Flows from Investing Activities	<u>139,005</u>	<u>9,474</u>	<u>358,375</u>	<u>506,854</u>	<u>71,347</u>
Net increase (decrease) in cash and cash equivalents	(872,150)	(347,380)	(45,518)	(1,265,048)	293,182
Cash and investments at beginning of period	17,556,844	1,199,047	18,975,235	37,731,126	8,265,371
Cash and investments at end of period	<u>\$16,684,694</u>	<u>\$851,667</u>	<u>\$18,929,717</u>	<u>\$36,466,078</u>	<u>\$8,558,553</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$2,435,662	\$830,124	\$2,482,856	\$5,748,642	(\$80,257)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,367,876	20,217	2,502,009	3,890,102	732,560
Change in assets and liabilities:					
Receivables, net	(48,871)	(8,146)	(46,126)	(103,143)	
Materials, supplies and deposits	(9,109)	1,914	693	(6,502)	(28,994)
Accrued payroll	11,300	(1,932)	5,495	14,863	
Accounts and other payables	(486,188)	40,287	34,512	(411,389)	38,852
Net cash provided by operating activities	<u>\$3,270,670</u>	<u>\$882,464</u>	<u>\$4,979,439</u>	<u>\$9,132,573</u>	<u>\$662,161</u>
<b>NONCASH TRANSACTIONS:</b>					
Contributions and transfers of capital assets, net					<u>\$252,111</u>

See accompanying notes to financial statements



CITY OF MILPITAS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 3)	\$8,078,172
Interest receivable	<u>13,653</u>
Total Assets	<u><u>\$8,091,825</u></u>
LIABILITIES	
Refundable deposits	\$2,099,620
Due to Local Improvement Districts	<u>5,992,205</u>
Total Liabilities	<u><u>\$8,091,825</u></u>

See accompanying notes to financial statements



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

**A. Reporting Entity**

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

**PRIMARY GOVERNMENT**

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

**Blended Component Units**

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Housing Authority did not undertake any transactions during fiscal year 2011.

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

**Discretely Presented Component Unit**

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The 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, are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Assets and the Statement of Activities.

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

**B. Basis of Presentation**

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

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

**C. Major Funds**

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

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

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

**Economic Development Corporation Fund** – Established to account for the activities of the Milpitas Economic Development Corporation established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

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

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

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

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

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

The City also reports the following fund types:

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

**Fiduciary Funds** – 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

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*.

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

**E. *Prepays, 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.

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**F. *Property Tax***

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

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

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

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

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

**H. *Use of Estimates***

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

**I. *New Fund and Fund Recategorization***

The Economic Development Corporation Special Revenue Fund was established to account for the activities of the Milpitas Economic Development Corporation.

The Public Art Fund was recategorized from a special revenue fund to a capital projects fund.

**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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

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

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

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

**B. *Adjustments to GAAP Basis from Budgetary Basis***

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

**C. *Expenditures in Excess of Budget***

The Housing and Community Development Special Revenue Fund had planning and neighborhood services expenditures in excess of budget in the amount of \$9,400 and the Redevelopment Project Capital Projects Fund had supplemental educational revenue augmentation fund expenditures in excess of budget in the amount of \$65,954. Sufficient resources were available within the fund to finance these expenditures.

**NOTE 3 - CASH AND INVESTMENTS**

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

**A. *Policies***

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

Other restricted cash and investments may be used only for capital projects by the Redevelopment Agency.

**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 Agency agreements.

Cash and investments available for operations	\$158,904,530
Restricted investments	7,514,703
Total Primary Government cash and investments	<u>166,419,233</u>
Cash and investments available for operations	20,165
Restricted investments	1,073,563
Total Component Unit cash and investments	<u>1,093,728</u>
Cash and investments	
in Fiduciary Funds (separate statement)	<u>8,078,172</u>
Total cash and investments	<u><u>\$175,591,133</u></u>

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**D. Investments Authorized by Debt Agreements**

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

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

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

**E. Investments Authorized for Terrace Gardens Inc.**

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**F. Interest Rate Risk**

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
<i>City:</i>					
U.S. Government Agency Issues	\$29,031,415	\$22,355,950	\$24,228,248	\$47,421	\$75,663,034
Corporate Notes			4,043,666		4,043,666
U.S. Treasury Notes	9,231,210	2,032,820	2,006,560		13,270,590
California Local Agency Investment Fund	80,605,042				80,605,042
Mutual Funds (U.S. Securities)	373,529				373,529
<i>Terrace Gardens, Inc.:</i>					
Certificates of Deposit	779,546				779,546
Total Investments	<u>\$120,020,742</u>	<u>\$24,388,770</u>	<u>\$30,278,474</u>	<u>\$47,421</u>	174,735,407
<i>Demand Deposits - City of Milpitas</i>					541,544
<i>Demand Deposits - Terrace Gardens</i>					314,182
Total Cash and Investments					<u>\$175,591,133</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011 these investments matured in an average of 237 days.

Mutual funds are available for withdrawal on demand and at June 30, 2011 matured in an average of 52 days.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**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, 2011 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm	AA+	Total
U.S. Government Agency Issues	\$75,663,034		\$75,663,034
Corporate Notes	1,001,760	\$3,041,906	4,043,666
Mutual Funds (U.S. Securities)	373,529		373,529
Totals	<u>\$77,038,323</u>	<u>\$3,041,906</u>	80,080,229
<i>Not rated:</i>			
California Local Agency Investment Fund			80,605,042
<i>Exempt from credit rate disclosure:</i>			
U.S. Treasury Notes			13,270,590
Total Investments			<u>\$173,955,861</u>

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2011, all of Terrace Gardens' Time Certificate of Deposits were fully insured by Federal Deposit Insurance.

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks (FFCB) from AAA to AA+, and lowered the senior issue ratings on Fannie Mae (FNMA) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. Finally, S&P affirmed the short-term issue ratings for these entities at A-1+. As of June 30, 2011, the City's investments in these agencies that were subject to the downgrade were as follows: FHLB \$50,586,140, FFCB \$20,311,558, and FNMA \$4,717,915.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**H. Significant Investments**

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2011:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal agency securities	\$50,586,140
Federal Farm Credit Bank	Federal agency securities	20,311,558

Investments in the securities of any individual issuers, other than U.S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of Agency Funds were as follows at June 30, 2011:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal agency securities	\$1,672,928

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**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, 2011 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
<b>Major Funds:</b>		
General Fund	Housing Reserve Special Revenue Fund	\$1,065,811 (A)
General Fund	Housing Reserve Special Revenue Fund	15,773,898 (B)
General Fund	Redevelopment Project Capital Projects Fund	4,630,655 (A)
General Fund	Redevelopment Project Capital Projects Fund	8,781,000 (B)
General Fund	Redevelopment Project Capital Projects Fund	150,000 (C)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	260,197 (A)
General Fund	Hetch-Hetchy Ground Lease Special Revenue Fund	2,715 (A)
General Fund	Water Utility Enterprise Fund	1,788,178 (A)
General Fund	Recycled Water Utility Enterprise Fund	131,010 (A)
General Fund	Sewer Utility Enterprise Fund	1,470,992 (A)
Economic Development Corporation Special Revenue Fund	Redevelopment Project Capital Projects Fund	62,047,926 (D)
Housing Reserve Special Revenue Fund	Redevelopment Project Capital Projects Fund	11,668,669 (E)
Redevelopment Project Capital Projects Fund	Economic Development Corporation Special Revenue Fund	9,707,450 (F)
Redevelopment Project Capital Projects Fund	Housing Reserve Special Revenue Fund	387,677 (A)
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	318,886 (C)
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	104,397 (F)
Redevelopment Project Capital Projects Fund	Community Facilities District Special Revenue Fund	36,947 (F)
Street Improvement Capital Projects Fund	Redevelopment Project Capital Projects Fund	244,439 (C)
Street Improvement Capital Projects Fund	General Fund	500,000 (F)
Water Utility Enterprise Fund	Recycled Water Utility Enterprise Fund	1,179,000 (F)
Recycled Water Utility Enterprise Fund	Street Improvement Capital Projects Fund	620 (C)
Sewer Utility Enterprise Fund	Redevelopment Project Capital Projects Fund	15,580 (F)
<b>Non-Major Funds:</b>		
Public Art Capital Projects	Redevelopment Project Capital Projects Fund	107,112 (G)
Storm Drain Development Capital Project Fund	Redevelopment Project Capital Projects Fund	35,000 (F)
Total Interfund Transfers		<u>\$120,408,159</u>

The reasons for these transfers are set forth below:

- (A) Reimbursement of costs incurred
- (B) Transfer of property held for resale to the General Fund (See Note 6)
- (C) Return of unused capital projects funds
- (D) Transfer to the newly created Economic Development Corporation Fund
- (E) State-required set-aside of Low and Moderate Income Housing portion of property tax increment
- (F) Transfer of capital projects amounts
- (G) Transfer to fund public art project

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**B. Long-Term Interfund Advances**

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels is \$20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund is due on September 7, 2044 and bears simple interest of 10% annually. At June 30, 2011 the balance of the advance including principal and accrued interest was \$23,225,237.

On May 6, 2008, the City approved the purchase of 0.75 million gallons per day wastewater treatment capacity at the San Jose/Santa Clara Sanitary District via a purchase from the Cupertino Sanitary District (CuSD). The capacity is for build-out of the Transit Area Specific Plan. Funding for this purchase was included in the Transit Area Development Impact Fee Program. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. Therefore, the Redevelopment Project Capital Projects Fund advanced \$4,549,161 to the Transit Area Impact Fee Capital Projects Fund to cover the payment to CuSD and \$200,000 to cover other associated costs. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2011 the balance of the advance including principal and accrued interest was \$5,230,571.

During fiscal year 2010 the Redevelopment Project Capital Projects Fund advanced \$1,330,000 to the Transit Area Development Impact Fee Capital Projects Fund for the preparation costs of the Transit Area Specific Plan. The Sewer Utility Enterprise Fund advanced \$4,356,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with the main sewage pump station improvements in the Transit Area. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2011 the balance of the Economic Development Corporation Special Revenue Fund advance including principal and accrued interest was \$1,463,000 and the balance of the Sewer Utility Enterprise Fund advance including principal and accrued interest was \$4,791,600.

During fiscal year 2011 the Redevelopment Project Capital Projects Fund advanced \$2,550,000 to the Transit Area Development Impact Fee Capital Projects Fund for the Light Rail Median Landscaping Project. The advance is due on August 2, 2030 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2011 the balance of the advance including principal and accrued interest was \$2,665,623.

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced \$6,800,000 and \$1,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of two land parcels. The \$6,800,000 advance is due on April 17, 2037, and the \$1,800,000 advance is due on February 15, 2031. Both advances bear simple interest of 5% annually. At June 30, 2011 the balance of the advances including principal and accrued interest was \$8,925,177.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**C. Internal Balances**

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

**NOTE 5 - LOANS RECEIVABLE**

The City and Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing. These loans were comprised of the following at June 30, 2011:

Rehabilitation Loans	\$3,368,435
Milpitas Housing Associates	4,428,366
Parc Metropolitan Housing Development	219,928
Montague Parkway Associates, LP	1,018,296
Parc North Associates LLC	1,893,063
Mid-Peninsula Milpitas Affordable Housing Associates	15,279,301
KB Home South Bay Inc.	1,800,000
Western Pacific Housing Inc.	1,957,000
Shapell Industries	800,000
Mil Aspen Associates, Ltd.	2,436,503
Total Loans Receivable	<u>\$33,200,892</u>

**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, 2011 the City had outstanding rehabilitation loans of \$3,368,435 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2011, the City received \$68,025 from all participants, and made new loans totaling \$236,542.

**B. Milpitas Housing Associates Loan**

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the fiscal year, the Agency received a payment of \$180,121. As of June 30, 2011, principal and accrued interest totaled \$4,428,366.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the fiscal year, the Agency received principal payments of \$7,038 and as of June 30, 2011, there were \$219,928 in loans outstanding.

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

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, \$1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal of \$74,095 was paid in fiscal 2011. As of June 30, 2011, the outstanding balance totaled \$1,018,296.

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

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61<sup>st</sup> month after the recordation of the deeds of trust and continues until the loans are paid in full. During the fiscal year the Agency made new loans totaling \$100,000 and as of June 30, 2011, there were \$1,893,063 of such loans outstanding.

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

In December 2005, the Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by second deed of trust on the property. Construction began in fiscal year 2006. During fiscal year 2011, a payment in the amount of \$493,535 was made, interest of \$288,000 was accrued, and as of June 30, 2011, principal and accrued interest outstanding totaled \$15,279,301.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

As of June 30, 2011, there were \$1,800,000 of loans to Parcel C households outstanding. As of June 30, 2011 the Agency had provided subsidies totaling \$4,707,542.

**H. *Western Pacific Housing Inc., Loans***

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61<sup>st</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2011, there were \$760,000 such loans outstanding.

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

In September 2006, the Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the 61<sup>st</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2011, there were \$1,197,000 of silent second loans outstanding.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**I. *Shapell Industries***

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the 37<sup>th</sup> month following the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2011, there were \$800,000 of silent second loans outstanding.

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

In April 2007, the Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears simple interest at the rate of 5% per year, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. As of June 30, 2011, principal and accrued interest totaled \$2,436,503.

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

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

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

In fiscal year 2010 the Agency purchased five housing units for \$1,503,718 in the Parc Metro Subdivision, one housing unit for \$207,179 in the Centria Subdivision, and one housing unit for \$383,369 in the KB Home Subdivision. The Centria and KB Home Subdivision homes were sold during fiscal year 2011. 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. The units were purchased in order to retain them as affordable housing units and are being held for future resale. Five of the units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of \$12,443,137, which is intended to be sold to a developer in the near future, as discussed in Note 7E below.

In February 2011, the Agency purchased additional property along South Main Street in the amount of \$1,792,200 which is intended to be incorporated into the Midtown Specific Plan.

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33445 and 33490 to allow the conveyance of all of the above property to the City. The property is held in the General Fund.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 7 - DEVELOPMENT AGREEMENTS**

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

**A. *The Crossing at Montague***

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% (94 units) of the units to very low income households. On behalf of the developer, the City issued \$45,000,000 in tax exempt bonds and \$15,000,000 in taxable bonds in June 2000. As of June 30, 2011, the outstanding principal of the debt was \$52,000,000. The debt service payments on these bonds are solely the responsibility of the developer.

**B. *Apton Properties LLC***

In September 2004, the Agency entered into an Owner Participation Agreement with Apton Properties, LLC for the development of a mixed-use project that will include commercial retail and a 93-unit condominium complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. The Owner Participation Agreement was amended in June 2008 to change the deed-restricted units to 12 extremely low-income units, 43 very low-income units, and 38 market rate units. In June 2010, Apton Properties offered to sell the property to the Agency for \$6.3 million plus reimbursement of \$500,000 for in-lieu fees and improvements made to the property. The City accepted the offer. Subsequently, the Owner Participation Agreement was terminated and the Agency purchased the property in August 2010 for the development of open space in the future.

**C. *Installment Purchase Agreement***

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

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

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

**D. *County of Santa Clara***

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)**

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

In August 2009, the Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC to develop 180 units of “Continuum of Care Senior Housing” (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. The sales price for the Phase 1 Parcel will be \$5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or \$7,377,871. In addition, the Agency’s Housing Reserve Special Revenue Fund will provide a grant in the amount of \$7.7 million to support the development and operation of the Phase 1 Parcel project. As of June 30, 2010, the Agency had acquired the properties as discussed in Note 6 above, but had not resold the parcels to the developer, and as of June 30, 2011, the Agency had not expended any funds on the grant.

**F. *Integral Communities McCandless, LLC.***

In August 2010, the Agency entered into an Owner Participation Agreement with Integral Communities McCandless, LLC, to develop 23 acres along McCandless Drive with 92,000 square feet of retail space, 1,328 new residential units, and approximately three acres of new public open space. A grocery store space will be created as part of the retail space and include a permanent covenant that will ensure a grocery store will remain at that location. Fifteen percent of the total residential units (199 of 1,328 units constructed) will be for moderate income households. Under the terms of the Agreement, the Agency will provide financial assistance up to \$41.3 million consisting of: \$29,153,673 for the cost of offsite infrastructure and associated development fees, \$5,846,327 or \$29,378 per unit for restricted unit assistance, and \$6,300,000 for the grocery store covenant payments. The Agency will make an annual grocery store covenant payment not to exceed \$630,000 annually for up to 10 years for an amount not to exceed \$6.30 million. A key provision in the Agreement limits the amount of annual assistance from the Agency to the additional tax increment revenue generated from the project and received by the Agency each year. The developer will not receive any annual assistance/reimbursement payments beyond 24 years. After 24 years, all assistance/reimbursements will stop and the Agency will retain full share of the tax increment revenue from the project until the Project Area expires. As of June 30, 2011, the Agency had not expended any funds under the Agreement.

**G. *Sun Power Corporation***

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 8 - CAPITAL ASSETS**

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

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

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

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

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

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

	Balance at June 30, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Capital assets not being depreciated:					
Land	\$57,504,166	\$7,832,586			\$65,336,752
Construction in progress	85,042,221	3,357,801		(\$2,405,250)	85,994,772
Total capital assets not being depreciated	<u>142,546,387</u>	<u>11,190,387</u>		<u>(2,405,250)</u>	<u>151,331,524</u>
Capital assets being depreciated:					
Buildings and improvements	96,323,815				96,323,815
Other improvements	24,341,110			42,218	24,383,328
Machinery and equipment	34,571,392	829,895	(\$123,232)		35,278,055
Landscape system	29,633,961				29,633,961
Storm system	74,299,423				74,299,423
Street system	217,655,031	1,710,621		2,231,526	221,597,178
Traffic system	17,552,152	854,022		131,506	18,537,680
Total capital assets being depreciated	<u>494,376,884</u>	<u>3,394,538</u>	<u>(123,232)</u>	<u>2,405,250</u>	<u>500,053,440</u>
Less accumulated depreciation for:					
Buildings and improvements	(36,164,451)	(3,665,480)			(39,829,931)
Other improvements	(14,410,533)	(955,183)			(15,365,716)
Machinery and equipment	(17,594,767)	(2,309,224)	123,232		(19,780,759)
Landscape system	(9,934,427)	(593,776)			(10,528,203)
Storm system	(67,331,492)	(794,316)			(68,125,808)
Street system	(155,509,559)	(5,953,530)			(161,463,089)
Traffic system	(9,478,421)	(656,117)			(10,134,538)
Total accumulated depreciation	<u>(310,423,650)</u>	<u>(14,927,626)</u>	<u>123,232</u>		<u>(325,228,044)</u>
Net capital assets being depreciated	<u>183,953,234</u>	<u>(11,533,088)</u>		<u>2,405,250</u>	<u>174,825,396</u>
Governmental activity capital assets, net	<u>\$326,499,621</u>	<u>(\$342,701)</u>			<u>\$326,156,920</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

Governmental activities construction in progress comprised the following at June 30, 2011:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Community Center Renovations	\$460,000	\$445,736	\$14,264
Radio Replacement Plan	1,083,245	1,075,073	8,172
Miscellaneous City Building Improvement Projects	954,446	953,163	1,283
Land Acquisition, Abatement & Site Preparation for Midtown Parking Garage East	3,928,434	2,385,545	1,542,889
Midtown Parking Garage East	12,350,000	12,095,507	254,493
Library Project	38,200,000	36,950,597	1,249,403
Bart Extension Coordination & Plan	595,468	472,418	123,050
Main Street Midtown Improvement	7,815,614	7,283,814	531,800
N Main Street EIR Mitigation	623,650	623,650	
Range Lead Containment	250,000	159,534	90,466
Senior Center	13,180,000	10,644,672	2,535,328
City Building Improvement	1,406,646	390,962	1,015,684
Storm Pump Station Improvement	250,000	220,564	29,436
Green Facility Improvement	125,000	72,973	52,027
Park Master Plan Improvement	250,000	466	249,534
Carlo Street Ramp	1,500,000	602,812	897,188
Soundwall Renovation	300,000	212,014	87,986
Civic Center Site Improvement	500,000	440,095	59,905
Department of Energy	1,102,220	806,460	295,760
St. Light Pole Improvement	150,000	18,491	131,509
City Hall AV Equipment	1,500,000	6,786	1,493,214
Alviso Adobe Renovation	5,140,879	2,331,832	2,809,047
Penitencia Creek Trail Feasibility Study	40,000	292	39,708
Berryessa Creek Trail, Reach 4	25,000	4,876	20,124
Park Master Plan	225,000	184,241	40,759
Berryessa Creek Trail, Reach 6A	10,000	9,614	386
Electrical Cabinet Upgrade	100,000	97,012	2,988
Park Irrigation System Rehabilitation	400,000	362,712	37,288
Calle Oriente Park	617,949	581,208	36,741
Cardoza Park Playground	1,175,000	897,363	277,637
Park Renovation Project	193,000	191,494	1,506
Park Renovation Project	100,000	1,153	98,847
PEG Access Support	540,000	514,459	25,541
2009 Finance System Upgrade	125,000	108,276	16,724
Storm Drain System	300,000	82,379	217,621
Emergency Pump Station	100,000		100,000
Fuel Tank Improvement	75,000		75,000
Minor Storm Drain	10,000		10,000
Light Rail Median Lane	6,000,000	1,548,747	4,451,253
Second SCVWD Water	200,000		200,000
Terra Serena Homes Infrastructure	4,530,858	3,217,782	1,313,076
Total construction in progress	<u>\$106,432,409</u>	<u>\$85,994,772</u>	<u>\$20,437,637</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

	Balance at June 30, 2010	Additions	Transfers	Balance at June 30, 2011
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	26,918,564	\$4,663,196	(\$12,765,940)	18,815,820
Total capital assets not being depreciated	28,051,643	4,663,196	(12,765,940)	19,948,899
Capital assets being depreciated:				
Distribution facilities	67,261,796			67,261,796
Service lines	12,473,544			12,473,544
Sewer lines	59,816,036		12,765,940	72,581,976
Capacity rights	37,544,484	2,193,599		39,738,083
Total capital assets being depreciated	177,095,860	2,193,599	12,765,940	192,055,399
Less accumulated depreciation for:				
Distribution facilities	(40,412,077)	(1,170,765)		(41,582,842)
Service lines	(4,493,421)	(217,328)		(4,710,749)
Sewer lines	(37,003,528)	(1,320,236)		(38,323,764)
Capacity rights	(10,407,984)	(1,181,773)		(11,589,757)
Total accumulated depreciation	(92,317,010)	(3,890,102)		(96,207,112)
Net capital assets being depreciated	84,778,850	(1,696,503)	12,765,940	95,848,287
Business-type activity capital assets, net	<u>\$112,830,493</u>	<u>\$2,966,693</u>		<u>\$115,797,186</u>

Business-type activities construction in progress comprised the following at June 30, 2011:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Sewer I/I Structure	\$4,847,027	\$4,729,880	\$117,147
Main SPS Site Improvements	2,750,000	2,031,623	718,377
Cypress Sewer Main	300,000	17,901	282,099
South Bay Water Recycling	700,000		700,000
Pressure Reducing Valve Replacement	320,000	36,426	283,574
Well Upgrade Program	3,045,000	1,707,715	1,337,285
Water System Air Relief Valve	680,000	339,470	340,530
South Milpitas Water Line Replacement	3,440,000	533,894	2,906,106
Water System Seismic Improvements	3,987,951	543,667	3,444,284
Gibraltar Reservoir & Pump Station	9,025,000	8,597,860	427,140
Ayer Reservoir & Pump Station Improvements	900,000	164,620	735,380
Minor Water Projects 2007	125,000	76,956	48,044
Recycled Water Site Improvements	600,000	24,066	575,934
Water System Replacement 08-09	700,000	11,121	688,879
Hydrant Replacement	170,000	621	169,379
Total construction in progress	<u>\$31,589,978</u>	<u>\$18,815,820</u>	<u>\$12,774,158</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended June 30, 2011:

	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011
Capital assets not being depreciated:				
Land	\$1,565,277			\$1,565,277
Capital assets being depreciated:				
Buildings	12,519,332	\$275,238		12,794,570
Furniture	211,160		(\$8,361)	202,799
Office equipment	60,710			60,710
Improvements	200,423			200,423
Total capital assets being depreciated	12,991,625	275,238	(8,361)	13,258,502
Less accumulated depreciation	(5,285,404)	(295,978)	8,361	(5,573,021)
Net capital assets being depreciated	7,706,221	(20,740)		7,685,481
Total capital assets, net	\$9,271,498	(\$20,740)		\$9,250,758

**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	\$3,114,876
Public Works	9,067,627
Parks and Recreation	787,142
Police	858,335
Fire	367,086
Internal Service Fund	732,560
<b>Total Governmental Activities</b>	<b>\$14,927,626</b>

***Business-Type Activities***

Water Utility	\$1,367,876
Recycled Water Utility	20,217
Sewer Utility	2,502,009
<b>Total Business-Type Activities</b>	<b>\$3,890,102</b>

***Discretely Presented Component Unit:***

Terrace Gardens, Inc.	\$295,978
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**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**E. Sewer Treatment Capacity Rights**

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 8.1% of the total plant capacity. The City has capitalized its share in the amount of \$20,570,361. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2011 the City's operation and maintenance share was approximately 7.65% of the total WPCP operations.

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

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

**NOTE 9 - LONG TERM DEBT**

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

**A. Current Year Transactions and Balances**

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

	Balance June 30, 2010	Retirements	Balance June 30, 2011	Current Portion
<b>Governmental Activity Debt:</b>				
<b>2003 Redevelopment Agency Tax Allocation Bonds</b>				
2%-5.25%, due September 1, 2032	\$174,180,000	\$5,240,000	\$168,940,000	\$5,410,000
<b>Installment Purchase Agreement   with the County of Santa Clara</b>				
due June 30, 2023	<u>36,962,829</u>	<u>2,984,862</u>	<u>33,977,967</u>	<u>2,842,725</u>
Total Governmental Activity Debt	<u>\$211,142,829</u>	<u>\$8,224,862</u>	<u>\$202,917,967</u>	<u>\$8,252,725</u>
<b>Business-type Activity Debt:</b>				
<b>Sewer Certificates of Participation, 2006 Series A</b>				
3.4% - 4.20%, due November 1, 2026	<u>\$8,460,000</u>	<u>\$370,000</u>	<u>\$8,090,000</u>	<u>\$380,000</u>
Total Business-type Activity Debt	<u>\$8,460,000</u>	<u>\$370,000</u>	<u>\$8,090,000</u>	<u>\$380,000</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**B. 2003 Redevelopment Agency Tax Allocation Bonds**

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

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the \$264,575,085 remaining debt service on the bonds which is scheduled to occur in fiscal year 2033. Projected non-housing revenues are expected to provide coverage over debt service of 1.58 over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) are expected to provide coverage over debt service of 13.79 over the life of the bonds. For fiscal year 2011, non-housing tax increment revenue amounted to \$24,685,068 which represented coverage of 1.87 over the \$13,215,031 non-housing portion of debt service. For fiscal year 2011, the housing revenue amounted to \$11,668,669 which represented coverage of 30.10 over the \$387,677 housing portion of debt service.

**C. 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 7D above. As discussed in Note 7D, 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 Agency has therefore recorded a liability of \$33,977,967 at June 30, 2011, representing the present value of future payments due under this Agreement.

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

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of \$9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2011, net revenues amounted to \$5,331,748, which represented coverage of 7.77 over the \$689,468 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.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**E. Debt Service Requirements**

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Total Principal	Total Interest	Total Principal	Total Interest
2012	\$8,252,725	\$9,340,158	\$380,000	\$306,528
2013	8,302,357	9,266,176	395,000	292,965
2014	9,048,045	9,490,188	405,000	278,965
2015	9,189,566	9,345,042	420,000	264,528
2016	9,348,396	9,177,587	435,000	249,348
2017 - 2021	51,470,974	43,994,567	2,435,000	985,309
2022 - 2026	52,980,904	26,275,266	2,955,000	454,673
2027 - 2031	45,410,000	7,321,520	665,000	13,965
2032 - 2033	8,915,000	446,614		
	<u>\$202,917,967</u>	<u>\$124,657,118</u>	<u>\$8,090,000</u>	<u>\$2,846,281</u>

**F. Defeased Bonds**

As of June 30, 2011, outstanding balances for defeased debt were \$25,370,000 for the Redevelopment Agency 1997 Tax Allocation Bonds and \$3,135,000 for the Sales Tax Revenue Bonds, Series 2000.

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

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

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

**A. Net Assets**

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

Total capital assets	\$326,156,920
Total outstanding debt	(202,917,967)
Adjustments to outstanding debt:	
Unspent bond proceeds	7,503,388
Debt not related to the purchase of the City's capital assets:	
Portion of the 2003 Tax Allocation Bonds that funded capital assets owned by other governments	12,850,463
Installment Purchase Agreement	74,523,567
Invested in Capital Assets, Net of Related Debt	\$218,116,371

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

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

**B. Fund Balances**

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

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

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

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

*Assigned* fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. 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.

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Funds		Major Capital Projects			Other Governmental Funds	Total
		Economic Development Corporation	Housing Reserve	Redevelopment Project Fund	Street Improvement Fund	Transit Area Impact Fee Fund		
<b>Nonspendable:</b>								
Advances to Other Funds	\$20,455,191							\$20,455,191
Prepays, materials, supplies and deposits	514,352		\$3,822	\$15,868			\$3,201	537,243
<b>Restricted for:</b>								
Redevelopment Low and Moderate Income Housing	15,773,898		20,295,422					36,069,320
Redevelopment Projects and Programs	8,781,000	\$52,437,246						61,218,246
Street and Road Improvements and Maintenance					\$11,934,146		1,881,613	13,815,759
Housing and community development							3,367,866	3,367,866
Law enforcement services							239,106	239,106
Solid waste reduction and services							1,411,243	1,411,243
Assessment district services							655,425	655,425
Hetch-Hetchy ground lease							1,696,257	1,696,257
Park improvement projects							9,485,287	9,485,287
Storm drain projects							885,962	885,962
<b>Committed to:</b>								
PERS stabilization	5,432,703							5,432,703
<b>Assigned to:</b>								
Library project	6,573,934							6,573,934
Uninsured claims payable	2,816,694							2,816,694
Sales and use taxes	112,350							112,350
Public art projects							1,345,691	1,345,691
Other contracts	194,762							194,762
General government capital projects							781,815	781,815
<b>Unassigned:</b>								
General fund	15,448,059							15,448,059
Other governmental fund deficit residuals				(32,166,283)		(11,458,171)		(43,624,454)
<b>Total fund balances</b>	<b>\$76,102,943</b>	<b>\$52,437,246</b>	<b>\$20,299,244</b>	<b>(\$32,150,415)</b>	<b>\$11,934,146</b>	<b>(\$11,458,171)</b>	<b>\$21,753,466</b>	<b>\$138,918,459</b>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**C. *Minimum Fund Balance Policies***

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

- 1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished 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 sick leave payable will be calculated and adjusted annually at appropriate levels.
- 5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 6) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 7) Maintain at least \$300,000 in the Recycled Water Utility Enterprise Fund for the purpose of infrastructure replacement and enhancement.
- 8) A minimum 30% of the estimated annual Gas Tax revenues will be set aside in the Street Fund to provide for street repair emergencies and other unanticipated traffic safety projects.
- 9) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.
- 10) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$250,000 in the Equipment Management Internal Service Fund.
- 11) Maintain unassigned fund balance of at least 15% of the annual operating revenues in the Redevelopment Project Capital Projects Fund for unforeseen capital needs and economic development opportunities such as land assemblage and developer assistance.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**D. Fund Balance Deficits**

The Redevelopment Project and Transit Area Impact Fee Capital Projects Funds had deficit fund balance of \$32,150,415 and \$11,458,171, respectively. The deficits will be eliminated by future revenues.

**NOTE 11 - PERS PENSION PLAN**

**A. CALPERS Safety and Miscellaneous Employees Plans**

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2011, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payment	monthly for life	monthly for life
Retirement Age	50	50
Monthly benefits, as a % of annual salary	3.0%	2.0%-2.7%
Required employee contribution rates	9%	8%
Required employer contribution rates	24.158%	14.973%
Actuarially required contribution	\$4,390,648	\$2,902,359

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<b><i>Safety Plan</i></b>			
June 30, 2009	\$4,372,368	100%	\$0
June 30, 2010	4,139,308	100%	0
June 30, 2011	4,390,648	100%	0
<b><i>Miscellaneous Plan</i></b>			
June 30, 2009	\$3,401,193	100%	\$0
June 30, 2010	3,025,165	100%	0
June 30, 2011	2,902,359	100%	0

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 11 - PERS PENSION PLAN (Continued)**

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2009, an investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately 6 percent of the net balance is amortized annually over a rolling thirty year period.

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

*Safety Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$146,015,172	\$164,391,869	\$18,376,697	88.8%	\$16,020,547	114.707%
2008	156,862,634	186,162,470	29,299,836	84.3%	18,863,367	155.327%
2009	164,507,549	203,923,730	39,416,181	80.7%	18,838,475	209.232%

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$101,344,341	\$115,222,810	\$13,878,469	88.0%	\$21,421,229	64.788%
2008	110,710,907	127,085,071	16,374,164	87.1%	22,479,521	72.840%
2009	117,726,837	143,591,380	25,864,543	82.0%	21,969,787	117.728%

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 11 - PERS PENSION PLAN (Continued)**

CALPERS has reported that the value of the net assets in the Plans held for pension benefits changed during the year ended June 30, 2009 (the most recent available) as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Beginning Balance 6/30/09	\$156,862,634	\$110,710,907
Contributions received	6,339,309	5,407,121
Benefits and Refunds Paid	(7,605,191)	(4,670,831)
Miscellaneous Adjustments	(155,861)	(350,316)
Expected Investment Earnings Credited	<u>12,097,179</u>	<u>8,578,856</u>
Expected Actuarial Value of Assets 6/30/09	<u>\$167,538,070</u>	<u>\$119,675,737</u>
Market Value of Assets 6/30/09	<u>\$120,098,440</u>	<u>\$85,833,131</u>
Actuarial Value of Assets 6/30/09	<u>\$164,507,549</u>	<u>\$117,726,837</u>

Additional disclosures will be included when made available by PERS.

**B. Public Agency Retirement System**

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

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$17,647 and the employee's required contributions of \$70,584 were made during the fiscal year ending June 30, 2011.

**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, 2011 there were 206 participants receiving these health care benefits.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

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

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired prior to July 1, 1995	At least 5	If retirement occurred between July 1, 1990 and September 1, 2002: - Any employee only medical premium rate  If retirement occurs after September 1, 2002: - Benefit cap
	Hired on or after July 1, 1995 and retired on or after September 1, 2002	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Mid- Management and Confidential (LIUNA)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Fire Safety (IAFF)	Retired prior to January 1, 1990	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution (\$59.40 per month in 2011)
	Retired January 1, 1990 - December 31, 1994	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired on or before February 20, 2007	1 but less than 10 At least 10	50% of the employee only premium 100% of the employee only premium
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10 At least 10	Up to 50% of the lesser of the retiree cap and the premium rate Up to 100% of the lesser of the retiree cap and the premium rate
	Hired on or after January 1, 1995 and retire on or before February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the employee only premium Up to 50% of the employee only premium Up to 75% of the employee only premium Up to 100% of the employee only premium
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Retired Prior to January 1 , 1989	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution (\$59.40 per month in 2011)
	Hired prior to January 1, 1996	At least 5	If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap
	Hired on or after January 1, 1996	1 but less than 9 full years of service 9 but less than 14 full years of service 14 but less than 19 full years of service At least 19 full years of service	Up to 25% of the retiree cap Up to 50% of the retiree cap Up to 75% of the retiree cap Up to 100% of the retiree cap
Employee Association (MEA)	Hired prior to June 30, 1996	At least 5	If retirement occurs on or before July 17, 1989 - None If retirement occurs between July 17,1989 and March 18, 2003 - Any employee only medical premium rate If retirement occurs after March 18, 2003 -Benefit cap
	Hired on or after June 30, 1996	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City Up to 50% of the lowest cost employee only premium Up to 75% of the lowest cost employee only premium Up to 100% of the lowest cost employee only premium
Supervisors (MSA)	Hired prior to June 30, 1995	At least 5	If retirement occurs before November 27, 2007 -Any employee only medical premium rate If retirement occurs on or after November 27, 2007 -Benefit cap
	Hired on or after June 30, 1995 and retire after November 27, 2007	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap

**Funding Policy and Actuarial Assumptions**

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

**Funding Progress and Funded Status**

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2011, the City contributed the ARC of \$3,494,309 to the Plan. As a result, the City has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	\$3,494,309
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	3,494,309
Contributions made	<u>(3,494,309)</u>
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2010	<u>0</u>
<b>Net OPEB obligation (asset) June 30, 2011</b>	<b><u><u>\$0</u></u></b>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2011, amounted to \$48,698,709. The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of \$19,032,986 as of June 30, 2011, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2009, 2010 and 2011 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2009	\$2,901,441	\$2,901,441	100%	\$0
June 30, 2010	3,356,836	3,356,836	100%	0
June 30, 2011	3,494,309	3,494,309	100%	0

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
7/1/2007	\$9,496,160	\$36,371,140	\$26,874,980	26.11%	\$41,522,000	64.72%
7/1/2009	9,931,187	41,161,985	31,230,798	24.13%	42,390,000	73.67%
7/1/2011	19,032,986	48,698,709	29,665,722	39.08%	41,200,000	72.00%

**C. *Accrued Vacation and Sick Leave Liabilities***

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

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2011, sick leave benefits payable decreased by \$614,362 and vacation benefits payable increased \$626,997. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Assets.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**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, 2010	\$4,411,837	\$196,159	\$4,875,772	\$166,343
Additions	3,878,356	209,954	1,383,475	89,014
Payments and adjustments	(3,290,648)	(170,665)	(1,992,126)	(94,725)
Balance as of June 30, 2011	<u>\$4,999,545</u>	<u>\$235,448</u>	<u>\$4,267,121</u>	<u>\$160,632</u>
General Government	\$575,672		\$223,477	
Building	141,150		120,029	
Public Works	395,241		189,771	
Engineering and Planning	328,287		219,105	
Recreation	140,305		103,186	
Police	2,354,928		1,417,116	
Fire	1,009,104		1,971,175	
Water Utility		\$117,724		\$80,316
Sewer Utility		117,724		80,316
Internal Service	54,858		23,262	
Total	<u>\$4,999,545</u>	<u>\$235,448</u>	<u>\$4,267,121</u>	<u>\$160,632</u>
Long-Term Portion:				
Governmental activities	\$4,438,985	\$119,806	\$3,965,509	\$117,262
Business-type activities				
Total long term portions	<u>\$4,438,985</u>	<u>\$119,806</u>	<u>\$3,965,509</u>	<u>\$117,262</u>
Current Portion				
Governmental activities	\$560,560		\$301,612	
Business-type activities		\$115,642		\$43,370
Total current portions	<u>\$560,560</u>	<u>\$115,642</u>	<u>\$301,612</u>	<u>\$43,370</u>

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 13 - RISK MANAGEMENT**

**A. Risk Pool**

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

During the fiscal year ended June 30, 2011 the City contributed \$439,266 for current year coverage.

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

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

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

**B. Workers Compensation**

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

**C. Dental**

The City is self-insured for dental care for miscellaneous employees up to a maximum of \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2011 the City paid \$786,650 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**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:

	2011			2010
	Worker's Compensation	General Liability	Total	
Beginning balance	\$2,789,985	\$524,273	\$3,314,258	\$3,408,832
Liability for current fiscal year claims	897,123	572,024	1,469,147	361,743
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(120,135)	(375,594)	(495,729)	316,311
Claims paid	(772,938)	(62,317)	(835,255)	(772,628)
Ending balance	<u>\$2,794,035</u>	<u>\$658,386</u>	<u>\$3,452,421</u>	<u>\$3,314,258</u>
Due in one year	<u>\$888,012</u>	<u>\$127,504</u>	<u>\$1,015,516</u>	<u>\$975,198</u>

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

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES**

**A. Litigation**

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

**B. Federal and State Grant Programs**

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

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

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

**C. *Redevelopment Agency Pass-Through Payments***

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from \$240 million to \$502 million. The limitation was subsequently increased to \$2.4 billion in 2003 and to \$6.7 billion in 2010. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During fiscal year 2011, the Agency made pass-through payments in the amount of \$2,230,775.

**D. *Commitments***

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

Construction commitments are discussed in Notes 7 and 8.

**E. *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, 2011 were as follows:

Major Governmental Funds:	
General Fund	\$307,112
Economic Development Corporation	3,383
Housing Reserve Fund	1,152
Redevelopment Project Fund	783,846
Street Improvement Fund	2,269,826
Transit Area Impact Fee Fund	77,634
Non-Major Governmental Funds	378,120
Total Encumbrances	\$3,821,073

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 15 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT**

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2011 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2011
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$260,000 - 360,000	2012-2017	\$1,835,000
LID #18	1999	5.85%	190,000 - 285,000	2012-2019	1,885,000
LID #18 Refunding	1998	5.65%	620,000 - 730,000	2012-2015	2,685,000
LID #20	1999	5.65 - 5.70%	920,000 - 1,355,000	2012-2019	8,995,000
LID #9R and 12R	1999	5.625%	260,000 - 360,000	2012-2013	620,000
Total					<u>\$16,020,000</u>

**NOTE 16 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF)**

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance will determine each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment in the amount of \$11,774,396 during the year ended June 30, 2010, and its second payment in the amount of \$2,424,140 during the year ended June 30, 2011.

**NOTE 17 – PROPOSED DISSOLUTION OF REDEVELOPMENT**

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated \$1.7 billion for fiscal year 2012 and an estimated \$400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of AB1x 26. Although the City agendized the introduction of an Ordinance to opt-in to the voluntary program on August 16, 2011, it was not able to enact the Ordinance due to the Court stay discussed below.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 17 – PROPOSED DISSOLUTION OF REDEVELOPMENT (Continued)**

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of AB1x 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

The suspension provisions of ABx1 26 prohibit 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, or to preserve Agency assets, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 23, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller's Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

1. If the Supreme Court determines that both AB1x 26 and AB1x 27 are valid, then the City will consider whether it will enact an ordinance to opt-in to the alternative voluntary redevelopment program. If enacted, the City would be required to make annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. The State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be \$13,819,770.
2. If the Supreme Court determines that both AB1x 26 and AB1x 27 are valid and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that AB1x 26 is valid, but AB1x 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of AB1x 26. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**

**NOTE 17 – PROPOSED DISSOLUTION OF REDEVELOPMENT (Continued)**

3. If the Supreme Court determines that both AB1x 26 and AB1x 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of AB1x 26 and AB1x 27.

As of September 30, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above.



CITY OF MILPITAS  
REDEVELOPMENT PROJECT FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2011

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	\$38,702,200	\$39,003,681	\$301,481
Use of money and property	829,000	416,709	(412,291)
Intergovernmental	255,434	112,731	(142,703)
Developer Contributions	101,167	101,167	
Other		3,221	(97,946)
	<u>39,887,801</u>	<u>39,637,509</u>	<u>(250,292)</u>
Expenditures			
Current:			
General Government:			
City Manager	449,805	445,907	3,898
City Attorney	315,976	289,573	26,403
Non-departmental	4,239,382	3,279,736	959,646
Public Works	883,852	444,216	439,636
Planning and Neighborhood Services	375,750	356,686	19,064
Supplemental educational revenue augmentation fund payment	2,358,186	2,424,140	(65,954)
Debt service:			
Principal	8,224,862	8,224,862	
Interest and fiscal charges	11,748,835	11,748,543	292
	<u>28,596,648</u>	<u>27,213,663</u>	<u>1,382,985</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>11,291,153</u>	<u>12,423,846</u>	<u>1,132,693</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	529,021	10,555,357	10,026,336
Transfers (out)	(89,413,250)	(87,680,381)	1,732,869
	<u>(88,884,229)</u>	<u>(77,125,024)</u>	<u>11,759,205</u>
Net change in fund balance	<u>(\$77,593,076)</u>	<u>(64,701,178)</u>	<u>\$12,891,898</u>
Adjustment to budgetary basis:			
Capital outlay		(9,539,732)	
Encumbrance adjustments		770,050	
Fund balance, July 1		<u>41,320,445</u>	
Fund balance, June 30		<u>(\$32,150,415)</u>	

CITY OF MILPITAS  
STREET IMPROVEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Positive (Negative)</u>
<b>Revenues</b>			
Use of money and property	\$160,000	\$93,258	(\$66,742)
Intergovernmental	1,184,899	1,458,529	273,630
Developer contributions	495,600	138,499	(357,101)
Other		1,500	1,500
	<u>1,840,499</u>	<u>1,691,786</u>	<u>(148,713)</u>
<b>Expenditures</b>			
Current:			
General Government:			
Non-departmental	141,592	114,725	26,867
Public Works	186,991	186,991	
	<u>328,583</u>	<u>301,716</u>	<u>26,867</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>			
	<u>1,511,916</u>	<u>1,390,070</u>	<u>(121,846)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,600,000	744,439	(855,561)
Transfers (out)	(104,397)	(423,903)	(319,506)
	<u>1,495,603</u>	<u>320,536</u>	<u>(1,175,067)</u>
<b>Net change in fund balance</b>			
	<u>\$3,007,519</u>	1,710,606	<u>(\$1,296,913)</u>
<b>Adjustment to budgetary basis:</b>			
Capital outlay		(4,829,986)	
Encumbrance adjustments		2,269,827	
Fund balance, July 1		<u>12,783,699</u>	
Fund balance, June 30		<u>\$11,934,146</u>	



CITY OF MILPITAS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2011

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
ASSETS						
Cash and investments available for operations	\$1,879,360	\$3,009	\$311,360	\$1,357,137	\$459,594	\$207,962
Receivables:						
Accounts				28,094		
Due from other governments		117,450	26,361	66,494		1,235
Interest	2,253	535	1,116	4,396	1,306	342
Loans receivable		3,368,435				
Prepays, materials, supplies and deposits		1,055		1,034	754	358
Total Assets	<u>\$1,881,613</u>	<u>\$3,490,484</u>	<u>\$338,837</u>	<u>\$1,457,155</u>	<u>\$461,654</u>	<u>\$209,897</u>
LIABILITIES						
Accounts payable		\$120,544	\$211	\$21,445	\$496	\$8,209
Accrued payroll		1,019		4,590	3,159	3,150
Deferred revenue			99,520			
Refundable deposits				18,843		
Total Liabilities		<u>121,563</u>	<u>99,731</u>	<u>44,878</u>	<u>3,655</u>	<u>11,359</u>
FUND BALANCE						
Fund Balances:						
Nonspendable		1,055		1,034	754	358
Restricted	\$1,881,613	3,367,866	239,106	1,411,243	457,245	198,180
Assigned						
Total Fund Balances	<u>1,881,613</u>	<u>3,368,921</u>	<u>239,106</u>	<u>1,412,277</u>	<u>457,999</u>	<u>198,538</u>
Total Liabilities and Fund Balances	<u>\$1,881,613</u>	<u>\$3,490,484</u>	<u>\$338,837</u>	<u>\$1,457,155</u>	<u>\$461,654</u>	<u>\$209,897</u>

CAPITAL PROJECTS FUNDS

Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
\$1,694,241	\$1,348,085	\$9,403,946	\$793,948	\$892,853	\$18,351,495
		83,393			28,094
2,016	4,606	28,257	3,003	3,121	294,933
					50,951
					3,368,435
					3,201
<u>\$1,696,257</u>	<u>\$1,352,691</u>	<u>\$9,515,596</u>	<u>\$796,951</u>	<u>\$895,974</u>	<u>\$22,097,109</u>
	\$7,000	\$29,252 1,057	\$15,136	\$9,594 418	\$211,887 13,393 99,520 18,843
	7,000	30,309	15,136	10,012	343,643
					3,201
\$1,696,257	1,345,691	9,485,287	781,815	885,962	19,622,759
					2,127,506
<u>1,696,257</u>	<u>1,345,691</u>	<u>9,485,287</u>	<u>781,815</u>	<u>885,962</u>	<u>21,753,466</u>
<u>\$1,696,257</u>	<u>\$1,352,691</u>	<u>\$9,515,596</u>	<u>\$796,951</u>	<u>\$895,974</u>	<u>\$22,097,109</u>

CITY OF MILPITAS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Community Facilities District
REVENUES:						
Sales taxes				\$411,165	\$307,500	\$299,995
Other taxes						
Use of money and property	\$10,836	\$2,980	\$4,126	17,724	5,816	2,111
Intergovernmental	1,571,404	432,148	111,470	140,816		
Charges for services				361,260		
Developer contributions						
Other				3,050		
<b>Total Revenues</b>	<b>1,582,240</b>	<b>435,128</b>	<b>115,596</b>	<b>934,015</b>	<b>313,316</b>	<b>302,106</b>
EXPENDITURES:						
Current:						
General Government		35,523				
Public Works				512,820	234,605	170,186
Engineering and Planning		422,392				
Police			45,035			
Capital outlay			74,006		2,225	
<b>Total Expenditures</b>		<b>457,915</b>	<b>119,041</b>	<b>512,820</b>	<b>236,830</b>	<b>170,186</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,582,240	(22,787)	(3,445)	421,195	76,486	131,920
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)				(260,197)		(36,947)
<b>Total Other Financing Sources (Uses)</b>				<b>(260,197)</b>		<b>(36,947)</b>
NET CHANGE IN FUND BALANCES	1,582,240	(22,787)	(3,445)	160,998	76,486	94,973
FUND BALANCES AT BEGINNING OF YEAR	299,373	3,391,708	242,551	1,251,279	381,513	103,565
FUND BALANCES AT END OF YEAR	<u>\$1,881,613</u>	<u>\$3,368,921</u>	<u>\$239,106</u>	<u>\$1,412,277</u>	<u>\$457,999</u>	<u>\$198,538</u>

CAPITAL PROJECTS FUNDS

Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
					\$1,018,660
\$66,993	\$9,780	\$52,529 105,881	\$11,410	\$12,493	196,798
		2,695,030			2,361,719
					361,260
					2,695,030
					3,050
<u>66,993</u>	<u>9,780</u>	<u>2,853,440</u>	<u>11,410</u>	<u>12,493</u>	<u>6,636,517</u>
27,376	56,251		74,784	17,745	119,150
					1,010,140
		559,488	88,959	22,800	422,392
					45,035
					747,478
<u>27,376</u>	<u>56,251</u>	<u>559,488</u>	<u>163,743</u>	<u>40,545</u>	<u>2,344,195</u>
39,617	(46,471)	2,293,952	(152,333)	(28,052)	4,292,322
(2,715)	107,112			35,000	142,112
					(299,859)
<u>(2,715)</u>	<u>107,112</u>			<u>35,000</u>	<u>(157,747)</u>
36,902	60,641	2,293,952	(152,333)	6,948	4,134,575
<u>1,659,355</u>	<u>1,285,050</u>	<u>7,191,335</u>	<u>934,148</u>	<u>879,014</u>	<u>17,618,891</u>
<u>\$1,696,257</u>	<u>\$1,345,691</u>	<u>\$9,485,287</u>	<u>\$781,815</u>	<u>\$885,962</u>	<u>\$21,753,466</u>

CITY OF MILPITAS  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
**BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)**  
 FOR THE YEAR ENDED JUNE 30, 2011

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
<b>REVENUES</b>						
Other taxes						
Use of money and property	\$5,000	\$10,836	\$5,836		\$2,980	\$2,980
Intergovernmental	1,100,000	1,571,404	471,404	\$678,914	432,148	(246,766)
Charges for services						
Other						
Total Revenues	<u>1,105,000</u>	<u>1,582,240</u>	<u>477,240</u>	<u>678,914</u>	<u>435,128</u>	<u>(243,786)</u>
<b>EXPENDITURES</b>						
Current:						
General Government:						
Finance				18,514	17,113	1,401
Non-departmental				22,785	21,793	992
Public Works						
Planning and Neighborhood Services				649,532	658,932	(9,400)
Police						
Total Expenditures				<u>690,831</u>	<u>697,838</u>	<u>(7,007)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,105,000</u>	<u>1,582,240</u>	<u>477,240</u>	<u>(11,917)</u>	<u>(262,710)</u>	<u>(250,793)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in						
Transfers (out)	<u>(1,100,000)</u>		1,100,000			
Total Other Financing Sources (Uses)	<u>(1,100,000)</u>		<u>1,100,000</u>			
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$5,000</u>	1,582,240	<u>\$1,577,240</u>	<u>(\$11,917)</u>	(262,710)	<u>(\$250,793)</u>
<b>ADJUSTMENT TO BUDGETARY BASIS:</b>						
Expenditures capitalized for GAAP purposes					236,540	
Capital outlay						
Encumbrance adjustments					3,383	
Fund balances at beginning of year		<u>299,373</u>			<u>3,391,708</u>	
Fund balances at end of year		<u>\$1,881,613</u>			<u>\$3,368,921</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$6,000	\$4,126	(\$1,874)	\$399,000	\$411,165	\$12,165	\$312,400	\$307,500	(\$4,900)
59,983	111,470	51,487	20,000	17,724	(2,276)	4,000	5,816	1,816
			117,000	140,816	23,816			
			380,000	361,260	(18,740)			
				3,050	3,050			
65,983	115,596	49,613	916,000	934,015	18,015	316,400	313,316	(3,084)
			716,014	517,221	198,793	358,660	234,605	124,055
97,211	51,702	45,509						
97,211	51,702	45,509	716,014	517,221	198,793	358,660	234,605	124,055
(31,228)	63,894	95,122	199,986	416,794	216,808	(42,260)	78,711	120,971
			(260,197)	(260,197)				
			(260,197)	(260,197)				
<u>(\$31,228)</u>	63,894	<u>\$95,122</u>	<u>(\$60,211)</u>	156,597	<u>\$216,808</u>	<u>(\$42,260)</u>	78,711	<u>\$120,971</u>
	(74,006)						(2,225)	
	6,667			4,401				
	242,551			1,251,279			381,513	
	<u>\$239,106</u>			<u>\$1,412,277</u>			<u>\$457,999</u>	

(Continued)

CITY OF MILPITAS  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2011

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	\$300,000	\$299,995	(\$5)			
Use of money and property		2,111	2,111	\$24,000	\$66,993	\$42,993
Intergovernmental						
Charges for services						
Other						
Total Revenues	<u>300,000</u>	<u>302,106</u>	<u>2,106</u>	<u>24,000</u>	<u>66,993</u>	<u>42,993</u>
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental				28,000	27,376	624
Public Works	209,071	170,186	38,885			
Planning and Neighborhood Services						
Police						
Total Expenditures	<u>209,071</u>	<u>170,186</u>	<u>38,885</u>	<u>28,000</u>	<u>27,376</u>	<u>624</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>90,929</u>	<u>131,920</u>	<u>40,991</u>	<u>(4,000)</u>	<u>39,617</u>	<u>43,617</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(36,947)</u>	<u>(36,947)</u>		<u>(2,715)</u>	<u>(2,715)</u>	
Total Other Financing Sources (Uses)	<u>(36,947)</u>	<u>(36,947)</u>		<u>(2,715)</u>	<u>(2,715)</u>	
NET CHANGE IN FUND BALANCES	<u>\$53,982</u>	<u>94,973</u>	<u>\$40,991</u>	<u>(\$6,715)</u>	<u>36,902</u>	<u>\$43,617</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>103,565</u>			<u>1,659,355</u>	
Fund balances at end of year		<u>\$198,538</u>			<u>\$1,696,257</u>	

PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
\$17,000	\$9,780	(\$7,220)	\$1,011,400	\$1,018,660	\$7,260
			76,000	120,366	44,366
			1,955,897	2,255,838	299,941
			380,000	361,260	(18,740)
				3,050	3,050
<u>17,000</u>	<u>9,780</u>	<u>(7,220)</u>	<u>3,423,297</u>	<u>3,759,174</u>	<u>335,877</u>
76,047	56,251	19,796	18,514	17,113	1,401
			126,832	105,420	21,412
			1,283,745	922,012	361,733
			649,532	658,932	(9,400)
			97,211	51,702	45,509
<u>76,047</u>	<u>56,251</u>	<u>19,796</u>	<u>2,175,834</u>	<u>1,755,179</u>	<u>420,655</u>
<u>(59,047)</u>	<u>(46,471)</u>	<u>12,576</u>	<u>1,247,463</u>	<u>2,003,995</u>	<u>756,532</u>
100,000	107,112	7,112	100,000	107,112	7,112
			(1,399,859)	(299,859)	1,100,000
<u>100,000</u>	<u>107,112</u>	<u>7,112</u>	<u>(1,299,859)</u>	<u>(192,747)</u>	<u>1,107,112</u>
<u>\$40,953</u>	<u>60,641</u>	<u>\$19,688</u>	<u>(\$52,396)</u>	<u>1,811,248</u>	<u>\$1,863,644</u>
				236,540	
				(76,231)	
				14,451	
	<u>1,285,050</u>			<u>8,614,394</u>	
	<u>\$1,345,691</u>			<u>\$10,600,402</u>	



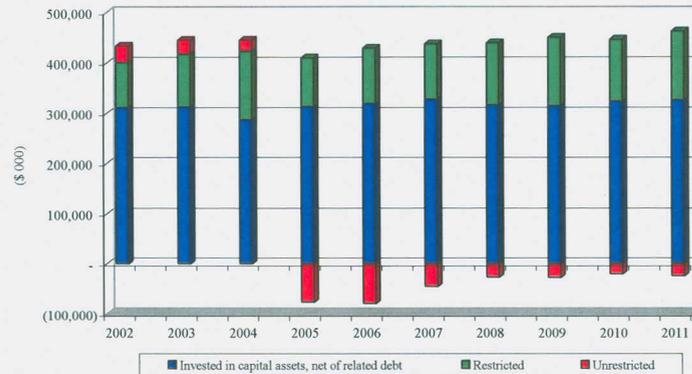
CITY OF MILPITAS  
 AGENCY FUNDS  
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,941,292	\$530,472	\$389,212	\$2,082,552
Receivables:				
Interest	<u>10,585</u>		<u>2,755</u>	<u>7,830</u>
Total Assets	<u>\$1,951,877</u>	<u>\$530,472</u>	<u>\$391,967</u>	<u>\$2,090,382</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$1,951,877</u>	<u>\$530,472</u>	<u>\$391,967</u>	<u>\$2,090,382</u>
Total Liabilities	<u>\$1,951,877</u>	<u>\$530,472</u>	<u>\$391,967</u>	<u>\$2,090,382</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$11,674	\$2,691	\$5,161	\$9,204
Receivables:				
Interest	<u>59</u>	<u>34</u>	<u>59</u>	<u>34</u>
Total Assets	<u>\$11,733</u>	<u>\$2,725</u>	<u>\$5,220</u>	<u>\$9,238</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$11,733</u>	<u>\$2,725</u>	<u>\$5,220</u>	<u>\$9,238</u>
Total Liabilities	<u>\$11,733</u>	<u>\$2,725</u>	<u>\$5,220</u>	<u>\$9,238</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,403,616	\$1,484,615	\$1,435,962	\$1,452,269
Cash and investments held by trustees	1,209,119	54,354	47,865	1,215,608
Receivable:				
Interest	<u>3,785</u>	<u>2,664</u>	<u>3,785</u>	<u>2,664</u>
Total Assets	<u>\$2,616,520</u>	<u>\$1,541,633</u>	<u>\$1,487,612</u>	<u>\$2,670,541</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,616,520</u>	<u>\$1,541,633</u>	<u>\$1,487,612</u>	<u>\$2,670,541</u>
Total Liabilities	<u>\$2,616,520</u>	<u>\$1,541,633</u>	<u>\$1,487,612</u>	<u>\$2,670,541</u>

CITY OF MILPITAS  
AGENCY FUNDS  
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<u>LID #20</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,247,850	\$1,457,500	\$1,409,935	\$1,295,415
Cash and investments held by trustees	1,191,679	53,609	47,209	1,198,079
Receivables:				
Interest	3,132	2,216	3,132	2,216
Total Assets	<u>\$2,442,661</u>	<u>\$1,513,325</u>	<u>\$1,460,276</u>	<u>\$2,495,710</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,442,661</u>	<u>\$1,513,325</u>	<u>\$1,460,276</u>	<u>\$2,495,710</u>
Total Liabilities	<u>\$2,442,661</u>	<u>\$1,513,325</u>	<u>\$1,460,276</u>	<u>\$2,495,710</u>
<u>LID #9R and #12R</u>				
<u>Assets</u>				
Cash and investments available for operations	\$478,433	\$303,610	\$373,431	\$408,612
Cash and investments held by trustees	431,775	17,559	32,901	416,433
Receivables:				
Interest	1,348	909	1,348	909
Total Assets	<u>\$911,556</u>	<u>\$322,078</u>	<u>\$407,680</u>	<u>\$825,954</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$911,556</u>	<u>\$322,078</u>	<u>\$407,680</u>	<u>\$825,954</u>
Total Liabilities	<u>\$911,556</u>	<u>\$322,078</u>	<u>\$407,680</u>	<u>\$825,954</u>
<u>TOTAL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments available for operations	\$5,082,865	\$3,778,888	\$3,613,701	\$5,248,052
Cash and investments held by trustees	2,832,573	125,522	127,975	2,830,120
Receivables:				
Interest	18,909	5,823	11,079	13,653
Total Assets	<u>\$7,934,347</u>	<u>\$3,910,233</u>	<u>\$3,752,755</u>	<u>\$8,091,825</u>
<u>Liabilities</u>				
Refundable deposits	\$1,963,610	\$533,197	\$397,187	\$2,099,620
Due to Local Improvement Districts	5,970,737	3,377,036	3,355,568	5,992,205
Total Liabilities	<u>\$7,934,347</u>	<u>\$3,910,233</u>	<u>\$3,752,755</u>	<u>\$8,091,825</u>

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



	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$219,305	\$221,431	\$192,380	\$225,140	\$224,223	\$232,841	\$224,603	\$221,744	\$218,878	\$218,116
Restricted	84,043	100,007	130,126	89,652	97,069	92,504	104,161	110,463	98,426	115,474
Unrestricted	11,755	(963)	(798)	(97,657)	(92,209)	(62,097)	(50,764)	(41,574)	(38,500)	(44,592)
<b>Total governmental activities net assets</b>	<u>\$315,103</u>	<u>\$320,475</u>	<u>\$321,708</u>	<u>\$217,135</u>	<u>\$229,083</u>	<u>\$263,248</u>	<u>\$278,000</u>	<u>\$290,633</u>	<u>\$278,804</u>	<u>\$288,998</u>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$92,182	\$91,151	\$94,693	\$88,191	\$94,467 (a)	\$95,300	\$92,028	\$92,576	\$104,370	\$107,707
Restricted	4,358	4,020	4,974	6,774	12,852	16,179	18,252	24,911	24,059	20,743
Unrestricted	21,596	28,824	23,102	21,125	12,980	16,652	23,603	14,172	17,851	20,577
<b>Total business-type activities net assets</b>	<u>\$118,136</u>	<u>\$123,995</u>	<u>\$122,769</u>	<u>\$116,090</u>	<u>\$120,299</u>	<u>\$128,131</u>	<u>\$133,883</u>	<u>\$131,659</u>	<u>\$146,280</u>	<u>\$149,027</u>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$311,487	\$312,582	\$287,073	\$313,331	\$318,690	\$328,141	\$316,631	\$314,320	\$323,248	\$325,823
Restricted	88,401	104,027	135,100	96,426	109,921	108,683	122,413	135,374	122,485	136,217
Unrestricted	33,351	27,861	22,304	(76,532)	(79,229)	(45,445)	(27,161)	(27,402)	(20,649)	(24,015)
<b>Total primary government net assets</b>	<u>\$433,239</u>	<u>\$444,470</u>	<u>\$444,477</u>	<u>\$333,225</u>	<u>\$349,382</u>	<u>\$391,379</u>	<u>\$411,883</u>	<u>\$422,292</u>	<u>\$425,084</u>	<u>\$438,025</u>

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

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

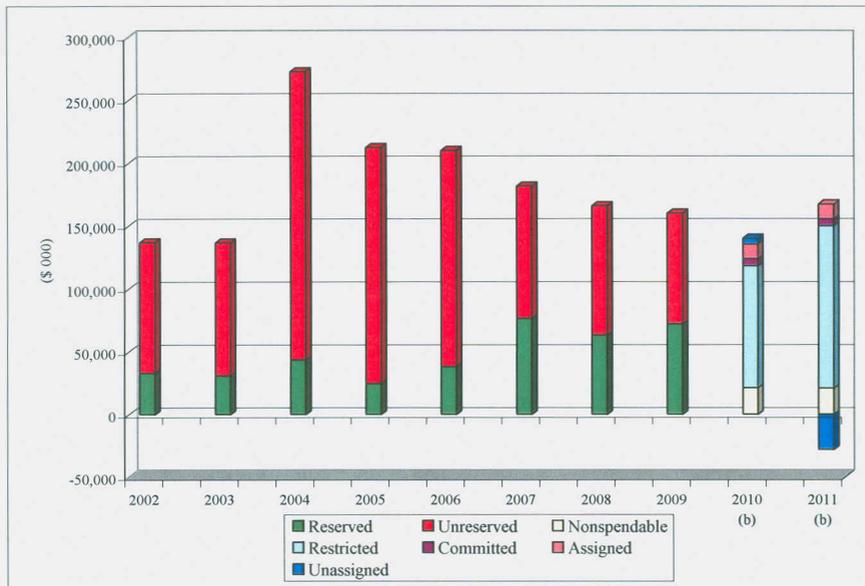
	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>										
<b>Governmental activities</b>										
General Government	\$10,687	\$13,178	\$13,243	\$17,412	\$18,651	\$16,297	\$18,130	\$18,184	\$33,535 (c)	\$21,474 (c)
Building and Safety	2,348	2,512	2,017	2,048	2,195	2,334	2,626	2,401	1,972	1,984
Public Works	17,851	18,131	17,537	17,794	17,156	20,647	20,745	19,605	22,843	16,777
Planning and Neighborhood Services	8,549	7,156	7,114	7,116	7,453	2,396	3,239	3,249	2,874	2,155
Parks and Recreation	3,852	4,219	4,246	4,170	4,266	7,301	6,527	6,518	6,096	6,529
Police	16,465	19,593	19,575	18,773	20,473	21,452	22,440	22,514	22,771	22,661
Fire	11,353	14,293	13,865	14,448	14,381	14,329	15,411	15,260	14,748	15,085
Payment under developer agreements	210	98			9,384					
Interest on Long Term Debt	4,288	3,724	9,829	9,338		9,419	11,534	9,402	9,570	9,536
Total governmental activities expenses	75,603	82,904	87,426	91,099	93,959	94,175	100,652	97,133	114,409	96,201
<b>Business-type activities</b>										
Water Utility	8,375	8,583	9,877	9,668	9,837	10,673	11,567	12,545	11,788	12,766
Recycled Water Utility	166	208	255	247	328	337	481	576	476	470
Sewer Utility	6,369	6,784	6,165	6,040	7,047	8,210	8,626	12,312	8,730	9,240
Total business-type activities expenses	14,910	15,575	16,297	15,955	17,212	19,220	20,674	25,433	20,994	22,476
Total primary government expenses	\$90,513	\$98,479	\$103,723	\$107,054	\$111,171	\$113,395	\$121,326	\$122,566	\$135,403	\$118,677
<b>Program Revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
General Government	\$465	\$437	\$860	\$906	\$580	\$662	\$996	\$956	\$1,165	\$1,071
Building and Safety	1,951	1,305	1,488	2,899	5,800	5,029	4,194	2,897	2,031	2,823
Public Works	285	320	307	311	344	2,817	2,410	1,996	2,571	1,826
Planning and Neighborhood Services	913	901	1,185	1,678	2,412	436	459	358	182	139
Parks and Recreation	1,226	1,382	1,391	1,482	1,496	1,599	1,663	1,655	1,642	1,662
Police	1,083	1,190	1,273	1,693	1,132	1,406	1,351	1,425	1,091	1,263
Fire	524	490	766	305	1,070	1,109	1,144	1,108	1,137	1,210
Operating grants and contributions	6,098	3,697	4,197	3,780	4,089	4,600	4,617	4,920	3,892	4,869
Capital grants and contributions	8,521	8,124	13,770	12,012	12,971	16,056	15,242	9,801	8,840	5,704
Total government activities program revenues	21,066	17,846	25,237	25,066	29,894	33,714	32,076	25,116	22,551	20,567
<b>Business-type activities</b>										
Charges for services:										
Water Utility	10,148	10,779	12,265	12,430	13,224	14,523	14,937	13,873	14,051	15,201
Recycled Water Utility	680	747	878	1,017	1,086	1,203	1,323	1,288	1,260	1,300
Sewer Utility	7,826	6,547	7,472	8,253	8,966	9,833	10,041	9,849	10,393	11,406
Operating grants and contributions	857								79	70
Capital grants and contributions	3,400	8,937	1,602	604	3,854	2,418	956	471	6,406	163
Total business-type activities program revenue	22,911	27,010	22,217	22,304	27,130	27,977	27,257	25,481	32,189	28,140
Total primary government program revenues	\$43,977	\$44,856	\$47,454	\$47,370	\$57,024	\$61,691	\$59,333	\$50,597	\$54,740	\$48,707
<b>Net (Expense)/Revenue</b>										
Governmental activities	(\$54,537)	(\$65,058)	(\$62,189)	(\$66,033)	(\$64,065)	(\$60,461)	(\$68,576)	(\$72,017)	(\$91,858)	(\$75,634)
Business-type activities	8,001	11,435	5,920	6,349	9,918	8,757	6,583	48	11,195	5,664
Total primary government net expense	(\$46,536)	(\$53,623)	(\$56,269)	(\$59,684)	(\$54,147)	(\$51,704)	(\$61,993)	(\$71,969)	(\$80,663)	(\$69,970)

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

	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities										
Taxes:										
Property taxes	\$42,081	\$39,823	\$36,788	\$38,913	\$44,026	\$44,565	\$49,061	\$53,917	\$58,012 (c)	\$55,655 (c)
Less: Educational Revenue Augmentation Fund										
Fund payment		(1,010)	(1,950)	(2,993)	(2,422)					
Sales and use taxes	14,298	12,573	12,065	13,816	15,613	16,765	15,551	15,670	14,725	16,429
Hotel/Motel taxes	5,791	4,953	4,717	4,986	5,669	6,427	7,195	5,550	5,297	6,124
Other taxes	146	152	138	132	133	125	602	416	407	380
Franchise fees	2,882	2,674	2,650	2,772	2,643	2,912	2,968	3,151	2,993	3,083
Motor vehicle in lieu	3,561	3,680	2,969	421	1,548	357	296	237	209	323
Investment earnings	3,019	2,611	(2,427) (a)	1,069	1,302	2,225	4,100	1,553	700	399
Gain on sale of capital assets					12	18,257	34	35	171	
Miscellaneous	164	54	258	332	856	355	109	92	85	62
Redevelopment expense				(102,281) (b)						
Transfers	3,687	4,920	8,213	4,294	6,633	2,638	3,411	4,029	(2,570)	3,374
Total government activities	<u>75,629</u>	<u>70,430</u>	<u>63,421</u>	<u>(38,539)</u>	<u>76,013</u>	<u>94,626</u>	<u>83,327</u>	<u>84,650</u>	<u>80,029</u>	<u>85,829</u>
Business-type activities										
Investment earnings	1,807	1,417	1,068 (a)	627	924	1,714	2,580	1,756	857	455
Loss on adjustment of capital assets valuation		(2,073)								
Transfers	(3,687)	(4,920)	(8,213)	(4,294)	(6,633)	(2,638)	(3,411)	(4,029)	2,570	(3,374)
Total business-type activities	<u>(1,880)</u>	<u>(5,576)</u>	<u>(7,145)</u>	<u>(3,667)</u>	<u>(5,709)</u>	<u>(924)</u>	<u>(831)</u>	<u>(2,273)</u>	<u>3,427</u>	<u>(2,919)</u>
Total primary government	<u>\$73,749</u>	<u>\$64,854</u>	<u>\$56,276</u>	<u>(\$42,206)</u>	<u>\$70,304</u>	<u>\$93,702</u>	<u>\$82,496</u>	<u>\$82,377</u>	<u>\$83,456</u>	<u>\$82,910</u>
<b>Change in net assets</b>										
Governmental activities	\$21,092	\$5,372	\$1,232	(\$104,572)	\$11,948	\$34,165	\$14,751	\$12,633	(\$11,829)	\$10,195
Business-type activities	6,121	5,859	(1,225)	2,682	4,209	7,833	5,752	(2,225)	14,622	2,745
Total primary government	<u>\$27,213</u>	<u>\$11,231</u>	<u>\$7</u>	<u>(\$101,890)</u>	<u>\$16,157</u>	<u>\$41,998</u>	<u>\$20,503</u>	<u>\$10,408</u>	<u>\$2,793</u>	<u>\$12,940</u>

- (a) In 2004, the fair value of the City's investments decreased \$3,764 K in government activities and \$55K in business-type activities.
- (b) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.
- (c) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.

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



	Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010 (b)	2011 (b)
<b>General Fund</b>										
Reserved	\$3,458	\$1,434	\$2,366	\$1,344	\$1,315	\$21,753	\$21,749	\$21,542		
Unreserved	36,588	37,529	30,636	26,699	27,966	26,716	29,359	29,293		
Nonspendable									\$20,977	\$20,970
Restricted										24,555
Committed									5,433	5,433
Assigned									9,465	9,698
Unassigned									14,920	15,448
<b>Total General Fund</b>	<u>\$40,046</u>	<u>\$38,963</u>	<u>\$33,002</u>	<u>\$28,043</u>	<u>\$29,281</u>	<u>\$48,469</u>	<u>\$51,108</u>	<u>\$50,835</u>	<u>\$50,795</u>	<u>\$76,104</u>
<b>All Other Governmental Funds</b>										
Reserved	\$29,489	\$29,351	\$41,131	\$23,049	\$36,812	\$54,763	\$41,416	\$50,608		
Unreserved, reported in:										
Special revenue funds	3,454	8,113	19,493	23,745	3,524	4,025	4,213	4,603		
Capital project funds	63,454	59,127	179,291	137,415	140,259	74,178	69,028	53,845		
Debt service funds	185	966								
Nonspendable									\$115	\$23
Restricted									96,873	104,290
Assigned									2,196	2,127
Unassigned									(10,219)	(43,624)
<b>Total all other governmental funds</b>	<u>\$96,582</u>	<u>\$97,557</u>	<u>\$239,915</u>	<u>\$184,209</u>	<u>\$180,595</u>	<u>\$132,966</u>	<u>\$114,657</u>	<u>\$109,056</u>	<u>\$88,965</u>	<u>\$62,816</u>

- (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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Property taxes	\$41,782	\$39,520	\$36,186	\$38,337	\$43,155	\$44,289	\$49,060	\$53,917	\$58,012 (d)	\$55,655 (d)
Less: Educational Revenue										
Augmentation Fund payment		(1,010)	(1,950)	(2,993)	(2,422)					
Sales taxes	15,009	13,222	12,655	14,409	16,228	17,383	16,173	16,251	15,268	16,994
Other taxes	9,572	8,509	8,555	9,066	10,003	10,508	11,636	9,937	9,495	10,917
Licenses and fines	2,974	2,431	3,020	4,328	7,357	6,958	5,991	4,619	3,481	4,309
Use of money and property	8,948	7,086	2,515 (a)	6,149	6,260	8,292	11,096	8,984	7,168	3,948
Intergovernmental	8,587	9,442	11,124	4,914	6,045	5,589	4,092	6,004	6,362	5,082
Charges for services	2,683	2,721	3,277	3,842	4,165	4,715	4,612	4,146	3,704	4,020
Developer contributions	1,535	823	3,452	1,439	5,010	1,217	2,884	2,558	4,739	3,360
Other	458	361	798	4,097	1,186	8,978	584	816	933	1,039
<b>Total Revenues</b>	<b>91,548</b>	<b>83,105</b>	<b>79,632</b>	<b>83,588</b>	<b>96,987</b>	<b>107,929</b>	<b>106,128</b>	<b>107,232</b>	<b>109,162</b>	<b>105,324</b>
<b>Expenditures</b>										
Current:										
General government	10,391	11,245	10,365	13,026	15,608	34,136	15,079	17,834	20,602 (d)	19,003 (d)
Building and safety	2,368	2,389	1,978	2,075	2,226	2,232	2,566	2,420	1,992	1,975
Public works	7,171	7,085	7,130	7,736	7,789	10,646 (c)	11,016	10,066	13,619	7,960
Engineering and planning	8,381	6,262	5,983	6,444	6,581	(c)				
Planning and neighborhood services						2,329 (c)	2,528	2,576	2,180	2,267
Recreation	3,532	3,806	3,860	4,199	4,284	(c)				
Parks and recreation						6,486 (c)	6,513	6,416	6,052	5,688
Police	15,740	17,197	18,384	19,723	20,167	20,081	21,701	21,602	22,071	21,682
Fire	11,218	11,957	12,864	15,363	14,312	13,717	14,664	15,279	14,249	14,994
Supplemental educational revenue										
augmentation fund payment									11,774	2,424
Capital outlay	30,227	17,431	11,169	15,998	16,861	46,076	33,133	21,585	16,938	12,940
Payments under developer agreements	210	98	127							
Debt service:										
Principal	6,260	6,470	8,860	6,605	8,559	8,508	8,490	8,481	8,169	8,225
Interest and fees	4,198	4,194	9,686	9,379	9,424	15,250	11,528	11,516	11,982	12,386
<b>Total Expenditures</b>	<b>99,696</b>	<b>88,134</b>	<b>90,406</b>	<b>100,548</b>	<b>105,811</b>	<b>159,461</b>	<b>127,218</b>	<b>117,775</b>	<b>129,628</b>	<b>109,544</b>
Excess (deficiency) of revenues over (under) expenditures	(8,147)	(5,029)	(10,774)	(16,960)	(8,824)	(51,532)	(21,090)	(10,543)	(20,466)	(4,220)
<b>Other Financing Sources (Uses)</b>										
Proceeds from debt issuance			200,000			20,455				
Bond issuance premium			5,372							
Payments to refunded debt escrow agent			(67,164)							
Proceeds from sale of properties							1,868	14	4	5
Transfers in	47,363	42,620	124,899	23,095	28,523	22,561	20,420	23,278	23,590	119,213
Transfers (out)	(43,681)	(37,700)	(115,936)	(18,801)	(22,075)	(19,924)	(16,869)	(18,624)	(23,259)	(115,839)
<b>Total other financing sources (uses)</b>	<b>3,682</b>	<b>4,920</b>	<b>147,171</b>	<b>4,294</b>	<b>6,448</b>	<b>23,092</b>	<b>5,419</b>	<b>4,668</b>	<b>335</b>	<b>3,379</b>
<b>Special Item</b>										
Redevelopment expense				(48,000) (b)						
<b>Net Change in fund balances</b>	<b>(\$4,465)</b>	<b>(\$109)</b>	<b>\$136,397</b>	<b>(\$60,666)</b>	<b>(\$2,376)</b>	<b>(\$28,440)</b>	<b>(\$15,671)</b>	<b>(\$5,875)</b>	<b>(\$20,131)</b>	<b>(\$841)</b>
Debt service as a percentage of noncapital expenditures	15.1%	15.1%	23.4%	18.9%	20.2%	26.5%	21.3%	20.8%	18.5%	21.5%

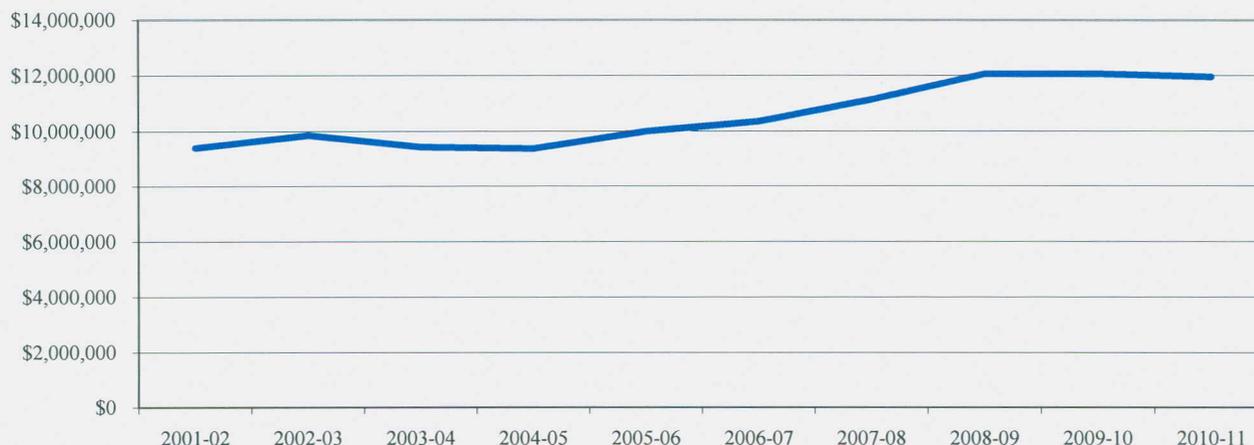
(a) In 2004, the fair value of the investments decreased \$3,764 K in governmental activities.

(b) In 2005, the Redevelopment Agency made a cash payment of \$48,000 K to the County of Santa Clara for two parcels of land.

(c) The City departments were reorganized in fiscal 2007.

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

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



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
2001-02	\$3,417,125	\$779,136	\$2,166,036	\$1,274,151	\$1,825,539	(\$85,563)	\$9,376,424	1%
2002-03	3,746,467	835,889	2,502,123	1,016,922	1,833,384	(111,940)	9,822,845	1%
2003-04	4,377,568	964,438	2,340,453	227,739	1,595,224	(107,860)	9,397,562	1%
2004-05	4,572,065	798,350	2,095,928	603,547	1,379,444	(110,377)	9,338,957	1%
2005-06	4,952,629	814,287	2,032,245	641,662	1,651,527	(131,810)	9,960,540	1%
2006-07	5,513,377	1,141,925	2,179,658	328,782	1,284,778	(129,187)	10,319,333	1%
2007-08	5,974,338	1,208,674	2,423,285	320,499	1,329,060	(146,495)	11,109,361	1%
2008-09	6,345,176	1,350,579	2,806,181	307,980	1,437,414	(220,624)	12,026,706	1%
2009-10	6,199,167	1,368,086	2,904,523	352,408	1,446,827	(245,778)	12,025,233	1%
2010-11	6,169,631	1,347,861	2,772,974	346,493	1,557,639	(282,502)	11,912,096	1%

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

Note:

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

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

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2001-02	\$1.00	\$1.00	\$0.0388	\$0.0496	\$0.0062
2002-03	1.00	1.00	0.0412	0.0567	0.0072
2003-04	1.00	1.00	0.0412	0.0582	0.0087
2004-05	1.00	1.00	0.0412	0.0624	0.0092
2005-06	1.00	1.00	0.0412	0.0509	0.0078
2006-07	1.00	1.00	0.0412	0.0518	0.0072
2007-08	1.00	1.00	0.0412	0.0874	0.0071
2008-09	1.00	1.00	0.0412	0.0874	0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072

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 2010-11 and 2001-02  
 (Dollars in thousands)

Taxpayer	2010-2011			2001-2002		
	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.	\$ 584,277,379	1	4.90%			
Milpitas Mills LP	318,591,678	2	2.67%			
KLA Tencor Corporation	203,516,223	3	1.71%	\$ 144,743,903	7	1.54%
Silicon Valley California LLC	175,255,293	5	1.47%			
Diversified Real Estate Investors	185,839,684	4	1.56%			
Headway Technologies Inc	123,824,481	6	1.04%			
BRE Milpitas LLC	115,567,449	7	0.97%			
Linear Technology Corporation	107,655,795	8	0.90%	130,029,428	9	1.39%
Solyndra Inc.	82,207,448	9	0.69%			
Lifescan Inc	80,419,329	10	0.68%			
Societe Generale Fincl Corporation				364,982,758	1	3.89%
Seagate Technology				178,012,362	2	1.90%
Trinet Milpitas Associates				173,759,402	3	1.85%
Richard T. Peery Trustee				171,482,521	4	1.83%
Irvine Company				155,799,910	5	1.66%
Great Mall of The Bay Area				150,228,896	6	1.60%
Solectron Corporation				139,127,407	8	1.48%
Quantum Corporation				129,127,427	10	1.38%
Subtotal	\$ <u>1,977,154,759</u>		<u>16.60%</u>	\$ <u>1,737,294,014</u>		<u>18.53%</u>
Fiscal Year 2010-2011 Total Net Assessed Valuation			\$11,912,096,000			
Fiscal Year 2001-2002 Total Net Assessed Valuation			\$9,376,424,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2010/11 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
2001-02	\$41,782	\$41,782	100.00%	0	\$41,782	100.00%
2002-03	39,520	39,520	100.00%	0	39,520	100.00%
2003-04	36,186	36,186	100.00%	0	36,186	100.00%
2004-05	38,337	38,337	100.00%	0	38,337	100.00%
2005-06	43,155	43,155	100.00%	0	43,155	100.00%
2006-07	44,289	44,289	100.00%	0	44,289	100.00%
2007-08	49,060	49,060	100.00%	0	49,060	100.00%
2008-09	53,917	53,917	100.00%	0	53,917	100.00%
2009-10 (b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11 (b)	55,655	55,655	100.00%	0	55,655	100.00%

(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.

Source: City of Milpitas Comprehensive Financial Annual Report

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

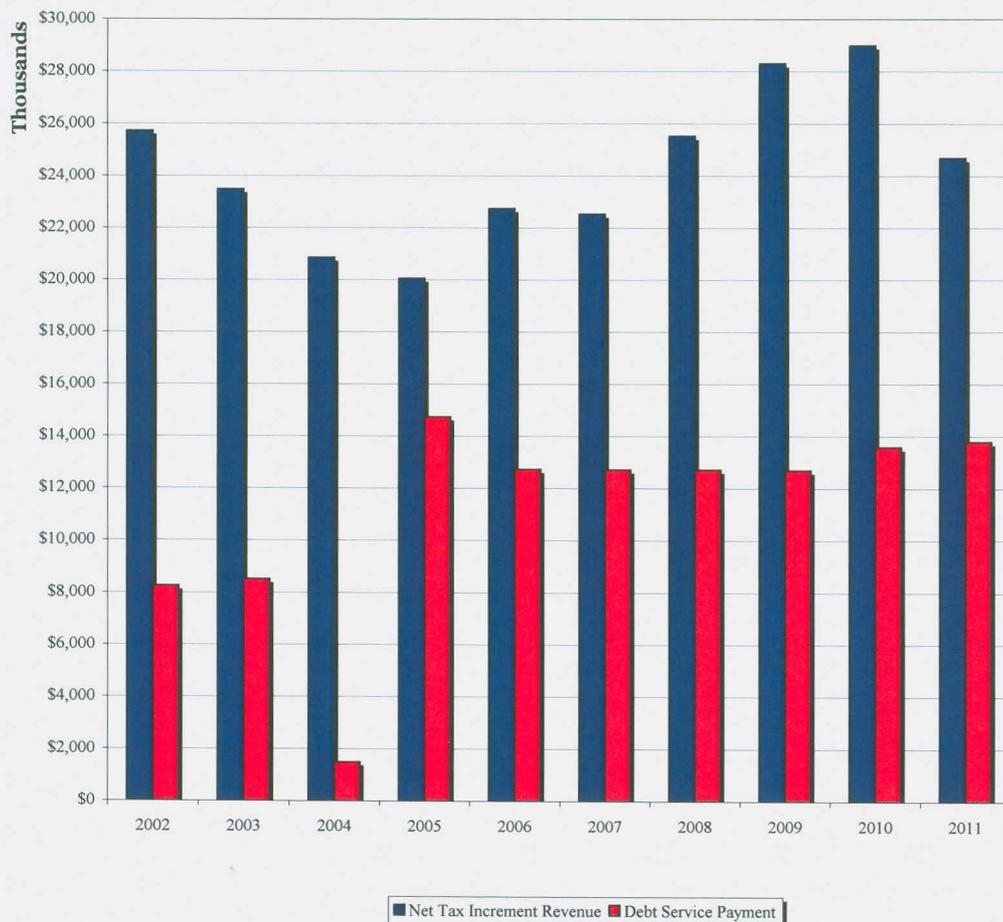
Fiscal Year	Governmental Activities				Business-type Activities	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Sales Tax Revenue Bonds	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Certificates of Participation			
2001-02	\$8,335	\$7,640	\$68,325	\$0	\$0	\$84,300	2.70%	\$1,322
2002-03	7,855	6,680	63,295	0	0	77,830	2.60%	1,196
2003-04	0	5,675	200,000	0	0	205,675	6.92%	3,182
2004-05	0	4,630	194,440	54,281	0	253,351	7.95%	3,898
2005-06	0	3,540	190,780	50,471	0	244,791	7.50%	3,750
2006-07	0	2,410	187,030	46,843	9,535	245,818	6.71%	3,693
2007-08	0	1,230	183,175	43,388	9,160	236,953	5.79%	3,413
2008-09	0	0	179,215	40,097	8,815	228,127	5.46%	3,221
2009-10	0	0	174,180	36,963	8,460	219,603	5.29%	3,069
2010-11	0	0	168,940	33,978	8,090	211,008	(b)	2,949

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

(a) See Schedule 15 for personal income and population data.

(b) Data for fiscal year 2010-11 not available until May of 2012.

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



Fiscal Year	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002	\$32,387,027	\$6,667,458	\$25,719,569	\$4,830,000	\$3,426,503	\$8,256,503	3.12
2003	29,511,358	6,023,817	23,487,541	5,030,000	3,482,488	8,512,488	2.76
2004	26,171,147	5,315,246	20,855,901	0 (b)	1,494,048	1,494,048	13.96
2005	25,215,408	5,160,555	20,054,853	5,560,000	9,163,896	14,723,896	1.36
2006	28,606,441	5,867,736	22,738,705	3,660,000	9,062,546	12,722,546	1.79
2007	28,413,636	5,886,749	22,526,887	3,750,000	8,965,234	12,715,234	1.77
2008	32,259,656	6,740,250	25,519,406	3,855,000	8,860,665	12,715,665	2.01
2009	36,167,427	7,876,041	28,291,386	3,960,000	8,728,458	12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	11,668,669 (c)	24,685,068	5,240,000	8,548,559	13,788,559	1.79

(a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.  
 (b) The Agency issued the 2003 Tax Allocation Bonds and refunded the prior outstanding debt issues. Therefore, no principal payments were due in that fiscal year.  
 (c) Beginning in fiscal year 2011, three of the areas within the Agency's Merged Redevelopment Project Area are required to set aside 30% of tax increment. The fourth area continues to set aside 20% of tax increment.

CITY OF MILPITAS  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
JUNE 30, 2011

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2010-11 Assessed Valuation, Direct and Overlapping Debt		<u>\$8,262,377,151</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.114%	\$10,428,786
Santa Clara Valley Water District, Zone W-1	3.457%	14,001
San Jose- Evergreen Community College District	9.570%	22,680,306
Milpitas Unified School District	98.476%	45,215,255
East Side Union High School District	0.543%	3,003,970
Berryessa Union School District	3.095%	1,210,548
Santa Clara Valley Water District Benefits Assessment District	3.114%	4,458,002
City of Milpitas 1915 Act Bonds	100.000%	<u>16,020,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>103,030,868</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.114%	24,506,557
Santa Clara County Pension Obligations	3.114%	12,020,813
Santa Clara County Board of Education Certificates of Participation	3.114%	391,741
San Jose- Evergreen Community College District OPEB (2) Bonds	9.570%	4,476,368
East Side Union High School District	0.543%	171,778
City of Milpitas	100.000%	0
Santa Clara County Vector District Certifications of Participations	3.114%	<u>118,332</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>41,685,589</u>
COMBINED TOTAL DEBT		<u>\$144,716,457 (2)</u>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 0.86%

Ratios to Assessed Valuation:

Direct Debt % 0.00%  
Total Gross Debt % 1.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation for Fiscal Year 2010-11

Assessed value (net) - June 30, 2011		<u>\$11,912,096</u>
Debt limit: 3.75% of assessed value (a)		\$446,704
Debt applicable to limit		
Total Bonded Debt	\$168,940	
Less: Tax Allocation Bonds not subject to limit	168,940	
Amount of Debt subject to limit		<u>0</u>
Legal debt margin		<u>\$446,704</u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2001-02	\$351,616	0	\$351,616	0.0%
2002-03	368,356	0	368,356	0.0%
2003-04	352,408	0	352,408	0.0%
2004-05	350,211	0	350,211	0.0%
2005-06	373,520	0	373,520	0.0%
2006-07	386,975	0	386,975	0.0%
2007-08	416,601	0	416,601	0.0%
2008-09	451,001	0	451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%

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

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

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

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2006-07	\$10,922,512	\$5,960,109	\$4,962,403	\$0	\$198,207	\$198,207	25.04
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

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

- (1) Gross Revenues include sewer service charges, other operating revenues, and interest income. Gross Revenues exclude connection fees and capital contributions.
- (2) Operating Expenses include sewer treatment services, personnel services, services and supplies, and repairs and maintenance expenses. Operating Expenses exclude depreciation and amortization expenses.

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

Fiscal Year	Residential			Commercial		(a)
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges	
2001-02	\$42.29	\$30.19	\$18.69	\$7.14	\$0.01 - 3.37	
2002-03	42.29	30.19	18.69	7.14	0.01 - 3.37	
2003-04	46.10	33.82	21.27	7.78	0.01 - 5.12	
2004-05	50.25	36.48	22.76	8.48	0.01 - 4.89	
2005-06	54.77	39.49	24.57	9.24	0.02 - 3.50	
2006-07	59.70	43.14	26.88	10.08	0.02 - 3.93	
2007-08	59.70	43.14	26.88	10.08	0.02 - 3.93	
2008-09	59.70	43.14	26.88	10.08	0.02 - 3.93	
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52	
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61	

Source: City of Milpitas, Engineering Department

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

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Total Personal Income (a), (b)</u>	<u>Per Capita Personal Income (a)</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%) (a)</u>	<u>Land Area (Sq. Mile)</u>
2001-02	63,768	4,668	\$3,124,632	\$49	9,424	8.70%	13.66
2002-03	65,049	4,762	2,992,254	46	9,516	9.30%	13.66
2003-04	64,629	4,731	2,972,934	46	9,528	6.90%	13.66
2004-05	64,998	4,758	3,184,902	49	9,602	5.60%	13.66
2005-06	65,276	4,779	3,263,800	50	9,748	4.40%	13.66
2006-07	66,568	4,873	3,661,240	55	9,682	4.70%	13.66
2007-08	69,419	5,082	4,095,721	59	9,590	5.90%	13.66
2008-09	70,817	5,184	4,178,203	59	9,649	11.80%	13.66
2009-10	71,553	5,238	4,150,074	58	9,802	11.30%	13.66
2010-11	71,552	5,238	(c)	(c)	9,887	10.30%	13.66

(a) For Santa Clara County.

(b) Data not available for the City, therefore the balance reported is the product of the County's Per Capita Personal Income and the City's population.

(c) Data for fiscal year 2010-11 is not available until May of 2012.

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

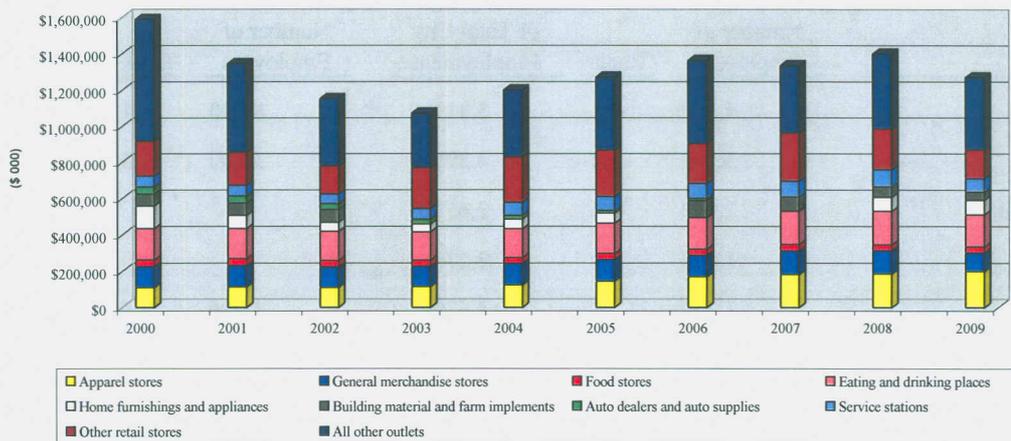
CITY OF MILPITAS  
PRINCIPAL EMPLOYERS  
FISCAL YEAR 2009-10 and 2001-2002

Employer	2009-10 (a)			2001-2002		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	4,339	1	5.31%	8,200	1	10.04%
Great Mall	3,500	2	4.29%	3,100	3	3.80%
KLA-Tencor Corporation	2,000	3	2.45%			
Flextronics	1,850	4	2.27%			
LSI Logic Corporation	1,320	5	1.62%	1,286	8	1.58%
SanDisk Corporation	1,200	6	1.47%			
Linear Technology	1,100	7	1.35%	2,000	4	2.45%
Milpitas Unified School District	808	8	0.99%			
Lifescan, Inc.	800	9	0.98%	1,801	5	2.21%
JDS Uniphase Corporation	800	10	0.98%			
Solectron California				6,000	2	7.35%
Quantum				1,669	6	2.04%
Read Rite				1,500	7	1.84%
Adaptec, Inc.				1,207	9	1.48%
Adac Labs				1,100	10	1.35%
Subtotal	<u>17,717</u>		<u>21.70%</u>	<u>27,863</u>		<u>34.13%</u>
Estimated City Day Population, Census 2000			81,646			81,646

(a) Data for fiscal year 2010-11 is not available until December 2012.

Source: Association of Bay Area Governments  
Milpitas Chamber of Commerce

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



	CALENDAR YEARS									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Apparel stores	\$109,258	\$113,729	\$109,078	\$114,599	\$123,583	\$145,317	\$168,985	\$181,878	\$185,023	\$200,140
General merchandise stores	117,006	118,362	115,336	113,574	119,471	120,297	118,348	131,594	130,193	101,561
Food stores	37,075	37,302	35,830	33,765	32,950	33,592	34,979	34,362	31,105	34,453
Eating and drinking places	170,825	166,174	159,420	152,736	156,318	164,694	173,424	181,668	183,049	174,016
Home furnishings and appliances	123,801	72,493	48,513	45,497	54,460	54,906	(a)	(a)	77,669	80,746
Building material and farm implements	66,251	66,570	70,600	(a)	(a)	(a)	91,571	79,360	57,594	44,818
Auto dealers and auto supplies	38,105	38,684	32,433	25,558	19,990	15,132	12,221	(a)	0	0
Service stations	61,244	58,395	52,369	58,491	71,231	76,455	82,868	85,468	93,324	73,280
Other retail stores	194,086	184,594	156,196	227,373	251,599	255,805	220,862	266,915	225,954	158,982
All other outlets	673,677	489,438	373,179	301,404	370,253	405,111	460,265	373,394	417,099	402,516
<b>Total</b>	<b>\$1,591,328</b>	<b>\$1,345,741</b>	<b>\$1,152,954</b>	<b>\$1,072,997</b>	<b>\$1,199,855</b>	<b>\$1,271,309</b>	<b>\$1,363,523</b>	<b>\$1,334,639</b>	<b>\$1,401,010</b>	<b>\$1,270,512</b>
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

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

Source: California State Board of Equalization

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

Fiscal Year	City Direct Rate	Santa Clara County	State of California
2001-02	\$1.00	\$1.25	\$6.00
2002-03	1.00	1.25	6.00
2003-04	1.00	1.25	6.00
2004-05	1.00	1.25	6.00
2005-06	1.00	1.25	6.00
2006-07	1.00	1.25	6.00
2007-08	1.00	1.25	6.00
2008-09	1.00	1.25	7.00 (a)
2009-10	1.00	1.25	7.00
2010-11	1.00	1.25	7.00

Source: California State Board of Equalization

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

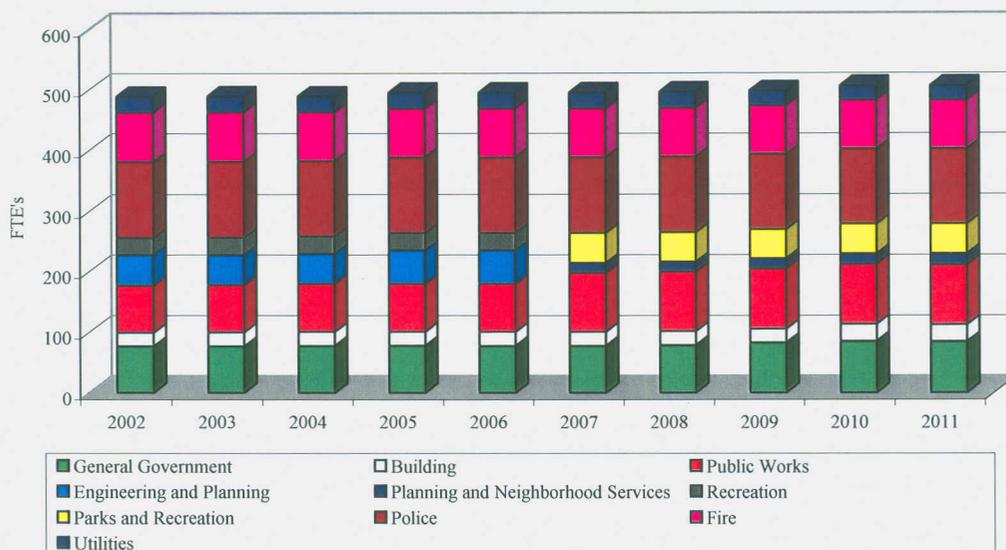
Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS  
 PRINCIPAL SALES TAX PAYERS  
 CALENDAR YEARS 2010 and 2001  
 IN ALPHABETICAL ORDER

2010	2001
Best Buy Stores	Acropolis System
Burlington Coat Factory	ADAC Laboratories
Chevron Service Stations	Areom Electronics Inc.
Cisco Systems Inc.	Best Buy
Coach Stores	Billings Chevrolet
Contract Office Group	Burlington Coat Factory
Dave & Busters	Contempo Design West
Flextronics	Continental Resources
Forever 21	Contract Office Group
H & M	Dave & Busters
Headway Technologies	Dynamic Circuits
Home Depot	Headway Technologies
KLA Tencor Corporation	Home Depot
Kohl's Department Stores	KLA Tencor Corporation
LSI Logic	Lifescan
Marshall's Department Stores	Marshall's Department Stores
Milpitas Materials Company	Mervyn's Department Stores
Nanometrics	Milpitas Materials Company
Neiman Marcus Department Store	One Workplace L. Ferrari
Off Fifth Saks	Orchard Supply Hardware
One Workplace	Photronic Labs
Piercey Toyota & Scion	Solectron Corporation
South Bay Honda	Sun Microsystems
The Gap	U.S. Amada
Walmart Stores	Walmart Stores

Source: MBIA MuniServices Company

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



Function	Adopted for Fiscal Year Ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	76.3	76.3	77.0	77.3	77.0	77.0	78.0	82.0	84.5	83.5
Building and Safety	22.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	28.0	28.0
Public Works	78.0	78.0	79.0	78.8	79.0	97.0 (a)	98.0	99.0	99.0	99.0
Engineering and Planning	50.5	49.5	49.5	55.5	55.5	(a)				0.0
Planning and Neighborhood Services						16.5 (a)	16.5	17.0	17.0	18.0
Recreation	28.5	29.0	29.0	29.0	29.0	(a)				0.0
Parks and Recreation						50.0 (a)	49.0	48.5	49.5	49.5
Police:										
Sworn Police	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.5	94.5	94.5
Civilians	31.5	31.5	30.5	30.5	30.5	30.5	30.5	29.0	29.0	29.0
Fire:										
Firefighters and Safety	71.0	71.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	27.0	27.0	27.0	27.0	27.0	27.0	27.0	25.0	24.5	24.5
<b>Total</b>	<b>488.8</b>	<b>489.3</b>	<b>489.0</b>	<b>495.0</b>	<b>495.0</b>	<b>495.0</b>	<b>496.0</b>	<b>498.0</b>	<b>506.0</b>	<b>506.0</b>

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

Source: City of Milpitas, final budget

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

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Building and Safety</b>					
Building permits issued	1,735	1,777	1,650	3,156	3,788
Plan checked performed	340	536	590	650	1,181
<b>Public Works</b>					
Street miles maintained	137	137	137	138	139
Customer Service Requests	4,150	4,000	3,506	3,500	3,326
Development projects reviewed	150	115	n/a	n/a	293
<b>Planning and Neighborhood Services</b>					
Customer Service Requests/Violations abated	2,023	2,065	1,656	1,620	1,802
Applications to Planning Commission	110	93	100	120	150
<b>Parks and Recreation</b>					
Sports Center members	2,741	4,398	5,800	6,500	7,508
Senior nutrition meals served	23,886	23,886	16,139	16,932	19,421
Athletic Field maintenance (hours)	n/a	n/a	4,098	1,947	1,947
<b>Police</b>					
Avg response time to emergency calls (minutes)	n/a	n/a	3:35	3:44	3:12
Number of anti-terrorist patrol checks	n/a	2,924	7,649	10,664	12,813
Crime prevention presentations	191	175	201	180	179
Number of vehicle citations issued	12,804	15,312	15,041	14,453	14,161
DARE presentations: schools/students	14/1468	14/1,456	13/1,610	14/1579	13/1538
<b>Fire</b>					
Emergency calls for service	3,550	3,850	4,100	4,200	4,250
Public education events	140	75	73	73	70
Permits Inspections	3,750	2,160	1,909	2,514	4,231
Plan Review	1,420	660	786	845	1,005
<b>Utility</b>					
Clean sewer lines (feet)	552,000	347,670	358,610	500,000	500,000
Repair, replace or set water meters	678	399	341	422	425
Average daily consumption (thousands of gallons)	10,290	11,120	11,222	10,090	9,162

Source: City of Milpitas, final budget

Fiscal Year				
2007	2008	2009	2010	2011
3,500	3,500	3,500	2,700	2,800
1,000	1,000	1,000	800	800
139	139	139	139	139
3,208	3,500	3,924	3,900	3,000
190	150	100	118	225
1,470	1,100	1,250	980	800
165	150	112	84	45
7,885	8,278	8,500	10,000	1,200
20,667	21,165	23,228	24,056	23,076
1,947	1,946	2,242	2,100	1,641
3:06	3:06	2:46	2:47	2:49
12,300	3,500	3,500	1,469	1,469
190	240	275	266	281
10,624	12,386	11,558	11,391	8,544
14/1572	14/1492	13/1440	12/850	11/845
4,000	4,368	4,300	4,400	4,400
65	80	70	90	80
4,300	5,400	4,000	4,000	4,000
1,000	750	995	1,000	900
500,000	500,000	500,000	550,000	500,000
600	580	700	500	380
9,693	9,566	8,870	9,200	8,100

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

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Public Works</b>					
Miles of streets	137	137	137	137	139
Street lights	4,262	4,281	4,324	4,346	4,354
Square feet of buildings maintained (in thousands)	252	299	344	350	350
City vehicles	657	618	626	631	635
Signs	6,900	7,050	7,150	7,250	7,167
Signal lights	64	66	68	68	68
City Parks	24	26	24	26	26
Acres of Parkland	178	161	171	172	172
Playgrounds	26	26	26	32	32
<b>Parks and recreation</b>					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	3	3	3	3	3
Tennis courts	24	24	24	22	22
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	10	10	13	13	13
Basketball courts	5	5	5	5	5
Volleyball courts	7	7	7	7	7
Handball courts	4	4	4	4	4
<b>Police</b>					
Police stations	2	2	2	2	2
Police patrol vehicles	28	30	30	30	30
<b>Fire</b>					
Fire stations	4	4	4	4	4
Fire Apparatus	10	11	15	13	14
Fire hydrants	1,661	1,670	1,739	1,755	1,756
<b>Utility</b>					
Miles of water mains	198	199	202	203	204
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	15.64
Miles of sanitary sewers	167	168	168	173	173
Miles of storm drain	98	99	99	99	105
Miles of recycled water main	7.5	7.5	7.5	11.0	11.0

Source: City of Milpitas, final budget

Fiscal Year				
2007	2008	2009	2010	2011
139	139	138	139	139
4,354	4,435	4,460	4,496	4,496
350	350	350	350	427
635	630	617	622	622
7,400	8,000	8,131	8,363	8,363
68	68	71		
29	32	32	29	31
172	172	179	179	178
30	29	37	33	33
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
4	4	3	4	4
22	22	24	20	17
1	1	1	1	1
21	21	21	15	15
13	13	13	5	2
5	5	5.5	5.0	5.0
7	7	7	5	4
4	4	4	1	1
2	2	2	2	2
28	27	28	28	28
4	4	4	4	4
16	14	14	13	15
1,756	1,809	1,756	1,840	1,840
204	206	204	213	213
15.64	16.21	15.64	16.26	16.26
173	177	173	178	178
105	107	106	110	110
11.0	11.0	11.0	3.1	3.1

