



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

New Barbara Lee Senior Center Opened in August 2010



City of Milpitas
CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES







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

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CITY ANNUAL PERFORMANCE REPORT

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

Fire

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

Police

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

Engineering

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

Public Works Maintenance

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

Planning/Neighborhood Services

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

Human Resources and Recreation

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

Building & Safety

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

Administration

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

City Attorney

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

Information Services

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



CITY OF MILPITAS

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

December 19, 2012

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

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

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

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

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

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

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

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

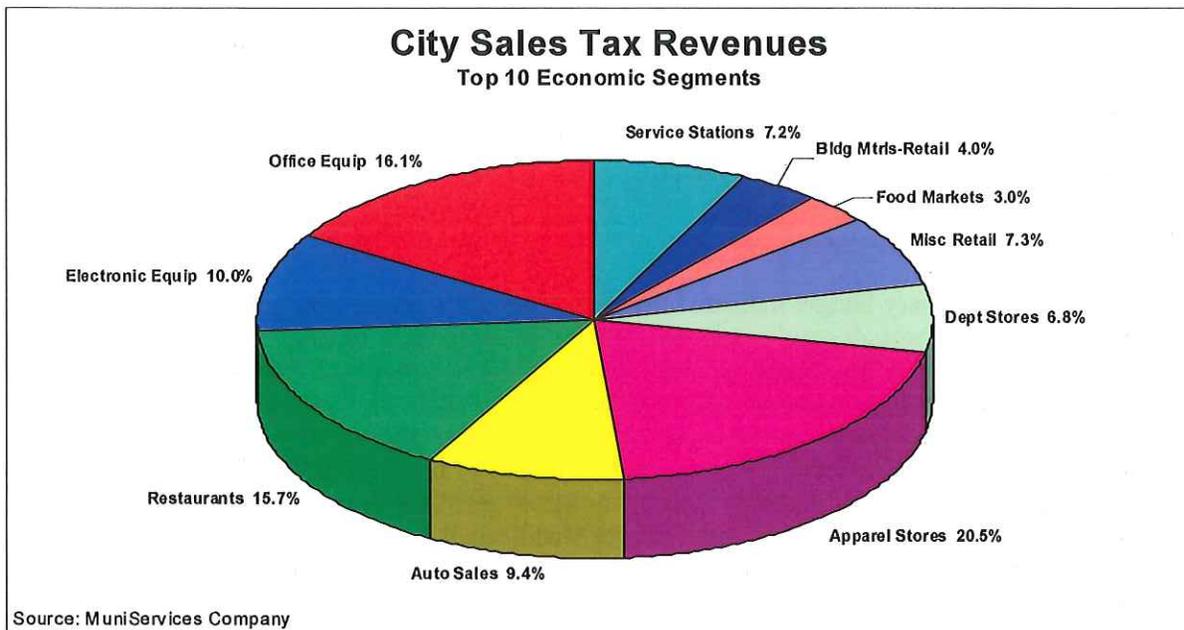
Consumer Confidence Level

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



Top Ten Sales Tax Generators by Economic Segment

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



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

Major Development Activities in the City

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

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

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

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

Budget Strategies in Fiscal 2011-12

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

Finance

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

| | <u>Category and Fund Type</u> |
|---------------------|---|
| Governmental Funds: | General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds |
| Proprietary Funds: | Enterprise Funds and Internal Service Fund |
| Fiduciary Funds: | Agency Funds |

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

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

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

FINANCIAL ANALYSIS

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

INDEPENDENT AUDIT

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

AWARDS

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

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

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

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

ACKNOWLEDGMENTS

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Emma C. Karlen". The signature is written in dark ink and includes a long horizontal flourish at the end.

Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2012

City Council

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

City Manager
Thomas C Williams

Police Chief
Dennis Graham

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Brian Sturdivant

City Clerk
Mary Lavelle

City Attorney
Michael Ogaz

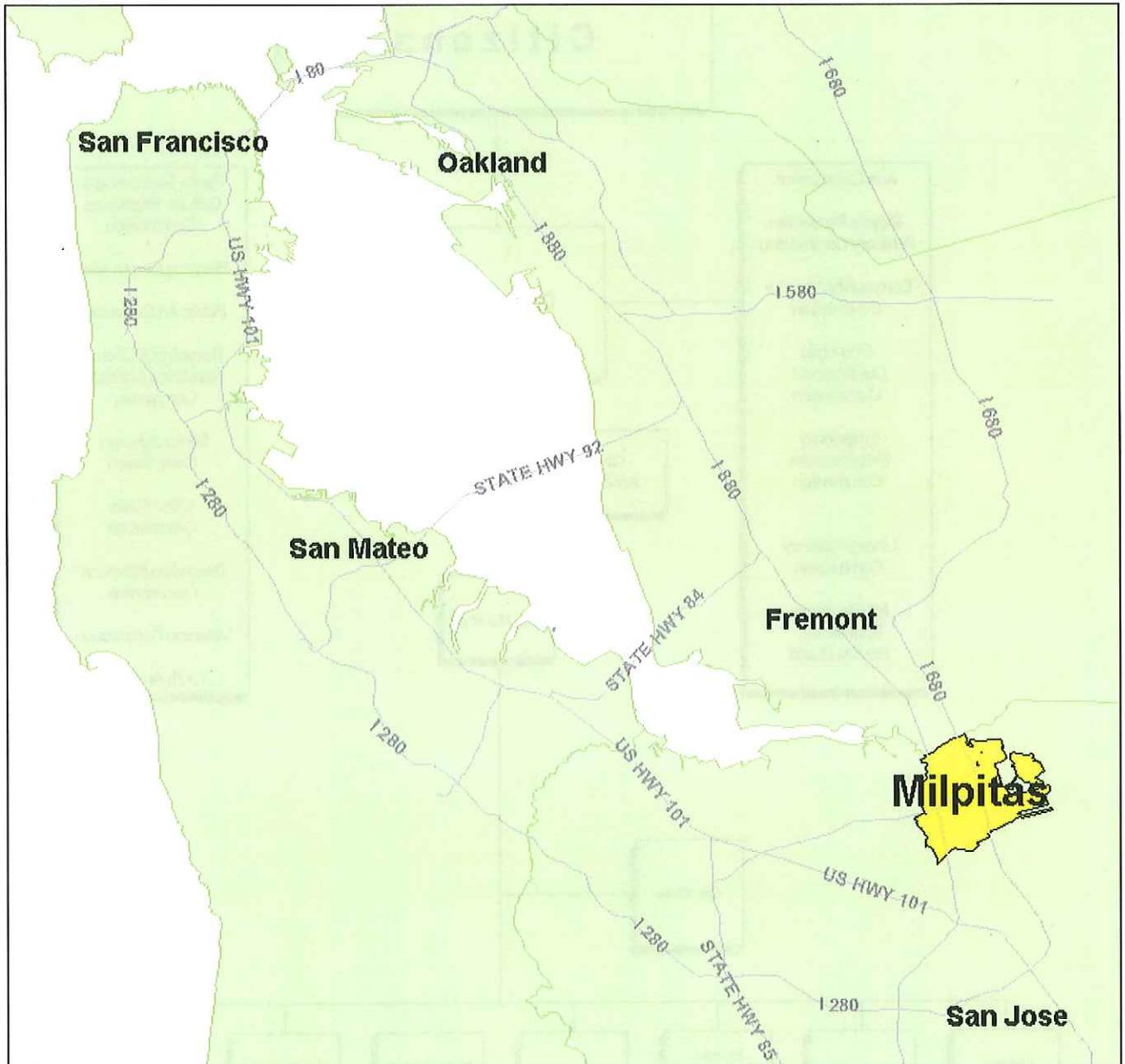
Chief Information Officer
William Marion

Human Resources and Recreation Director
Carmen Valdez

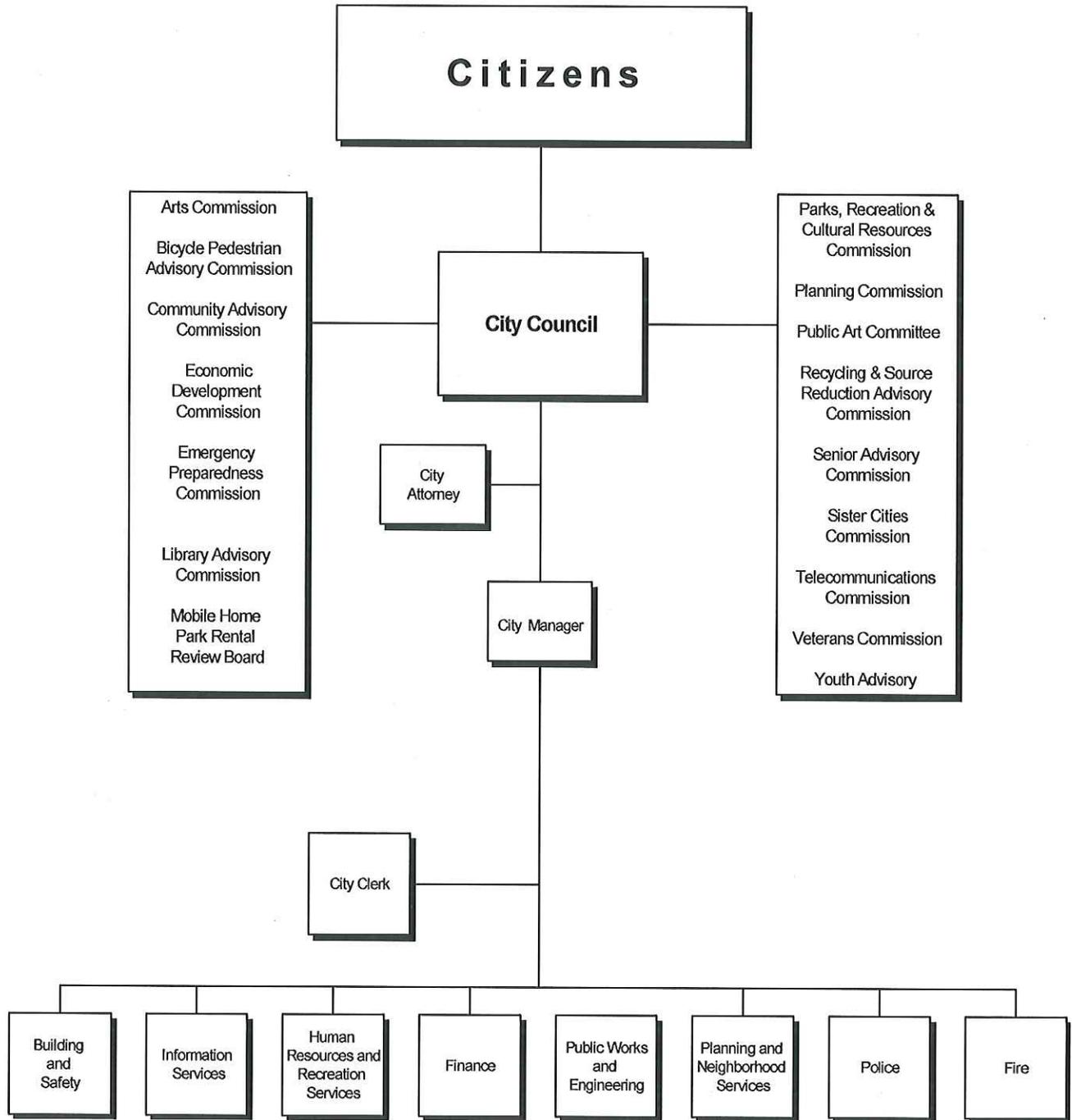
Public Works Director/City Engineer
Greg Armendariz

Planning & Neighborhood Svc Director
Felix Reliford, Acting

Chief Building Officer
Keyvan Irannejad



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



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milpitas
California

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

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



Linda C. Dawson

President

Jeffrey R. Enos

Executive Director







INDEPENDENT AUDITOR'S REPORT



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

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

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

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

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

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

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

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

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

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



December 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FISCAL 2012 FINANCIAL HIGHLIGHTS

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

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

Fiscal 2012 financial highlights include the following:

City-wide:

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

Fund Level:

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

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

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

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

The Basic Financial Statements

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

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

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

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

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

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

The City-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

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

Governmental Activities

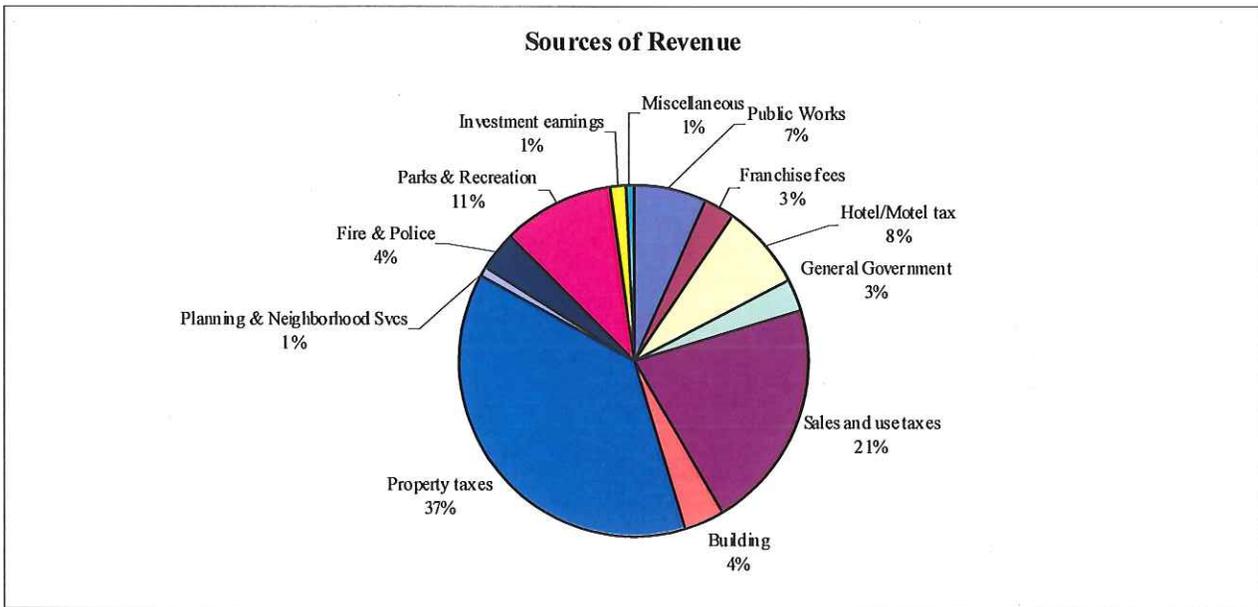
Table 1
Governmental Net Assets at June 30
(in Millions)

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

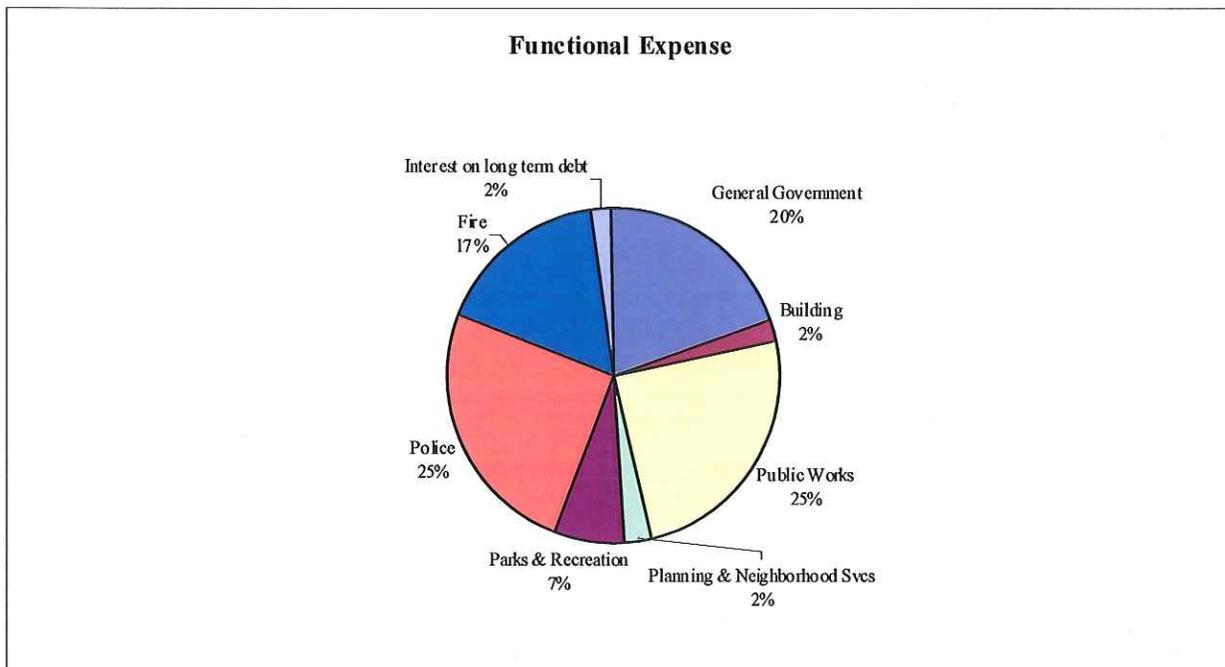
The City's governmental net assets were \$363.3 million at June 30, 2012, an increase of \$74.3 million from 2011. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

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

Fiscal Year 2012 Governmental Activities



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



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

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

Table 2
Changes in Governmental Net Assets
(in Millions)

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

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

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

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

Table 3
Governmental Activities
(in Millions)

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

Business-type Activities

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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

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

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

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

Analyses of Major Governmental Funds

General Fund

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

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

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

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

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

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

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

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

Economic Development Corporation

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

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

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

Housing Reserve

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

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

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

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

Housing Authority

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

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

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

Redevelopment Project

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

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

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

Street Improvement Capital Project

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

Transit Area Impact Fee

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

Other Governmental Funds

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

Fund Balance Classifications

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

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

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

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

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

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

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

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

Analyses of Major Proprietary Funds

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

Water Utility

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

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

Recycled Water Utility

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

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

Sewer Utility

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

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

CAPITAL ASSETS

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

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

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

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

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

DEBT ADMINISTRATION

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

Table 9
Outstanding Debt
(in Millions)

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

LOCAL IMPROVEMENT DISTRICT DEBT

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

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

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

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

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

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

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

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



CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2012

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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



FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

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

GENERAL FUND

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

ECONOMIC DEVELOPMENT CORPORATION FUND

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

HOUSING RESERVE FUND

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

HOUSING AUTHORITY FUND

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

REDEVELOPMENT PROJECT FUND

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

STREET IMPROVEMENT FUND

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

TRANSIT AREA IMPACT FEE FUND

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

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CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

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

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

CAPITAL ASSETS

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

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

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

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

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

LONG TERM ASSETS AND LIABILITIES

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

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

NET ASSETS OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

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

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

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

See accompanying notes to financial statements

| <u>Street Improvement</u> | <u>Transit Area Impact Fee</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-------------------------------|------------------------------------|---|---|
| | | | \$34,028,614 |
| | | | 19,403,068 |
| | | \$1,153,720 | 12,229,624 |
| | | | 4,955,660 |
| \$46,280 | \$33,958 | 186,556 | 5,303,613 |
| 389,185 | | 2,973,787 | 4,833,884 |
| | | 306,556 | 4,725,611 |
| 268,354 | 1,743,117 | 5,537,825 | 7,549,296 |
| | | 5,939 | 577,872 |
| <u>703,819</u> | <u>1,777,075</u> | <u>10,164,383</u> | <u>93,607,242</u> |
| 100,554 | | 94,993 | 12,753,337 |
| | | | 2,059,594 |
| 830,654 | 22,929 | 943,304 | 8,771,772 |
| | | 421,476 | 2,195,963 |
| | | 80,987 | 5,261,118 |
| | | 72,343 | 21,733,121 |
| 4,297,916 | 153,537 | 1,196,560 | 14,561,743 |
| | | | 28,876,188 |
| | | | 13,153,117 |
| | 638,573 | | 6,822,871 |
| <u>5,229,124</u> | <u>815,039</u> | <u>2,809,663</u> | <u>116,188,824</u> |
| <u>(4,525,305)</u> | <u>962,036</u> | <u>7,354,720</u> | <u>(22,581,582)</u> |
| | | | 7,588 |
| | | | 21,780,000 |
| 3,343,312 | 5,000 | 2,223,963 | 34,993,731 |
| (9,237) | (1,743,117) | (3,102,758) | (31,689,678) |
| <u>3,334,075</u> | <u>(1,738,117)</u> | <u>(878,795)</u> | <u>25,091,641</u> |
| (1,191,230) | (776,081) | 6,475,925 | 2,510,059 |
| | | | 17,274,338 |
| | | | (42,431,292) |
| <u>(1,191,230)</u> | <u>(776,081)</u> | <u>6,475,925</u> | <u>(22,646,895)</u> |
| <u>11,934,146</u> | <u>(11,458,171)</u> | <u>21,753,466</u> | <u>138,918,459</u> |
| <u>\$10,742,916</u> | <u>(\$12,234,252)</u> | <u>\$28,229,391</u> | <u>\$116,271,564</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, 2012

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$22,646,895)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--|---------------|
| The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$344,500 have already been added to capital assets) | 28,844,088 |
| Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$775,468 which has already been allocated to serviced funds.) | (13,827,686) |
| Capital asset retirements are deducted from fund balance | (5,656,238) |
| Capital assets transferred to the Successor Agency | (101,928,140) |

LONG TERM DEBT PAYMENTS

| | |
|---|--------------|
| Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities. | |
| Repayment of principal is added back to fund balance | 13,153,117 |
| Long-term debt assumed by the Successor Agency | 197,507,967 |
| Issuance of promissory note | (21,780,000) |

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

| | |
|--|-------------|
| Non-current portion of accrued vacation and sick leave | 624,628 |
| Non-current portion of uninsured claims payable | (265,463) |
| Interest payable | 2,727,628 |
| Deferred revenue | (2,658,919) |

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

| | |
|---|---------|
| Change in Net Assets - All Internal Service Funds | 236,074 |
|---|---------|

| | |
|---|--------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$74,330,161 |
|---|--------------|

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

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

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

WATER UTILITY FUND

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

RECYCLED WATER UTILITY FUND

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

SEWER UTILITY FUND

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

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

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



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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

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

AGENCY FUNDS

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



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

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

See accompanying notes to financial statements

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

| | Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund <hr style="width: 100%;"/> |
|--|--|
| Additions: | |
| Taxes | \$6,706,047 |
| Use of money and properties | 4,511 |
| Total additions | <hr style="width: 100%;"/> 6,710,558 |
| Deductions: | |
| General and administrative | 1,376,539 |
| Debt Service: | |
| Interest and fees | 7,879,585 |
| Total deductions | <hr style="width: 100%;"/> 9,256,124 |
| Change in net assets before extraordinary item | (2,545,566) |
| EXTRAORDINARY ITEM (NOTE 16A) | |
| Assets transferred to/liabilities assumed by Successor Agency | <hr right;"="" style="width: 100%;/>(78,306,243)</td> </tr> <tr> <td>Net change in net assets</td> <td style=" text-align:=""/> (80,851,809) |
| Beginning net assets | <hr style="width: 100%;"/> |
| Ending net assets (deficit) | <hr style="width: 100%;"/> <hr style="width: 100%;"/> (\$80,851,809) |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS



CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Discretely Presented Component Unit

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

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

B. Basis of Presentation

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

C. Major Funds

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

The City also reports the following fund types:

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaids, Materials, Supplies and Deposits

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

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

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

F. Property Tax

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

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

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

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

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

H. Use of Estimates

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Funds and Closed Funds

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

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

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

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

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

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

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

B. Adjustments to GAAP Basis from Budgetary Basis

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

C. Expenditures in Excess of Budget

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

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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
For the Year Ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

| Investment Type | 12 Months or less | 13 to 24 Months | 25 to 60 Months | Total |
|---|----------------------|---------------------|---------------------|----------------------|
| <i>City:</i> | | | | |
| U.S. Government Agency Issues | \$20,092,445 | \$9,173,720 | \$46,207,826 | \$75,473,991 |
| Corporate Notes | | 4,043,010 | 5,084,099 | 9,127,109 |
| Commercial Paper | 2,443,344 | | | 2,443,344 |
| U.S. Treasury Notes | 2,016,480 | 2,012,880 | 5,028,735 | 9,058,095 |
| California Local Agency Investment Fund | 76,092,693 | | | 76,092,693 |
| Mutual Funds (U.S. Securities) | 3,455,676 | | | 3,455,676 |
| <i>Terrace Gardens, Inc.:</i> | | | | |
| Certificates of Deposit | 785,165 | | | 785,165 |
| Total Investments | <u>\$104,885,803</u> | <u>\$15,229,610</u> | <u>\$56,320,660</u> | 176,436,073 |
| <i>Demand Deposits - City of Milpitas</i> | | | | 2,395,936 |
| <i>Demand Deposits - Terrace Gardens</i> | | | | 286,468 |
| Total Cash and Investments | | | | <u>\$179,118,477</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, 2012 these investments matured in an average of 268 days.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Credit Risk

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

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

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

H. Significant Investments

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

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

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

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

The reasons for these transfers are set forth below:

- | | |
|---|---|
| <ul style="list-style-type: none"> (A) Reimbursement of costs incurred (B) Return of unused capital projects funds (C) Transfer Park In Lieu Fees for payment related to purchase of McCandless property | <ul style="list-style-type: none"> (D) Transfer of property to the newly created Housing Authority (E) Return property held for resale transferred to the City in 2011 (F) Transfer of capital projects amounts (G) Return excess Low and Moderate Income Housing set-aside |
|---|---|

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

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

C. *Internal Balances*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

A. *Rehabilitation Loans*

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

B. *Milpitas Housing Associates Loan*

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

C. *Parc Metropolitan Housing Development Loans*

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

D. *Montague Parkway Associates, LP*

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

E. *Parc North Associates LLC Loan*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

F. *Mid-Peninsula Milpitas Affordable Housing Associates*

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

G. *KB Home South Bay Inc. Loans*

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

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

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

H. *Western Pacific Housing Inc., Loans*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

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

I. *Shapell Industries*

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

J. *MIL Aspen Associates, Ltd.*

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

K. *Terracare Associates*

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

L. Successor Agency Loans

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

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

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 7 - DEVELOPMENT AGREEMENTS

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

A. *The Crossing at Montague*

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

B. *Installment Purchase Agreement*

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

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

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

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

C. *County of Santa Clara*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

D. *South Main Senior Lifestyles, LLC.*

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

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

E. *Integral Communities McCandless, LLC.*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

F. Sun Power Corporation

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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
For the Year Ended June 30, 2012

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - CAPITAL ASSETS (Continued)

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - CAPITAL ASSETS (Continued)

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

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

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

D. Depreciation Allocation

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 9 - LONG TERM DEBT

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

A. Current Year Transactions and Balances

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

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

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

B. Mission West Purchase Agreement

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 9 - LONG TERM DEBT (Continued)

C. Sewer Certificates of Participation, 2006 Series A

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

D. Debt Service Requirements

Annual debt service requirements are shown below:

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

E. Defeased Bonds

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES

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

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

A. Net Assets

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

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

| | |
|---|-----------------------------|
| Total capital assets | \$233,070,666 |
| Total outstanding debt | <u>(14,036,883)</u> |
| Invested in Capital Assets, Net of Related Debt | <u><u>\$219,033,783</u></u> |

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

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

C. Minimum Fund Balance Policies

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

- 1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished after the 15% requirement of the operating expenditures has been met.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

- 3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 4) Other reserves designated in the General Fund for investment portfolio market gain, and sick leave payable will be calculated and adjusted annually at appropriate levels.
- 5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 6) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 7) Maintain at least \$300,000 in the Recycled Water Utility Enterprise Fund for the purpose of infrastructure replacement and enhancement.
- 8) A minimum 30% of the estimated annual Gas Tax revenues will be set aside in the Street Fund to provide for street repair emergencies and other unanticipated traffic safety projects.
- 9) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.
- 10) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$250,000 in the Equipment Management Internal Service Fund.
- 11) Maintain unassigned fund balance of at least 15% of the annual operating revenues in the Redevelopment Project Capital Projects Fund for unforeseen capital needs and economic development opportunities such as land assemblage and developer assistance.

D. Fund Balance Deficit

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 11 - PERS PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 11 - PERS PENSION PLAN (Continued)

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

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

Safety Plan:

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

Miscellaneous Plan:

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 11 - PERS PENSION PLAN (Continued)

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

| | <u>Safety</u> | <u>Miscellaneous</u> |
|--|----------------------|----------------------|
| Beginning Balance 6/30/09 | \$164,507,549 | \$117,726,837 |
| Contributions received | 6,097,852 | 5,072,807 |
| Benefits and Refunds Paid | (8,451,772) | (5,337,915) |
| Miscellaneous Adjustments | (130,746) | (177,897) |
| Expected Investment Earnings Credited | <u>12,649,636</u> | <u>9,094,855</u> |
| Expected Actuarial Value of Assets 6/30/10 | <u>\$174,672,519</u> | <u>\$126,378,687</u> |
| Market Value of Assets 6/30/10 | <u>\$134,854,767</u> | <u>\$97,917,083</u> |
| Actuarial Value of Assets 6/30/10 | <u>\$172,166,024</u> | <u>\$124,779,616</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 \$17,753 and the employee's required contributions of \$71,005 were made during the fiscal year ending June 30, 2012.

NOTE 12 - EMPLOYEE BENEFITS

A. Deferred Compensation Plan

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

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

B. Retiree Medical Benefits

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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
For the Year Ended June 30, 2012

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 (\$67.20 per month in 2012) |
| | Retired January 1, 1990 - December 31, 1994 | N/A | Any employee only premium |
| | Hired prior to January 1, 1995 and retired on or before February 20, 2007 | 1 but less than 10 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
For the Year Ended June 30, 2012

NOTE 12 - EMPLOYEE BENEFITS (Continued)

| | Hire/Retirement Date | Eligibility Rule (Continuous Years of Service) | City Contribution Requirement |
|----------------------------------|---|---|--|
| Police (MPOA) | Retired Prior to January 1, 1989 | N/A | None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution (\$67.20 per month in 2012) |
| | Hired prior to January 1, 1996 | At least 5 | If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap |
| | Hired on or after January 1, 1996 | 1 but less than 9 full years of service 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, 2012 was determined as part of a July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates of 5.50 – 7.60% for medical and 3.0% for dental. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

Funding Progress and Funded Status

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

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

C. Accrued Vacation and Sick Leave Liabilities

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

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

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

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

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

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

B. Workers Compensation

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

C. Dental

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 13 - RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

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

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

| | 2012 | | | 2011 |
|---|--------------------------|----------------------|--------------------|--------------------|
| | Worker's Compensation | General Liability | Total | |
| Beginning balance | \$2,794,035 | \$658,386 | \$3,452,421 | \$3,314,258 |
| Liability for current fiscal year claims | 1,155,930 | 662,490 | 1,818,420 | 1,469,147 |
| Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR) | (293,743) | (253,325) | (547,068) | (495,729) |
| Claims paid | (799,541) | (206,348) | (1,005,889) | (835,255) |
| Ending balance | <u>\$2,856,681</u> | <u>\$861,203</u> | <u>\$3,717,884</u> | <u>\$3,452,421</u> |
| Due in one year | <u>\$824,615</u> | <u>\$139,377</u> | <u>\$963,992</u> | <u>\$1,015,516</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
For the Year Ended June 30, 2012

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. *Redevelopment Agency Pass-Through Payments*

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

D. *Encumbrances*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 15 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. REDEVELOPMENT DISSOLUTION

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

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

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

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

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

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

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

B. PROPERTY HELD FOR RESALE OR REDEVELOPMENT

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

C. DEVELOPMENT AGREEMENTS

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

1. Installment Purchase Agreement

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

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

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

2. County of Santa Clara

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

3. *Sun Power Corporation*

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

D. *CAPITAL ASSETS*

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

E. LONG-TERM OBLIGATIONS

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

1. Current Year Transactions and Balances

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

2. 2003 Redevelopment Agency Tax Allocation Bonds

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

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

3. Installment Purchase Agreement with the County of Santa Clara

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

4. Loans From the City

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

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

5. Debt Service Requirements

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

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

F. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

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

2. State Asset Transfer Review

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

SUPPLEMENTARY INFORMATION

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



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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

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

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

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

SOLID WASTE REDUCTION AND SERVICES FUND

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

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

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

COMMUNITY FACILITIES DISTRICT FUND

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

HETCH-HETCHY GROUND LEASE FUND

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

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

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

PARK IMPROVEMENT FUND

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

GENERAL GOVERNMENT FUND

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

STORM DRAIN DEVELOPMENT FUND

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





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

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

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

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

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

SPECIAL REVENUE FUNDS

CAPITAL PROJECTS FUNDS

| Community Facilities District | Hetch-Hetchy Ground Lease | Public Art | Park Improvement | General Government Project | Storm Drain Development | Total Nonmajor Governmental Funds |
|-------------------------------------|---------------------------------|------------------|---------------------|----------------------------------|-------------------------------|--|
| \$382,059 | | | | | | \$1,153,720 |
| 3,480 | \$37,514 | \$2,665 | \$54,507 | \$23,126 | \$9,590 | 186,556 |
| | | 222 | 32,024 | 12,262 | | 2,973,787 |
| | | | 5,420,434 | | 117,391 | 306,556 |
| | | | | | | 5,537,825 |
| | | | | | | 5,939 |
| <u>385,539</u> | <u>37,514</u> | <u>2,887</u> | <u>5,506,965</u> | <u>35,388</u> | <u>126,981</u> | <u>10,164,383</u> |
| 4,979 | 27,904 | 33,120 | | | | 94,993 |
| 92,203 | | | 189,409 | 13,043 | 1,114 | 943,304 |
| | | | | | | 421,476 |
| 80,987 | | | | | | 80,987 |
| | | | 903,070 | 221,800 | 39,590 | 72,343 |
| | | | | | | 1,196,560 |
| <u>178,169</u> | <u>27,904</u> | <u>33,120</u> | <u>1,092,479</u> | <u>234,843</u> | <u>40,704</u> | <u>2,809,663</u> |
| <u>207,370</u> | <u>9,610</u> | <u>(30,233)</u> | <u>4,414,486</u> | <u>(199,455)</u> | <u>86,277</u> | <u>7,354,720</u> |
| | | | 200,000 | 1,993,804 | 28,590 | 2,223,963 |
| | (2,711) | (1,000,000) | | | | (3,102,758) |
| | (2,711) | (1,000,000) | 200,000 | 1,993,804 | 28,590 | (878,795) |
| 207,370 | 6,899 | (1,030,233) | 4,614,486 | 1,794,349 | 114,867 | 6,475,925 |
| 198,538 | 1,696,257 | 1,345,691 | 9,485,287 | 781,815 | 885,962 | 21,753,466 |
| <u>\$405,908</u> | <u>\$1,703,156</u> | <u>\$315,458</u> | <u>\$14,099,773</u> | <u>\$2,576,164</u> | <u>\$1,000,829</u> | <u>\$28,229,391</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, 2012

| | GAS TAX | | | HOUSING AND COMMUNITY DEVELOPMENT | | |
|--|--------------------|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
| | Budget | Actual Amounts Budgetary Basis | Variance Positive (Negative) | Budget | Actual Amounts Budgetary Basis | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Other taxes | | | | | | |
| Use of money and property | \$3,000 | \$31,420 | \$28,420 | | \$2,648 | \$2,648 |
| Intergovernmental | 1,162,000 | 2,212,817 | 1,050,817 | \$658,938 | 476,051 | (182,887) |
| Charges for services | | | | | | |
| Other | | | | | | |
| Total Revenues | <u>1,165,000</u> | <u>2,244,237</u> | <u>1,079,237</u> | <u>658,938</u> | <u>478,699</u> | <u>(180,239)</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Government: | | | | | | |
| Finance | | | | 14,800 | 14,800 | |
| Non-departmental | | | | 22,065 | 20,935 | 1,130 |
| Public Works | | | | | | |
| Planning and Neighborhood Services | | | | 606,444 | 474,494 | 131,950 |
| Parks and recreation | | | | | | |
| Police | | | | | | |
| Total Expenditures | | | | <u>643,309</u> | <u>510,229</u> | <u>133,080</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>1,165,000</u> | <u>2,244,237</u> | <u>1,079,237</u> | <u>15,629</u> | <u>(31,530)</u> | <u>(47,159)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | | | | |
| Transfers (out) | <u>(1,600,000)</u> | <u>(1,600,000)</u> | | | | |
| Total Other Financing Sources (Uses) | <u>(1,600,000)</u> | <u>(1,600,000)</u> | | | | |
| NET CHANGE IN FUND BALANCES | <u>(\$435,000)</u> | 644,237 | <u>\$1,079,237</u> | <u>\$15,629</u> | (31,530) | <u>(\$47,159)</u> |
| ADJUSTMENT TO BUDGETARY BASIS: | | | | | | |
| Expenditures capitalized for GAAP purposes | | | | | 53,018 | |
| Capital outlay | | | | | 6,745 | |
| Encumbrance adjustments | | | | | | |
| Fund balances at beginning of year | | <u>1,881,613</u> | | | <u>3,368,921</u> | |
| Fund balances at end of year | | <u>\$2,525,850</u> | | | <u>\$3,397,154</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) |
| | | | \$399,000 | \$458,410 | \$59,410 | \$312,400 | \$313,251 | \$851 |
| \$4,000 | \$3,141 | (\$859) | 16,000 | 14,877 | (1,123) | 4,000 | 3,588 | (412) |
| 124,256 | 73,093 | (51,163) | 87,781 | 167,540 | 79,759 | | | |
| | | | 310,000 | 306,334 | (3,666) | | | |
| | | | | 5,939 | 5,939 | | | |
| <u>128,256</u> | <u>76,234</u> | <u>(52,022)</u> | <u>812,781</u> | <u>953,100</u> | <u>140,319</u> | <u>316,400</u> | <u>316,839</u> | <u>439</u> |
| | | | 602,853 | 457,495 | 145,358 | 328,818 | 202,740 | 126,078 |
| <u>206,628</u> | <u>72,343</u> | <u>134,285</u> | | | | | | |
| <u>206,628</u> | <u>72,343</u> | <u>134,285</u> | <u>602,853</u> | <u>457,495</u> | <u>145,358</u> | <u>328,818</u> | <u>202,740</u> | <u>126,078</u> |
| <u>(78,372)</u> | <u>3,891</u> | <u>82,263</u> | <u>209,928</u> | <u>495,605</u> | <u>285,677</u> | <u>(12,418)</u> | <u>114,099</u> | <u>126,517</u> |
| | | | | 1,569 | 1,569 | | | |
| | | | <u>(300,047)</u> | <u>(300,047)</u> | | <u>(200,000)</u> | <u>(200,000)</u> | |
| | | | <u>(300,047)</u> | <u>(298,478)</u> | 1,569 | <u>(200,000)</u> | <u>(200,000)</u> | |
| <u>(\$78,372)</u> | <u>3,891</u> | <u>\$82,263</u> | <u>(\$90,119)</u> | <u>197,127</u> | <u>\$287,246</u> | <u>(\$212,418)</u> | <u>(85,901)</u> | <u>\$126,517</u> |
| | (32,100) | | | 12,700 | | | | |
| | <u>239,106</u> | | | <u>1,412,277</u> | | | <u>457,999</u> | |
| | <u>\$210,897</u> | | | <u>\$1,622,104</u> | | | <u>\$372,098</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, 2012

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

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



AGENCY FUNDS

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

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

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

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

LOCAL IMPROVEMENT DISTRICT (LID) FUNDS

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



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

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

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

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

STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

- Installment Payment Coverage, Sewer Certificates of Participation – Schedule 13
- Bimonthly Sewer Rates by Customer Class – Schedule 14
- Demographic and Economic Statistics – Schedule 15
- Principal Employers – Schedule 16
- Taxable Sales by Category – Schedule 17
- Direct and Overlapping Sales Tax Rates – Schedule 18
- Principal Sales Tax Payers – Schedule 19

Operating Information

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

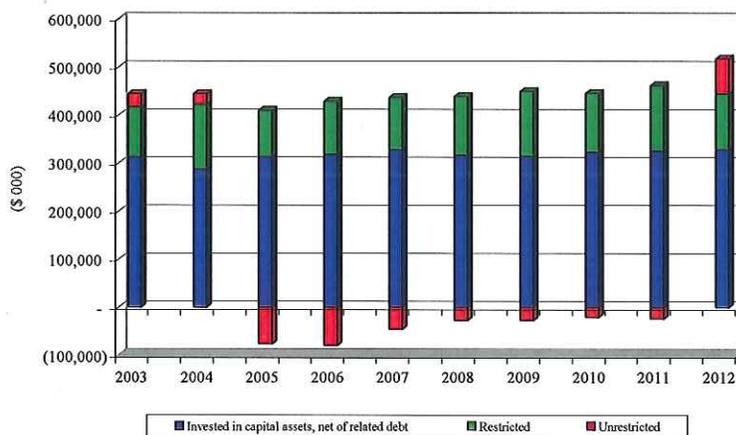
- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

Sources

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



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



| | Fiscal Year Ended June 30 | | | | | | | | | |
|--|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Governmental activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$221,431 | \$192,380 | \$225,140 | \$224,223 | \$232,841 | \$224,603 | \$221,744 | \$218,878 | \$218,116 | \$219,034 |
| Restricted | 100,007 | 130,126 | 89,652 | 97,069 | 92,504 | 104,161 | 110,463 | 98,426 | 115,474 | 90,878 |
| Unrestricted | (963) | (798) | (97,657) | (92,209) | (62,097) | (50,764) | (41,574) | (38,500) | (44,592) | 53,417 |
| Total governmental activities net assets | <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> | <u>\$363,329</u> |
| Business-type activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$91,151 | \$94,693 | \$88,191 | \$94,467 (a) | \$95,300 | \$92,028 | \$92,576 | \$104,370 | \$107,707 | \$109,146 |
| Restricted | 4,020 | 4,974 | 6,774 | 12,852 | 16,179 | 18,252 | 24,911 | 24,059 | 20,743 | 25,239 |
| Unrestricted | 28,824 | 23,102 | 21,125 | 12,980 | 16,652 | 23,603 | 14,172 | 17,851 | 20,577 | 19,838 |
| Total business-type activities net assets | <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> | <u>\$154,223</u> |
| Primary government | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$312,582 | \$287,073 | \$313,331 | \$318,690 | \$328,141 | \$316,631 | \$314,320 | \$323,248 | \$325,823 | \$328,180 |
| Restricted | 104,027 | 135,100 | 96,426 | 109,921 | 108,683 | 122,413 | 135,374 | 122,485 | 136,217 | 116,117 |
| Unrestricted | 27,861 | 22,304 | (76,532) | (79,229) | (45,445) | (27,161) | (27,402) | (20,649) | (24,015) | 73,255 |
| Total primary government net assets | <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> | <u>\$517,552</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 | | | | | | | | | |
|---|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Expenses | | | | | | | | | | |
| Governmental activities | | | | | | | | | | |
| General Government | \$13,178 | \$13,243 | \$17,412 | \$18,651 | \$16,297 | \$18,130 | \$18,184 | \$33,535 (c) | \$21,474 (c) | \$17,418 (d) |
| Building and Safety | 2,512 | 2,017 | 2,048 | 2,195 | 2,334 | 2,626 | 2,401 | 1,972 | 1,984 | 2,029 |
| Public Works | 18,131 | 17,537 | 17,794 | 17,156 | 20,647 | 20,745 | 19,605 | 22,843 | 16,777 | 21,787 |
| Planning and Neighborhood Services | 7,156 | 7,114 | 7,116 | 7,453 | 2,396 | 3,239 | 3,249 | 2,874 | 2,155 | 2,144 |
| Parks and Recreation | 4,219 | 4,246 | 4,170 | 4,266 | 7,301 | 6,527 | 6,518 | 6,096 | 6,529 | 5,823 |
| Police | 19,593 | 19,575 | 18,773 | 20,473 | 21,452 | 22,440 | 22,514 | 22,771 | 22,661 | 22,620 |
| Fire | 14,293 | 13,865 | 14,448 | 14,381 | 14,329 | 15,411 | 15,260 | 14,748 | 15,085 | 14,904 |
| Payment under developer agreements | 98 | | | 9,384 | | | | | | |
| Interest on Long Term Debt | 3,724 | 9,829 | 9,338 | | 9,419 | 11,534 | 9,402 | 9,570 | 9,536 | 2,050 |
| Total governmental activities expenses | 82,904 | 87,426 | 91,099 | 93,959 | 94,175 | 100,652 | 97,133 | 114,409 | 96,201 | 88,775 |
| Business-type activities | | | | | | | | | | |
| Water Utility | 8,583 | 9,877 | 9,668 | 9,837 | 10,673 | 11,567 | 12,545 | 11,788 | 12,766 | 15,229 |
| Recycled Water Utility | 208 | 255 | 247 | 328 | 337 | 481 | 576 | 476 | 470 | 599 |
| Sewer Utility | 6,784 | 6,165 | 6,040 | 7,047 | 8,210 | 8,626 | 12,312 | 8,730 | 9,240 | 8,399 |
| Total business-type activities expenses | 15,575 | 16,297 | 15,955 | 17,212 | 19,220 | 20,674 | 25,433 | 20,994 | 22,476 | 24,227 |
| Total primary government expenses | \$98,479 | \$103,723 | \$107,054 | \$111,171 | \$113,395 | \$121,326 | \$122,566 | \$135,403 | \$118,677 | \$113,002 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General Government | \$437 | \$860 | \$906 | \$580 | \$662 | \$996 | \$956 | \$1,165 | \$1,071 | \$1,349 |
| Building and Safety | 1,305 | 1,488 | 2,899 | 5,800 | 5,029 | 4,194 | 2,897 | 2,031 | 2,823 | 3,436 |
| Public Works | 320 | 307 | 311 | 344 | 2,817 | 2,410 | 1,996 | 2,571 | 1,826 | 2,440 |
| Planning and Neighborhood Services | 901 | 1,185 | 1,678 | 2,412 | 436 | 459 | 358 | 182 | 139 | 237 |
| Parks and Recreation | 1,382 | 1,391 | 1,482 | 1,496 | 1,599 | 1,663 | 1,655 | 1,642 | 1,662 | 1,833 |
| Police | 1,190 | 1,273 | 1,693 | 1,132 | 1,406 | 1,351 | 1,425 | 1,091 | 1,263 | 1,134 |
| Fire | 490 | 766 | 305 | 1,070 | 1,109 | 1,144 | 1,108 | 1,137 | 1,210 | 1,292 |
| Operating grants and contributions | 3,697 | 4,197 | 3,780 | 4,089 | 4,600 | 4,617 | 4,920 | 3,892 | 4,869 | 6,146 |
| Capital grants and contributions | 8,124 | 13,770 | 12,012 | 12,971 | 16,056 | 15,242 | 9,801 | 8,840 | 5,704 | 8,294 |
| Total governmental activities program revenues | 17,846 | 25,237 | 25,066 | 29,894 | 33,714 | 32,076 | 25,116 | 22,551 | 20,567 | 26,161 |
| Business-type activities | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water Utility | 10,779 | 12,265 | 12,430 | 13,224 | 14,523 | 14,937 | 13,873 | 14,051 | 15,201 | 16,773 |
| Recycled Water Utility | 747 | 878 | 1,017 | 1,086 | 1,203 | 1,323 | 1,288 | 1,260 | 1,300 | 1,447 |
| Sewer Utility | 6,547 | 7,472 | 8,253 | 8,966 | 9,833 | 10,041 | 9,849 | 10,393 | 11,406 | 12,445 |
| Operating grants and contributions | | | | | | | | 79 | 70 | 43 |
| Capital grants and contributions | 8,937 | 1,602 | 604 | 3,854 | 2,418 | 956 | 471 | 6,406 | 163 | 1,629 |
| Total business-type activities program revenue | 27,010 | 22,217 | 22,304 | 27,130 | 27,977 | 27,257 | 25,481 | 32,189 | 28,140 | 32,337 |
| Total primary government program revenues | \$44,856 | \$47,454 | \$47,370 | \$57,024 | \$61,691 | \$59,333 | \$50,597 | \$54,740 | \$48,707 | \$58,498 |
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental activities | (\$65,058) | (\$62,189) | (\$66,033) | (\$64,065) | (\$60,461) | (\$68,576) | (\$72,017) | (\$91,858) | (\$75,634) | (\$62,614) |
| Business-type activities | 11,435 | 5,920 | 6,349 | 9,918 | 8,757 | 6,583 | 48 | 11,195 | 5,664 | 8,110 |
| Total primary government net expense | (\$53,623) | (\$56,269) | (\$59,684) | (\$54,147) | (\$51,704) | (\$61,993) | (\$71,969) | (\$80,663) | (\$69,970) | (\$54,504) |

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

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

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

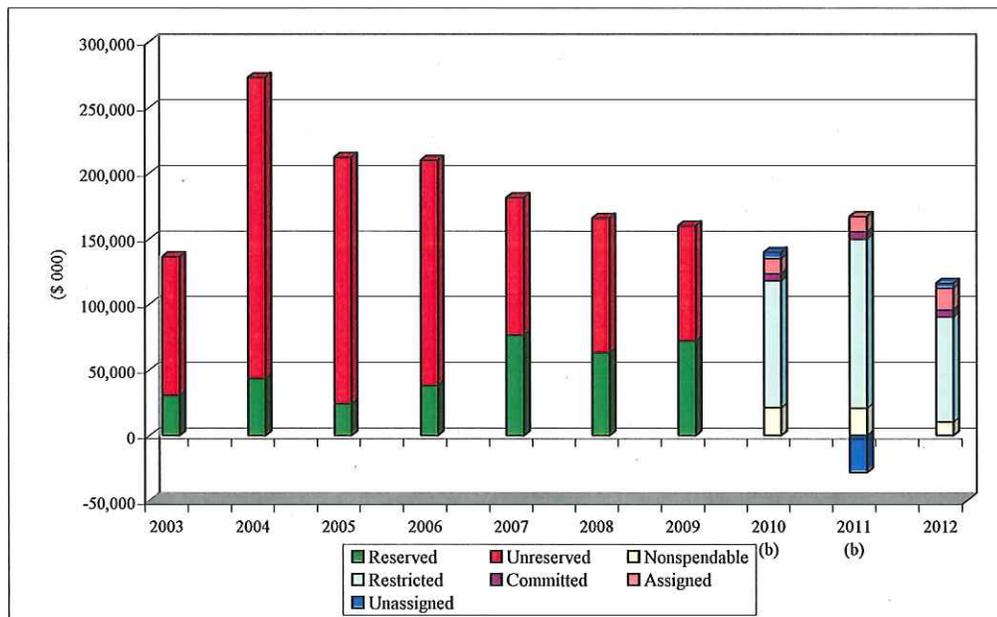
(b) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

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

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



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



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

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

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

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

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

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

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

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

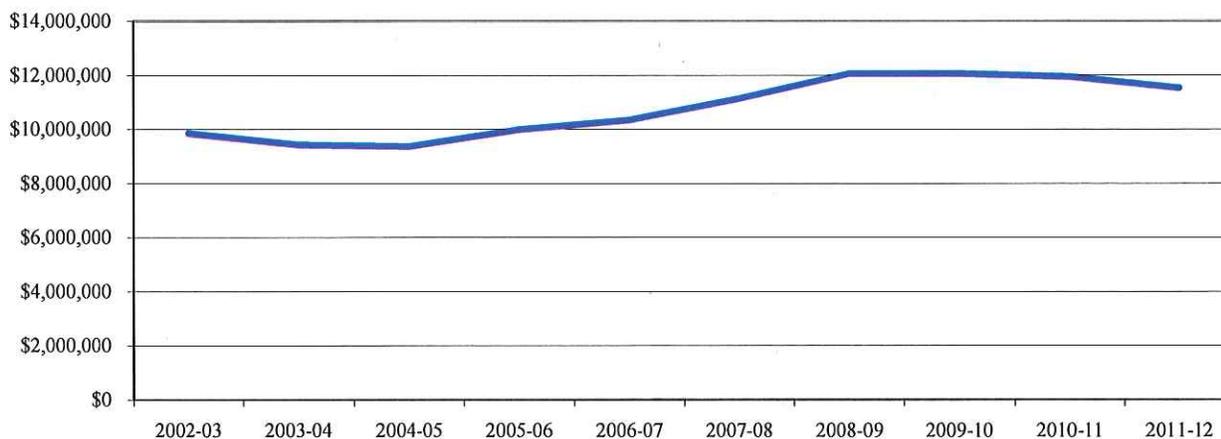
(d) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.

Years prior to 2010 have not been restated to reflect this change in presentation.

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

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

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



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

Source: HdI 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 |
| 2002-03 | \$1.00 | \$1.00 | \$0.0412 | \$0.0567 | \$0.0072 |
| 2003-04 | 1.00 | 1.00 | 0.0412 | 0.0582 | 0.0087 |
| 2004-05 | 1.00 | 1.00 | 0.0412 | 0.0624 | 0.0092 |
| 2005-06 | 1.00 | 1.00 | 0.0412 | 0.0509 | 0.0078 |
| 2006-07 | 1.00 | 1.00 | 0.0412 | 0.0518 | 0.0072 |
| 2007-08 | 1.00 | 1.00 | 0.0412 | 0.0874 | 0.0071 |
| 2008-09 | 1.00 | 1.00 | 0.0412 | 0.0874 | 0.0061 |
| 2009-10 | 1.00 | 1.00 | 0.0412 | 0.1238 | 0.0074 |
| 2010-11 | 1.00 | 1.00 | 0.0412 | 0.1389 | 0.0072 |
| 2011-12 | 1.00 | 1.00 | 0.0412 | 0.1490 | 0.0064 |

Source: County of Santa Clara, Tax Rates & Information

Notes:

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

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

| Taxpayer | 2011-2012 | | | 2002-2003 | | |
|--|-------------------------|------|---|-------------------------|------|---|
| | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value |
| Cisco Technology Inc. | \$ 426,047,061 | 1 | 3.71% | | | |
| Milpitas Mills LP | 320,821,128 | 2 | 2.79% | | | |
| KLA Tencor Corporation | 200,388,156 | 3 | 1.74% | \$ 176,999,129 | 4 | 1.80% |
| California Diversified | 123,523,176 | 5 | 1.07% | | | |
| BRE Milpitas LLC | 116,437,669 | 4 | 1.01% | | | |
| Linear Technology Corporation | 108,712,826 | 6 | 0.95% | | | |
| Headway Technologies Inc. | 107,587,426 | 7 | 0.94% | | | |
| Solyndra Inc. | 94,210,095 | 8 | 0.82% | | | |
| Sandbox Expansion LLC | 88,639,838 | 9 | 0.77% | | | |
| EQR Fresca 2009 LP | 79,107,219 | 10 | 0.69% | | | |
| Societe Generale Fincl Corporation | | | | 325,062,833 | 1 | 3.31% |
| Richard T. Peery Trustee | | | | 208,001,154 | 2 | 2.12% |
| Irvine Company | | | | 207,704,667 | 3 | 2.11% |
| Great Mall of The Bay Area | | | | 162,844,910 | 5 | 1.66% |
| First Security Bank | | | | 161,211,180 | 6 | 1.64% |
| Solectron Corporation | | | | 142,900,449 | 7 | 1.45% |
| Trinet Milpitas Associates | | | | 135,189,802 | 8 | 1.38% |
| Fleming Business Park LLC | | | | 134,592,365 | 9 | 1.37% |
| Seagate Technology | | | | 131,923,519 | 10 | 1.34% |
| Subtotal | \$ <u>1,665,474,594</u> | | <u>14.48%</u> | \$ <u>1,786,430,008</u> | | <u>18.19%</u> |
| Fiscal Year 2011-2012 Total Net Assessed Valuation | | | \$11,498,357,000 | | | |
| Fiscal Year 2002-2003 Total Net Assessed Valuation | | | \$9,822,845,000 | | | |

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

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

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

- (a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

Source: City of Milpitas Comprehensive Financial Annual Report

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

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

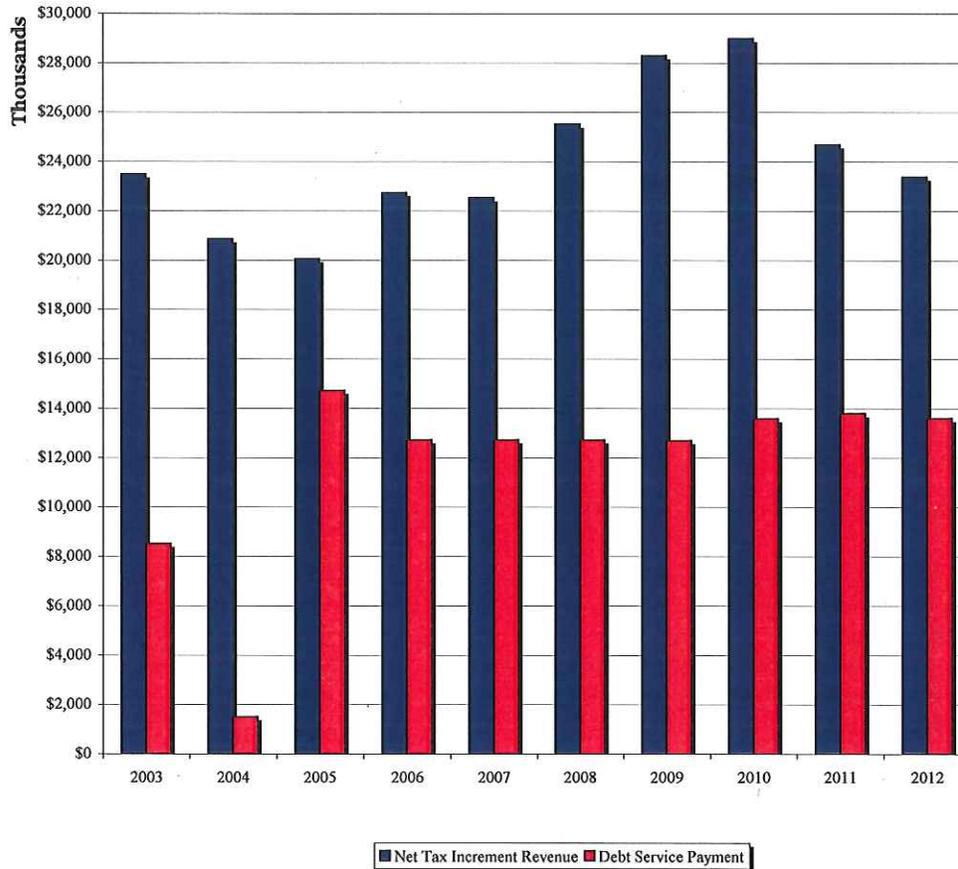
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

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

(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.

(c) Data for fiscal year 2011-12 not available until May of 2013.

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



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

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

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

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

Total Overlapping Tax and Assessment Debt 1.27%

Ratios to Assessed Valuation:

Direct Debt % 0.49%

Total Gross Debt % 1.76%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

Source: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation for Fiscal Year 2011-12

| | | |
|--|-----|---------------------|
| Assessed value (net) - June 30, 2012 | | <u>\$11,498,357</u> |
| Debt limit: 3.75% of assessed value (a) | | \$431,188 |
| Debt applicable to limit | | |
| Total Bonded Debt | \$0 | |
| Less: Tax Allocation Bonds not subject to limit | 0 | |
| Amount of Debt subject to limit | | <u>0</u> |
| Legal debt margin | | <u>\$431,188</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 |
|----------------|---------------|---------------------------------------|----------------------|--|
| 2002-03 | \$368,356 | 0 | \$368,356 | 0.0% |
| 2003-04 | 352,408 | 0 | 352,408 | 0.0% |
| 2004-05 | 350,211 | 0 | 350,211 | 0.0% |
| 2005-06 | 373,520 | 0 | 373,520 | 0.0% |
| 2006-07 | 386,975 | 0 | 386,975 | 0.0% |
| 2007-08 | 416,601 | 0 | 416,601 | 0.0% |
| 2008-09 | 451,001 | 0 | 451,001 | 0.0% |
| 2009-10 | 450,946 | 0 | 450,946 | 0.0% |
| 2010-11 | 446,703 | 0 | 446,703 | 0.0% |
| 2011-12 | 431,188 | 0 | 431,188 | 0.0% |

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

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

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

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

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

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

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

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

Source: City of Milpitas, Engineering Department

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

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

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

(a) For Santa Clara County.

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

(c) Data for fiscal year 2011-12 is not available until May of 2013.

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

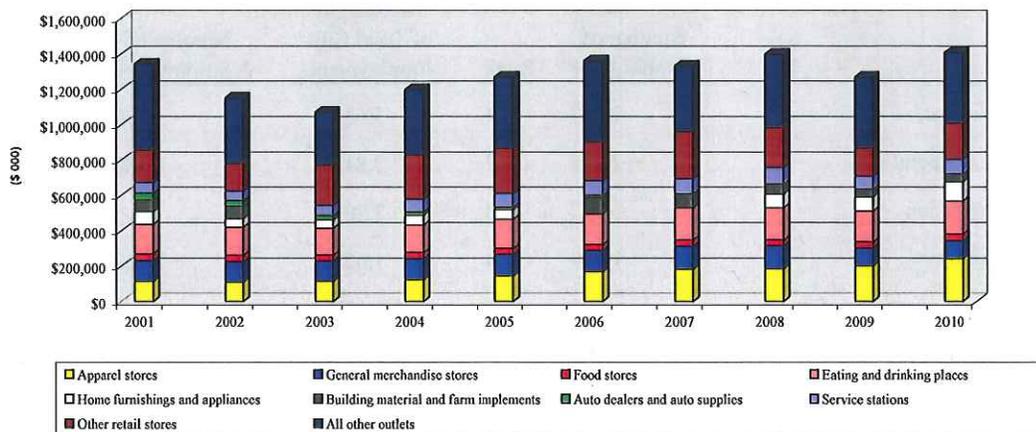
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2010-11 and 2002-2003

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

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

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

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



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

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

Source: California State Board of Equalization

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

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

Source: California State Board of Equalization

(a) July 1, 2004 the State increased the State Rate .25%

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

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

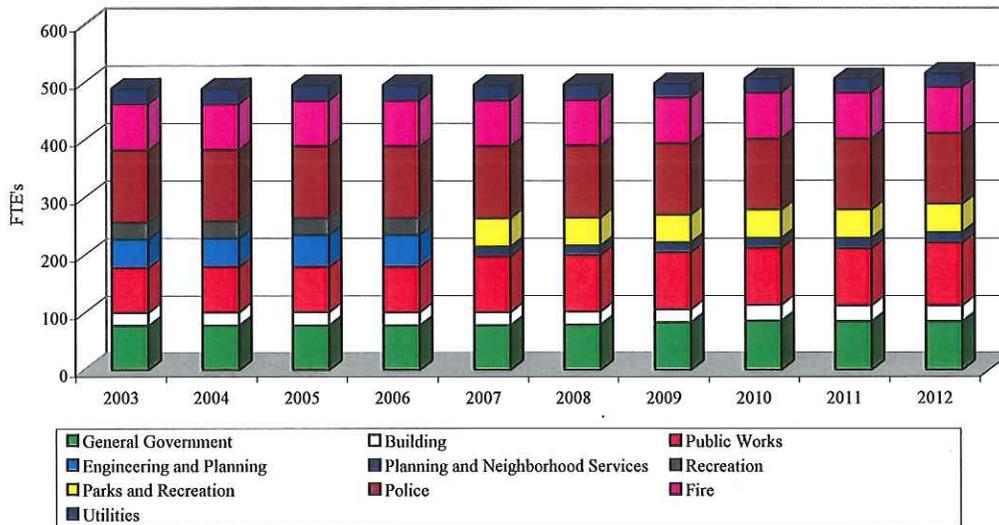
Note: The City's sales tax rate may be changed only with approval of the State Legislature.

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

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

Source: MBIA MuniServices Company

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



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

(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 | | | | |
|--|-------------|----------|----------|----------|----------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Building and Safety | | | | | |
| Building permits issued | 1,777 | 1,650 | 3,156 | 3,788 | 3,500 |
| Plan checked performed | 536 | 590 | 650 | 1,181 | 1,000 |
| Public Works | | | | | |
| Street miles maintained | 137 | 137 | 138 | 139 | 139 |
| Customer Service Requests | 4,000 | 3,506 | 3,500 | 3,326 | 3,208 |
| Development projects reviewed | 115 | n/a | n/a | 293 | 190 |
| Planning and Neighborhood Services | | | | | |
| Customer Service Requests/Violations abated | 2,065 | 1,656 | 1,620 | 1,802 | 1,470 |
| Applications to Planning Commission | 93 | 100 | 120 | 150 | 165 |
| Parks and Recreation | | | | | |
| Sports Center members | 4,398 | 5,800 | 6,500 | 7,508 | 7,885 |
| Senior nutrition meals served | 23,886 | 16,139 | 16,932 | 19,421 | 20,667 |
| Athletic Field maintenance (hours) | n/a | 4,098 | 1,947 | 1,947 | 1,947 |
| Police | | | | | |
| Avg response time to emergency calls (minutes) | n/a | 3:35 | 3:44 | 3:12 | 3:06 |
| Number of anti-terrorist patrol checks | 2,924 | 7,649 | 10,664 | 12,813 | 12,300 |
| Crime prevention presentations | 175 | 201 | 180 | 179 | 190 |
| Number of vehicle citations issued | 15,312 | 15,041 | 14,453 | 14,161 | 10,624 |
| DARE presentations: schools/students | 14/1,456 | 13/1,610 | 14/1,579 | 13/1,538 | 14/1,572 |
| Fire | | | | | |
| Emergency calls for service | 3,850 | 4,100 | 4,200 | 4,250 | 4,000 |
| Public education events | 75 | 73 | 73 | 70 | 65 |
| Permits Inspections | 2,160 | 1,909 | 2,514 | 4,231 | 4,300 |
| Plan Review | 660 | 786 | 845 | 1,005 | 1,000 |
| Utility | | | | | |
| Clean sewer lines (feet) | 347,670 | 358,610 | 500,000 | 500,000 | 500,000 |
| Repair, replace or set water meters | 399 | 341 | 422 | 425 | 600 |
| Average daily consumption (thousands of gallons) | 11,120 | 11,222 | 10,090 | 9,162 | 9,693 |

Source: City of Milpitas, final budget

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

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

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

Source: City of Milpitas, final budget

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

