



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Successful Housing Projects Assisted by Redevelopment Agency



Devries Place Senior Apartments



Centria



Paragon



Aspen Village

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES



INTRODUCTORY SECTION

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2013

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CITY OF MILPITAS

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

November 6, 2013

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, 2013. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

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

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Economic Development Corporation (the EDC), the Milpitas Housing Authority (the Housing Authority) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The EDC, Housing Authority, and Terrace Gardens are separate legal entities from the City and are controlled by the City. The EDC and the Housing Authority have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements.

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

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

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks,

Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, 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 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. In 2012, the local economy has finally emerged from the most unprecedented and prolonged economic recession in recent history. The housing market also showed substantial recovery. 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, SanDisk Corporation, Headway Technology, Inc. and Spectra Laboratories. Several of these top employers, including SanDisk Corporation and Linear Technology, make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are the Milpitas Unified School District and Vitas Healthcare Corporation of CA.

Many of the major activities initiated in FY12-13 were consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown and the Transit Area that will enhance the City's long-term financial condition.

Major Development Activities in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include the construction of a County Health Center, a parking garage and a 103-unit Senior Housing apartment building. Major residential development includes completion of the Centria West project in 2012 for 366 condominium dwelling units. Other development in process includes 203 housing units developed by Shea Homes.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008 which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. 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. Other residential development includes 732 housing units developed by Citation Homes that is still in the planning 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 either under construction or completed and occupied. 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 – Major commercial construction includes relocation of SanDisk to a new campus within Milpitas, addition of a clean room for KLA-Tencor, and expansion of Solixel's facility. Temporary building permits were issued to ELO Touch, a touch screen manufacturer for the construction of a new facility in Milpitas.

Budget Strategies in Fiscal 2012-13

As a result of the ruling by the California Supreme Court, all the redevelopment agencies throughout the State were dissolved as of January 31, 2012. The consequences of the dissolution of the Redevelopment Agency were particularly difficult for the City of Milpitas. In addition to the loss of funding for many major infrastructure and economic development projects, the City also lost approximately \$7 million annually allocated to the General Fund. The City undertook drastic cost cutting measures that included staff reduction, restructuring of non-core programs, and outsourcing of certain maintenance services. Nevertheless, 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.

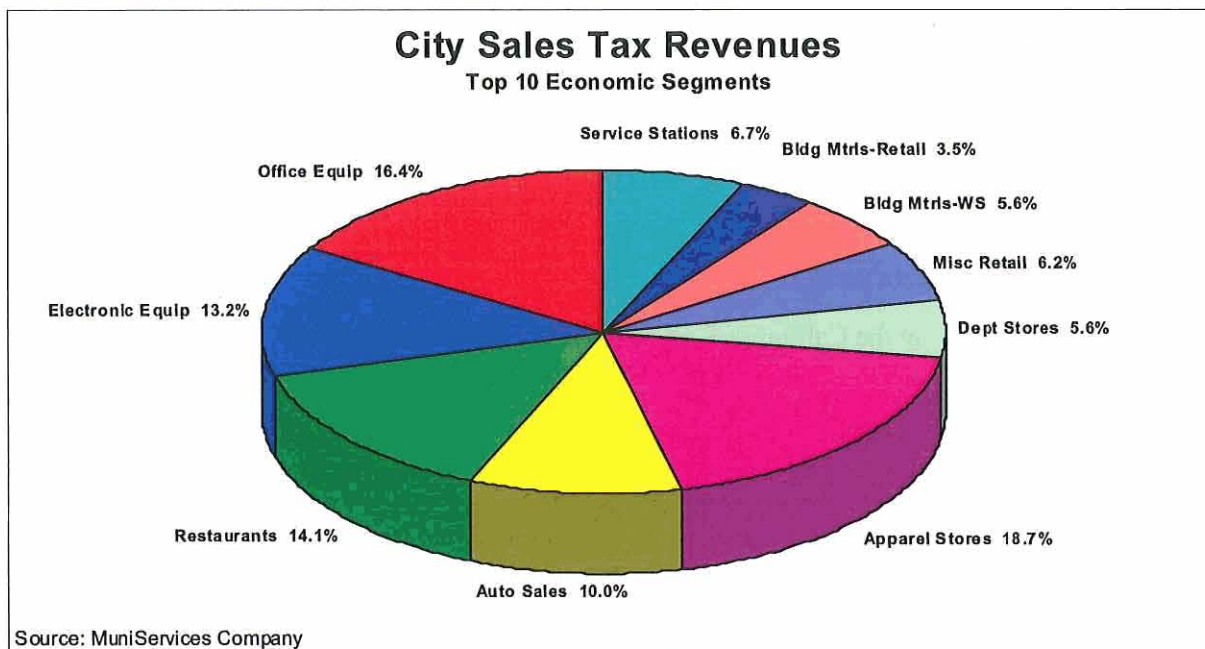
Consumer Confidence Level

The consumer confidence survey report in June 2013 showed the index at a recovery best. Consumers had more confidence in the long-term outlook for the job markets and hinted at gains for consumer spending. The increase in consumer confidence was lifted by a stable jobs market, rising home prices, and stable gasoline prices.



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 \$17.6 million, with the top ten economic segments generating about \$15.4 million. Economic segments such as apparel stores, auto sales, office equipment, electronic equipment and restaurants increased over a year ago. The sales tax generated from all these economic segments was the highest that it has been in the last eight quarters.



CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2012-2013, 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 4,356 emergency incidents with an average response time of 4:23 minutes.
- Presented fire prevention information at over 45 public events.
- Conducted 807 plan reviews, issued 860 approvals/permits and performed 1,159 fire inspections.
- Certified 238 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Increased the number of burglary arrests in 2012 by 4%.
- Reduced average emergency response time to 2:36 minutes in 2012, the lowest average emergency response time in the last twelve years.
- Eradicated 8 illegal marijuana growing operations netting over 2,200 plants with a value of approximately \$1.5 million.
- Completed evidence warehouse inventory which included over 11,000 pieces of evidence.

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.
- Completed construction of Phase 4 of the Alviso Adobe improvement project and opened the park to the public in 2013.
- Completed construction of two federally funded street enhancement projects and received \$1.7 million federal funding.
- Coordinated major flood control improvements with the Santa Clara Valley Water District.

Public Works Maintenance

- Successfully implemented City Council direction to outsource maintenance of parks, street landscaping, street trees, and building custodial services.
- 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

- Completed Citywide Climate Action Plan.
- Made recommendations to Planning Commission and City Council on General Plan update.
- Updated Planning website to enable effective dissemination of information.
- Completed home repairs for a property that was under court-appointed receivership.

Human Resources and Recreation

- Implemented the Public Employees' Pension Reform Act of 2013.
- Successfully completed negotiations with the Mid-Management and Confidential employees group and the ProTech employees group.
- Senior Center Case Manager served over 772 needy senior clients with social services including housing, Medicare, medical, social security, disability and supplemental security income assistance during the fiscal year.
- Successfully partnered with Pacific Autism Center for Education and Milpitas Unified School District to provide volunteer opportunities to special needs youth and adults.

Building & Safety

- Achieved highest rating in International Organization for Standards ("ISO") quality standards, making Milpitas one of the very few cities in California with this top rating.
- Enhanced the online plan submittal permitting process and increased the types of permits available for issuance online.
- Participated in outreach events hosted in public schools, in Building Safety Month and published newsletter to promote building safety awareness in the community.
- Introduced customer satisfaction survey and received highest customer service satisfaction rating.

Administration

- Implemented strategies to narrow the General Fund originally projected deficit from \$12 million in the fiscal 2012 budget to \$1.5 million in the fiscal 2013 budget.
- Maintained the city at "AA+" general credit rating.
- Continued to improve and diversify the economic base of the City.
- City Clerk Office administered Municipal Election on November 6, 2012 including candidates' filing and reporting final results on December 5.

City Attorney

- Provided training on Brown Act, open government, ethics, and sexual harassment.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Advised management through continuing labor negotiations.
- Represented the City in numerous administrative/court cases.

Information Services

- Completed the Fire Mobile computer upgrade.
- Completed Citywide phone system upgrade.
- Completed Council Chamber audio/visual system upgrade.
- Maintained network availability at 99.9% of the time.

Finance

- Implemented financial system changes due to the Public Employees' Pension Reform Act.
- Worked with the County Auditor and State Department of Finance on completion of the Agreed Upon Procedures and Due Diligence Reviews of the Redevelopment Agency.
- Revised business license tax billing cycle from fiscal year to calendar year to combine with Fire Annual Permit fees to achieve streamlining of billing and collection efforts.
- Bid various frequently used commodities and services and created annualized contracts with the vendors to achieve savings and efficiency.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

Category and Fund Type

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

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

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

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FINANCIAL ANALYSIS

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

INDEPENDENT AUDIT

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

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. 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-four of the last twenty-five years (fiscal years ended 1988-2012). The 1992-93 report was not submitted to GFOA due to timing delays.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Emma C. Karlen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2013

City Council

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

City Manager
Thomas C Williams

Police Chief
Steve Pangelinan

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Brian Sturdivant

City Clerk
Mary Lavelle

City Attorney
Michael Ogaz

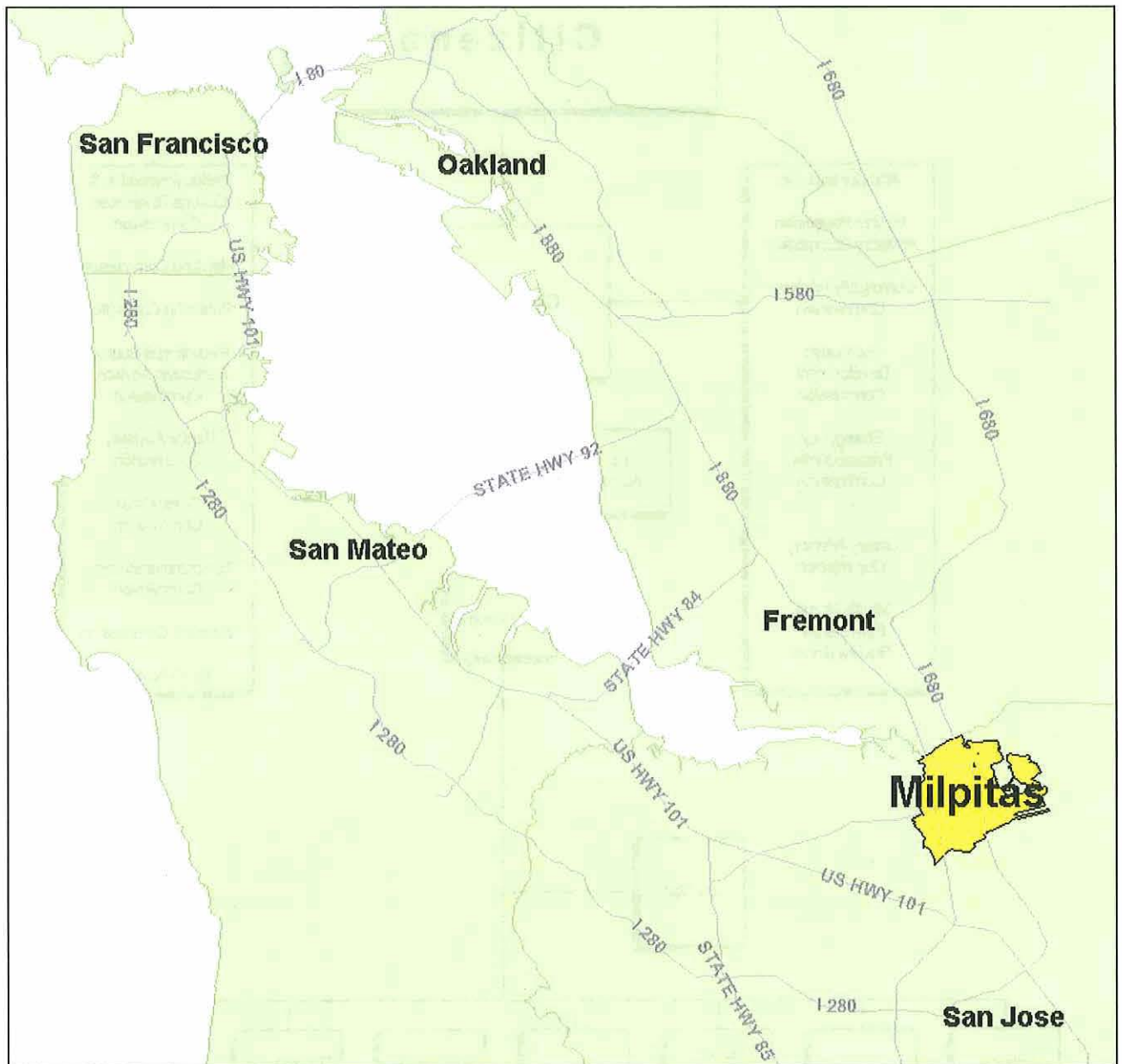
Chief Information Officer
Mike Luu, Interim

Human Resources and Recreation Director
Carmen Valdez

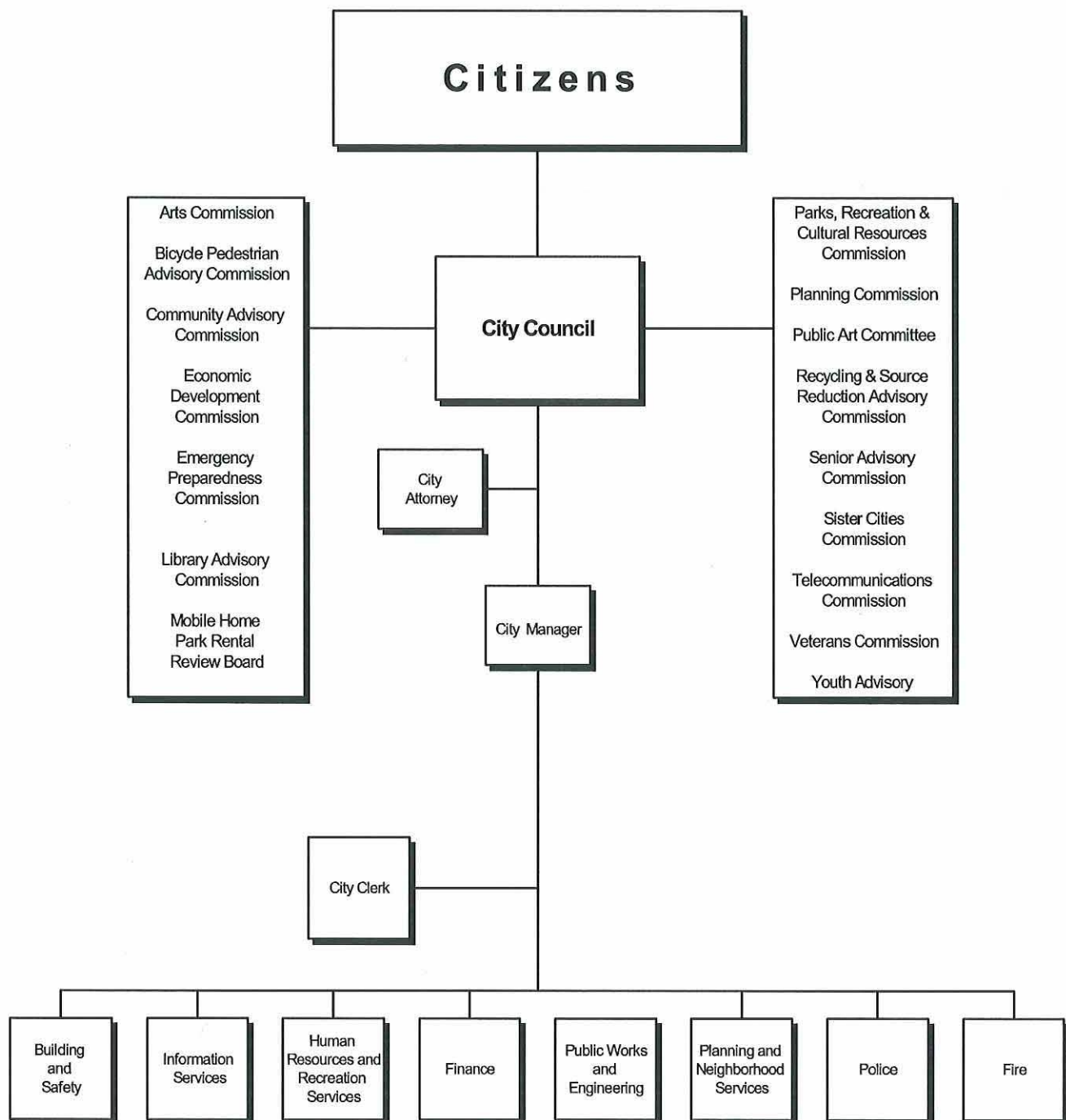
Public Works Director/City Engineer
Jeff Moneda, PE

Planning & Neighborhood Svc Director
Steven McHarris

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.





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Milpitas
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2012, which represent 1.82%, 1.93%, and 1.36% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2013, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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 was 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 included 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 \$54,854,616, comprised of current assets of \$31,485,664 and capital assets of \$23,368,952, remain with the Economic Development Corporation as of June 30, 2013. As discussed in Note 16, the City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputes the results of the DDR and the City has filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. The County and State have filed responses to the City's complaint. The two cases have been coordinated and will proceed to hearing in February 28, 2014.

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.

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 that affected the format and nomenclature of the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See Notes 1B and 1F to the financial statements for relevant disclosures.

Management early-implemented the provisions of the following Governmental Accounting Standards Board Statement during the year ended June 30, 2013 that also affected the format and nomenclature of the financial statements:

Statement 65 - *Items Previously Report as Assets and Liabilities*. See Note 1F to the financial statements for relevant disclosures.

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maize & Associates

Pleasant Hill, California
September 27, 2013



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, 2013. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2013 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2013 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2013 was at 6.9%, an improvement over last year's 8.7%. The property tax revenue has shown substantial recovery due to double digit increase of medium home prices. The 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.

Fiscal 2013 financial highlights include the following:

City-wide:

- The City's total net position was \$529.2 million at June 30, 2013. Of this total, \$370 million were Governmental assets and \$159.2 million were Business-type assets.
- City-wide revenues include program revenues of \$64 million, general revenues and transfers of \$52.9 million, totaling \$116.9 million, a decrease of \$75.6 million from the prior year's total of \$192.5 million.
- Total City-wide expenses were \$105.3 million, a decrease of \$7.7 million from the prior year's \$113 million.

Fund Level:

- Governmental Fund balances were \$123.9 million, an increase of \$7.6 million from fiscal 2012.
- Governmental Fund revenues were \$82.2 million in fiscal 2013, down \$11.4 million from the prior year's \$93.6 million.
- Governmental Fund expenditures were \$77.2 million in fiscal 2013, a decrease of \$39 million from fiscal 2012's level of \$116.2 million.
- General Fund revenues of \$62.7 million represented a decrease of \$0.2 million from fiscal 2012's revenues of \$62.9 million.
- Total other financing uses of the General Fund were \$4.4 million in fiscal 2013 while fiscal 2012 had a total other financing sources of \$2.6 million.
- General Fund balance of \$32.8 million at the fiscal 2013 year-end was \$2.9 million less than the fund balance at fiscal 2012 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 Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net position for the year.

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

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

The City is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

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

The City-wide Financial Statements

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

All of the City's enterprise activities, including water, 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 three other separate legal entities, Milpitas Economic Development Corporation ("EDC"), the Milpitas Housing Authority ("Housing Authority"), and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

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

Fund Financial Statements

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

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

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

The City has four other Major Governmental Funds in fiscal 2013 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Authority Fund, the Street Improvement Fund and the Transit Area Impact Fee Fund, each of which is discussed in detail below.

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

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds. The City does not have any major Special Revenue Funds.

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2012 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

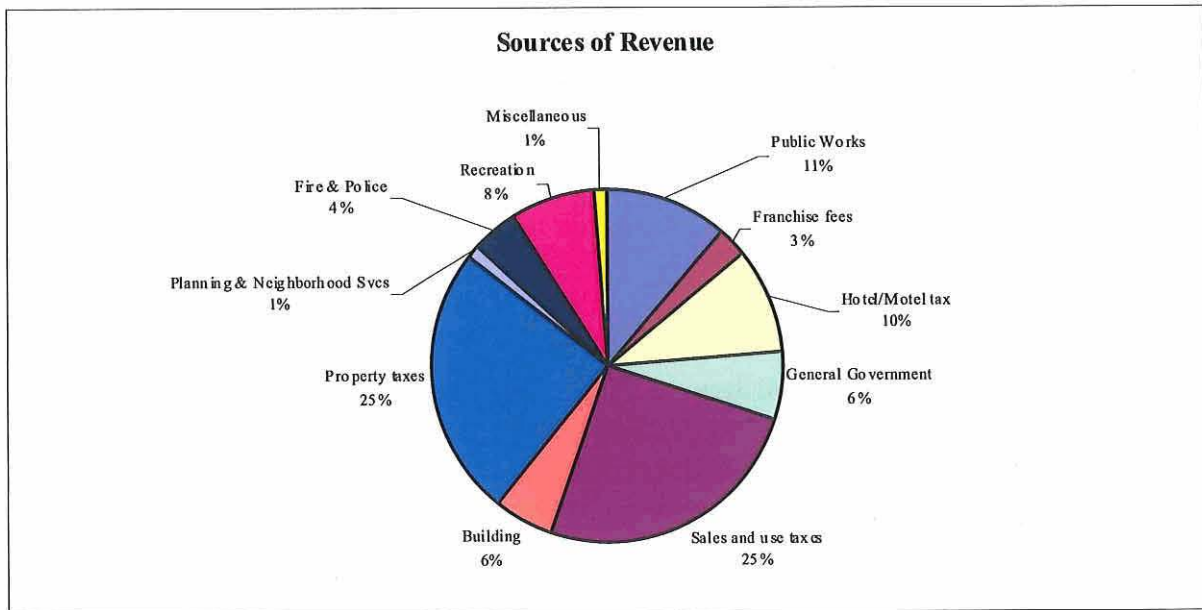
Table 1
Governmental Net Position at June 30
(in Millions)

	Governmental Activities	
	2013	2012
Cash and investments	\$124.4	\$113.4
Other assets	52.6	54.5
Capital assets	227.2	233.1
Total assets	404.2	401.0
Long-term debt outstanding	10.2	14.0
Other liabilities	24.0	23.7
Total liabilities	34.2	37.7
Net position:		
Net investment in capital assets	217.0	219.0
Restricted	88.1	90.9
Unrestricted	64.9	53.4
Total net position	\$370.0	\$363.3

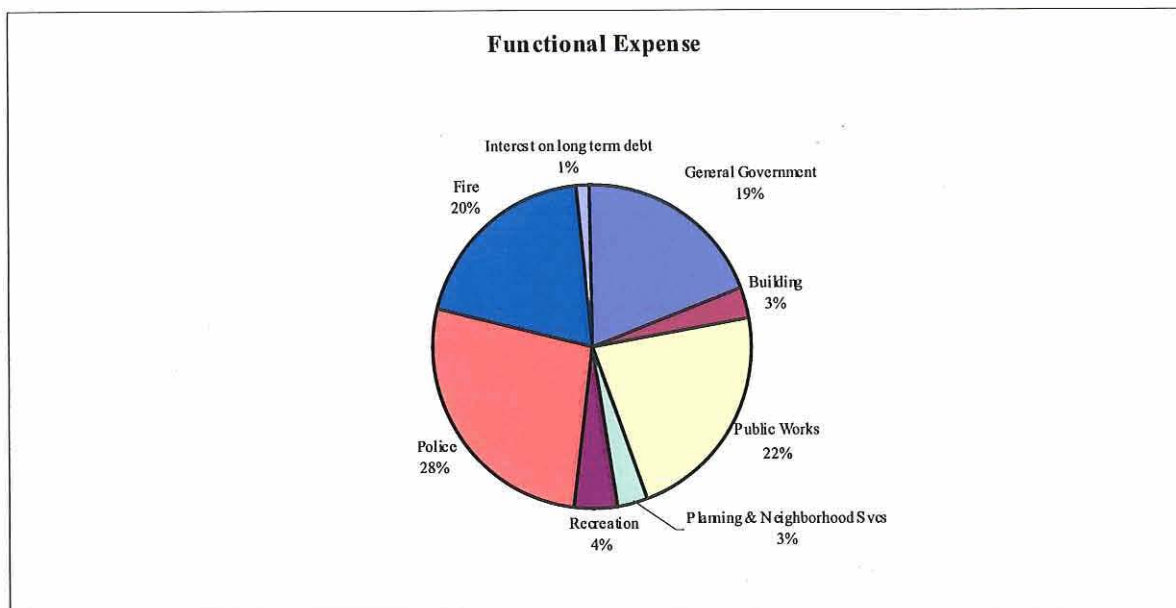
The City's governmental net position was \$370 million at June 30, 2013, an increase of \$6.7 million from 2012. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments increased \$11 million principally due to increased revenue.
- Other assets decreased \$1.9 million from last year primarily due to the sale of several affordable housing units with a book value of \$1.9 million.
- Capital assets decreased \$5.9 million from last year, resulted from \$14 million depreciation, partially offset by \$8.1 million asset additions net of retirements in fiscal 2013.
- Long-term debt decreased \$3.8 million due to \$4.3 million debt repayments, partially offset by addition of \$0.5 million debt from a capital lease.
- Other liabilities increased \$0.3 million due to increased refundable deposits and unearned revenue.

Fiscal Year 2013 Governmental Activities



As the Sources of Revenue Chart above shows, \$20.5 million or 25% of the City's fiscal 2013 governmental activities revenue came from property taxes, while \$20.2 million or 25% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2013's capital assets is shown in detail at Table 8.

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

Table 2
Changes in Governmental Net Position
(in Millions)

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Expenses		
General Government	\$15.3	\$17.4
Building	2.3	2.0
Public Works	17.7	21.8
Planning & Neighborhood Svcs	2.6	2.1
Recreation	3.1	5.8
Police	21.7	22.6
Fire	15.8	14.9
Interest on long term debt	0.2	2.1
Total expenses	<u>78.7</u>	<u>88.7</u>
Revenues		
Program revenues:		
Charges for services	13.7	11.7
Operating contributions and grants	7.5	6.1
Capital Grants	8.3	8.3
Total program revenues:	<u>29.5</u>	<u>26.1</u>
General revenues:		
Taxes:		
Property taxes	20.5	34.0
Sales and uses taxes	20.2	18.8
Hotel/Motel taxes	7.9	7.1
Other taxes	0.5	0.5
Franchise fees	3.3	3.2
Investment earnings	0.3	1.1
Miscellaneous	0.2	0.1
Total general revenues	<u>52.9</u>	<u>64.7</u>
Total Revenues	<u>82.4</u>	<u>90.8</u>
Surplus (Deficit) before transfers	3.7	2.1
Transfers	3.0	3.3
Extraordinary item		68.9
Changes in net position	<u>6.7</u>	<u>74.3</u>
Beginning net position	<u>363.3</u>	<u>289.0</u>
Ending net position	<u>\$370.0</u>	<u>\$363.3</u>

Table 2 compares fiscal 2013 expenses and revenues with those of fiscal 2012. Expenses decreased by \$10 million in fiscal 2013, due to the reduction of workforce and 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. Almost all of the program expenses experienced decreases due to reduction of workforce and outsourcing of certain maintenance services as a cost savings strategy. In fiscal 2013, the park maintenance function was transferred to Public Works while previously it was part of Parks and Recreation. Fire program expenses increased \$0.9 million due to the increase of overtime expenses.

Table 2 shows that total government revenues decreased \$8.4 million in fiscal 2013. Program revenues increased \$3.4 million while general revenues decreased \$11.8 million. The increase in program revenues was due to increased charges for services and increased operating grants. The decrease in general revenues was due to decreased property tax revenue as a result of the dissolution of the RDA in fiscal year 2012. Beginning February 1, 2012, tax increment revenues were distributed to the Successor Agency to pay recognized obligation payments and administration costs, and are no longer considered revenues of the General Government. Sales tax revenue in fiscal 2013 was \$1.4 million more than fiscal 2012, reflecting improved consumer spending in all the economic segments such as apparel stores, office equipment, automobile, and electronic equipment. Transient Occupancy Tax increased \$0.8 million in fiscal 2013 reflecting recovery in the economy. The decrease of investment earnings by \$0.8 million in fiscal 2013 was in large part due to the dissolution of the Redevelopment Agency, in addition to lower reinvestment yield and fair market value adjustment.

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 \$13.4 million. The primary reasons for increased program revenues were due to economic recovery and increased operating grants. The major reasons for decreased program costs were due to reduction of workforce and outsourcing of certain maintenance services as mentioned above.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2013	2012
General Government	\$(10.3)	\$(14.6)
Building	2.3	1.4
Public Works	(8.5)	(15.4)
Planning & Neighborhood Services	(1.7)	(1.4)
Recreation	3.1	3.7
Police	(19.7)	(20.6)
Fire	(14.2)	(13.6)
Interest on long term debt	(0.2)	(2.1)
Totals	\$(49.2)	\$(62.6)

Business-type Activities

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

	Business-Type Activities	
	2013	2012
Cash and investments	\$46.9	\$40.1
Other assets	8.2	7.4
Capital assets	113.8	116.8
Total assets	168.9	164.3
Other liabilities	2.4	2.4
Long-term Debt	7.3	7.7
Total liabilities	9.7	10.1
Net position:		
Net investment in capital assets	106.5	109.1
Restricted	32.9	25.3
Unrestricted	19.8	19.8
Total net position	\$159.2	\$154.2

The net position of business-type activities were \$159.2 million in fiscal 2013, an increase of \$5 million from fiscal 2012. Total assets increased \$4.6 million while total liabilities decreased \$0.4 million. The increase in net position was due to increased customer service charges and capital contributions for the Water and Sewer Funds.

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

	Business-Type Activities	
	2013	2012
Expenses		
Water Utility	\$17.2	\$15.2
Recycled Water Utility		0.6
Sewer Utility	9.4	8.4
Total expenses	<u>26.6</u>	<u>24.2</u>
Revenues		
Program revenues:		
Charges for services	32.4	30.6
Operating Grant	0.1	0.1
Capital Grants	2.0	1.6
Total program revenues:	<u>34.5</u>	<u>32.3</u>
General revenues:		
Investment earnings	0.1	0.4
Total general revenues	<u>0.1</u>	<u>0.4</u>
Total Revenues	<u>34.6</u>	<u>32.7</u>
Excess before transfers	8.0	8.5
Transfers	<u>(3.0)</u>	<u>(3.3)</u>
Changes in net position	5.0	5.2
Beginning net position	<u>154.2</u>	<u>149.0</u>
Ending net position	<u>\$159.2</u>	<u>\$154.2</u>

Table 5 compares fiscal 2013 expenses and revenues with those of fiscal year 2012. Total expenses increased by \$2.4 million in fiscal 2013 due to increased water purchase and usage. In fiscal 2013, the recycled water fund was combined with the water utility as one fund. Total program revenues increased by \$2.2 million primarily due to increased charges for services and capital contributions received from developers. Total general revenue was \$0.1 million from interest earnings, \$0.3 million lower than last year due to lower reinvestment yield and fair market value adjustment. 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)

	2013	2012
Total assets	\$192.9	\$182.9
Total liabilities	28.3	66.6
Total deferred inflows of resources	40.7	
Total fund balances	123.9	116.3
Total revenues	82.2	93.6
Total expenditures	77.2	116.2
Total other financing sources	2.6	25.1
Total extraordinary items		(25.1)

The new balance sheet category of deferred inflows of resources was established in fiscal year 2013 with the implementation of Governmental Accounting Standards Board Statements No. 63 and 65 and represents an acquisition of fund balance that applies to a future period(s) and is not recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues in this category from three sources: interest on interfund advances, grants receivable and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These balances were previously reported as a component of liabilities.

At June 30, 2013, the City's governmental funds reported combined fund balances of \$123.9 million, an increase of \$7.6 million from last year. The fund balances of the General Fund, Economic Development Corporation, Street Improvement Fund, and Transit Area Impact Fee Fund decreased \$2.9 million, \$4.8 million, \$1 million, and \$0.7 million respectively while the fund balances of the Housing Authority Fund, and Other Governmental Funds increased \$2.3 million and \$14.7 million, respectively.

Revenues at the fund level totaled \$82.2 million, a decrease of \$11.4 million. Revenues for the Housing Authority Fund, Street Improvement Fund and Other Governmental Funds increased \$2.4 million, \$2 million, and \$2.8 million respectively while the General Fund, Economic Development Corporation, and Transit Area Impact Fee Fund declined \$0.3 million, \$0.8 million and \$0.6 million, respectively. The Housing Reserve Fund and Redevelopment Project Fund received \$0.2 million and \$16.7 million revenues respectively in fiscal 2012. However, due to dissolution of the Redevelopment Agency, property tax revenues are no longer distributed to these funds. The Housing Reserve Fund and Redevelopment Project Fund were closed in fiscal 2012.

Expenditures decreased \$39 million this year to \$77.2 million from last year's \$116.2 million. The expenditures of the Housing Authority Fund and Other Governmental Funds increased \$0.2 million and \$1.5 million, respectively while the General Fund, Economic Development Corporation, Street Fund and Transit Area Impact Fee Fund decreased by \$1.8 million, \$24.8 million, \$0.1 million, and \$0.1 million, respectively. In fiscal year 2012, the Housing Reserve Fund and Redevelopment Project Fund had expenditures of \$0.4 million and \$13.5 million respectively. Due to dissolution of the Redevelopment Agency, these funds were closed in fiscal 2012.

Analyses of Major Governmental Funds

General Fund

General Fund revenues decreased to \$62.7 million this fiscal year, down \$0.3 million from the prior fiscal year. Increases came from sales taxes, other taxes, licenses and fines, and charges for services categories while decreases came from property tax revenue, use of money and property and intergovernmental revenue. Property tax revenue decreased \$0.9 million due to residual distributions from the Redevelopment Property Tax Trust Fund ("RPTTF") are no longer recorded in the General Fund in fiscal 2013. The City Council provided policy direction that distributions from the RPTTF will be used to address capital improvement funding needs. Consequently, approximately \$3.9 million of the distributions from the RPTTF consisted of \$2.3 million ongoing residual distribution of the Redevelopment property tax and \$1.6 million one-time distributions were recorded in the Government Capital Improvement Fund. If the RPTTF distributions were removed from the General Fund in both fiscal years 2013 and 2012, the property tax revenue would have shown an increase of \$0.4 million. The increase is due to recovery in the housing market thus increasing the assessed valuation of the properties.

Sales tax increased by approximately \$1.5 million reflecting improved consumer spending in all economic segments such as apparel stores, office and electronic equipment, and automobile sales. Other taxes increased by \$1 million primarily due to increased Transient Occupancy Tax revenue and change in the payment period for the annual business license tax from fiscal year to calendar year that caused a one-time increase in business license tax revenue by \$120,000. Licenses and permits increased \$0.9 million primarily from the building permit and inspection fees as a result of increased development activities. Charges for services also increased by \$0.8 million due to increased revenues for planning and engineering fees received from private developments and increased police, fire, and recreation service charges.

Interest income was down \$3.6 million due to an interest payment received in fiscal 2012 from the former Redevelopment Agency related to the sale of properties between these two entities. 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 California Department of Finance (see Notes 5K and 16).

General Fund expenditures decreased \$1.8 million to \$61.2 million in fiscal 2013 primarily due to reduction of workforce and outsourcing of certain maintenance services to achieve cost savings.

Net transfers out were approximately \$4.4 million, as compared to net transfers in of \$2.6 million in fiscal 2012. Net transfers consist of \$3.3 million reimbursements from other funds for administrative and overhead expenditures and transfers out of \$7.7 million. The transfers out of \$7.7 million were primarily for funding of capital projects.

Economic Development Corporation

This fund accounts for the activities of the Economic Development Corporation ("EDC"). The EDC is a tax-exempt organization that was formed in fiscal 2011 for the purpose of facilitating and fostering the City's economic development and elimination of blight through public-private partnerships. During fiscal 2013, EDC had a negative interest income of \$0.5 million entirely due to reduction of market value gain from previous fiscal year. Expenditures of \$5.5 million were primarily for consulting services, capital improvement project funding and interest and principal payments on a property. The EDC assumed the liability of the former Redevelopment Agency 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 2013, \$3 million of the EDC fund along with \$1.2 million collected from the City's Transit Area Impact Fee Fund were applied toward the repayment of the promissory note.

Operating transfers in of approximately \$1.2 million were from the Transit Area Impact Fee Fund and were used to pay a portion of the promissory note as mentioned above.

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$3.2 million in fiscal 2013, comprised of \$0.8 million of interest and rental income, \$0.6 million from repayment of housing loans, \$0.3 million proceeds from the sale of an affordable housing unit, and \$1.5 million developer contributions for affordable housing. Total expenditures were \$0.3 million for administration and operation of the “Silent Second” loan program and management of ten housing units that were transferred from the former Redevelopment Agency’s Housing Reserve Fund.

Other financing uses are related to the loss on sale of six affordable units to low-income households. These units were converted from moderate to low-income housing units in order to attract willing buyers to maintain the affordability restrictions. The reduction of the sales price for these units created a loss on sale in the accounting records of the Housing Authority.

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 Transit Area. The Fund’s revenues were \$2.7 million in fiscal 2013, an increase of \$2 million from fiscal 2012. The increase was due to increased intergovernmental revenues and developer contributions. Fund expenditures were \$5.1 million in fiscal 2013, a decrease of \$0.1 million from fiscal 2012, attributed to capital outlay decrease. Operating transfers in of \$1.5 million were from the Gas Tax Special Revenue Fund for capital improvement project funding.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2013, fund revenues were \$1.2 million, primarily from fees collected from developers. Expenditures were \$0.7 million, consisted of \$0.1 million capital improvement project expenditures and \$0.6 million for accrued interest expenditures on advances received from other funds. The advances bear simple interest of 5% annually. The operating transfer out of \$1.2 million to the Economic Development Corporation was used to pay for a portion of installment payment pursuant to a promissory note.

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)

	2013	2012
General Fund		
Nonspendable	\$ 0.5	\$ 0.6
Committed	5.4	5.4
Assigned	10.4	13.9
Unassigned	16.4	15.8
Total	<u>\$32.7</u>	<u>\$35.7</u>
EDC Fund		
Restricted	<u>26.8</u>	<u>31.6</u>
Housing Authority Fund		
Restricted	<u>\$24.6</u>	<u>\$22.2</u>
Street Improvement Fund		
Restricted	<u>\$9.7</u>	<u>\$10.7</u>
Transit Area Impact Fee Fund		
Unassigned	<u>\$(12.9)</u>	<u>\$(12.2)</u>

At June 30, 2013, the fund balance of the General Fund was \$32.7 million: \$0.5 million was classified as nonspendable, comprised of prepaid materials and supplies; \$5.4 million for PERS Rate Stabilization was classified as committed; \$10.4 million of the fund balance comprised of \$7.2 million for capital improvement, \$2.8 million for uninsured claims and \$0.4 million for encumbrances, was classified as assigned; \$16.4 million was classified as unassigned.

The fund balance of the Economic Development Corporation Fund was \$26.8 million, all 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 \$1.8 million from last year, while operating expenses increased \$2.4 million. Total revenues and total operating expenses were \$32.4 million and \$26.3 million respectively. Non-operating revenues were \$0.6 million in fiscal 2013, an increase of \$0.4 million from the prior year. Capital contributions decreased by \$1.4 million while net transfers out also decreased by \$1.4 million.

Water Utility

The operation of the Recycled Water Utility Fund was combined with the Water Utility Fund in fiscal 2013. Total revenues were \$19.8 million in fiscal 2013, up \$1.6 million from the combined total of the two funds in prior year. The increase in revenues was primarily due to increased water rates and usage. Expenses were \$17.2 million in fiscal 2013, up \$1.4 million from the prior year's combined total of the two funds, primarily due to increased purchased water expense. Net position of the Water Utility Fund increased \$1.7 million in the current year to a total of \$66.6 million. The increase comprised of \$2.6 million in operating income for the current year, \$0.1 million in non-operating revenues, \$0.7 million capital contributions from developers, offset by net transfers out of \$1.7 million. The transfer out of \$1.7 million was for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Position includes \$47.7 million invested in capital assets, \$14.3 million in restricted net position, and \$4.6 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were \$12.6 million in fiscal 2013, up \$0.2 million from the prior year due to increased usage. Expenses were \$9.1 million in fiscal 2013, up \$1 million from the prior year due to increased contribution requirements for the City's share of the operating expenses at the Waste Water Treatment Plant and increased depreciation expense. Non-operating revenues in fiscal year 2013 consisted of \$0.2 million interest income, \$0.3 million interest expense, and \$0.6 million developer contributions. Net position of the Sewer Utility Fund increased \$3.3 million in the current year to a total of \$92.6 million. This increase comprised of \$3.5 million in operating income, \$0.5 million in non-operating income, \$0.6 million in capital contributions by developers, and net transfers out of \$1.3 million for reimbursements of administration costs incurred by the General Fund.

\$15.2 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, \$58.8 million was invested in capital assets and \$18.6 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 2013, 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)

	2013	2012
<i>Governmental Activities:</i>		
Land	\$ 58.6	\$ 58.6
Construction in progress	10.9	8.8
Buildings and improvements	96.3	96.3
Other improvements	26.2	25.2
Machinery and equipment	35.8	34.7
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	229.5	225.6
Traffic system	18.9	18.8
Less accumulated depreciation	(352.9)	(338.9)
Totals	\$227.2	\$233.0
<i>Business-type Activities:</i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	17.7	21.9
Distribution facilities	67.3	67.3
Service lines	12.9	12.9
Sewer lines	77.4	72.6
Capacity rights	41.9	41.3
Less accumulated depreciation	(104.5)	(100.3)
Totals	\$113.8	\$116.8

The principal additions in fiscal 2013 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.

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

A portion of the City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal 2012, the EDC purchased a property and entered into a promissory note with the seller. The promissory note requires annual installment payments until fiscal 2016. In fiscal 2013, the City entered into a capital lease for the purchase of a phone system and equipment. The lease requires annual payments until fiscal 2017. Each of the City's debt is discussed in detail in Note 9 to the financial statements. At June 30, 2013 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2013	Balance June 30, 2012
Governmental Activity Debt:		
Purchase Agreement with Mission West Properties due February 15, 2016	\$ 9.8	\$ 14.0
Cisco Phone System Capital Lease due Due September 18, 2016	0.4	
Total Governmental Activity Debt	\$ 10.2	\$ 14.0
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026	\$ 7.3	\$ 7.7
Total Business-type Activity Debt	\$ 7.3	\$ 7.7

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, 2013, a total of \$11.1 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.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

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

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

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

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

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

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

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

CITY OF MILPITAS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	\$120,294,425	\$46,899,688	\$167,194,113	\$26,715
Restricted investments (Note 3)	4,178,019		4,178,019	1,099,894
Receivables:				
Accounts	2,015,442	2,157,076	4,172,518	3,996
Due from other governments	2,587,841	147,156	2,734,997	
Interest	182,906	70,213	253,119	
Internal balances (Note 4)	(5,380,642)	5,380,642		
Loans receivable, net (Note 5)	33,118,035		33,118,035	
Prepays, materials, supplies and deposits (Note 1F)	582,549	394,270	976,819	27,402
Property held for resale (Note 6)	19,482,370		19,482,370	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	69,549,535	18,841,552	88,391,087	1,582,409
Depreciable capital assets, net	157,640,752	94,962,877	252,603,629	7,678,963
Total assets	404,251,232	168,853,474	573,104,706	10,419,379
LIABILITIES				
Accounts payable	5,742,967	1,703,914	7,446,881	89,228
Accrued payroll	2,217,356	83,012	2,300,368	19,721
Interest payable	1,881	46,494	48,375	
Uninsured claims payable (Note 13):				
Due within one year	861,637		861,637	
Due in more than one year	2,558,421		2,558,421	
Refundable deposits	3,086,235	162,733	3,248,968	76,876
Unearned revenue	1,744,554		1,744,554	7,898
Accrued vacation (Note 12):				
Due within one year	552,175	83,898	636,073	
Due in more than one year	3,715,253	119,806	3,835,059	
Sick leave payable (Note 12):				
Due within one year	301,612	43,500	345,112	
Due in more than one year	3,256,289	117,610	3,373,899	
Long term debt (Note 9):				
Due within one year	3,085,686	405,000	3,490,686	
Due in more than one year	7,102,414	6,910,000	14,012,414	
Total liabilities	34,226,480	9,675,967	43,902,447	193,723
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	217,002,187	106,489,429	323,491,616	9,261,372
Restricted for:				
Capital projects	33,320,188	32,888,684	66,208,872	
Redevelopment and community development activities	54,826,847		54,826,847	
Total restricted net position	88,147,035	32,888,684	121,035,719	
Unrestricted	64,875,530	19,799,394	84,674,924	964,284
Total net position	\$370,024,752	\$159,177,507	\$529,202,259	\$10,225,656

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$15,328,535	\$1,700,355	\$3,345,421	\$42,237	(\$10,240,522)	
Building	2,293,521	4,553,799			2,260,278	
Recreation	3,106,842	1,987,396	88,596	4,182,096	3,151,246	
Public Works	17,700,093	2,667,964	2,442,604	4,061,625	(8,527,900)	
Planning and Neighborhood Services	2,552,918	300,863	543,749		(1,708,306)	
Police	21,701,691	1,051,399	974,854		(19,675,438)	
Fire	15,810,831	1,507,977	91,790		(14,211,064)	
Interest on long term debt	226,931				(226,931)	
Total Governmental Activities	78,721,362	13,769,753	7,487,014	8,285,958	(49,178,637)	
Business-type Activities:						
Water Utility	17,195,265	19,800,987	111,436	727,651		\$3,444,809
Sewer Utility	9,417,960	12,631,827		1,246,840		4,460,707
Total Business-type Activities	26,613,225	32,432,814	111,436	1,974,491		7,905,516
Total Primary Government	\$105,334,587	\$46,202,567	\$7,598,450	\$10,260,449	(49,178,637)	7,905,516
Component Unit:						
Terrace Gardens Inc.	\$1,702,328	\$1,583,093	\$145,556			
General revenues:						
Taxes:						
Property taxes					20,468,804	
Sales and use taxes					20,196,432	
Hotel/Motel taxes					7,933,249	
Other taxes					516,612	
Franchise fees, unrestricted					3,269,521	
Motor vehicle in lieu, unrestricted					36,679	
Investment earnings					260,033	93,552
Gain on sale of property					46,171	
Miscellaneous					102,520	
Transfers (Note 4)					3,044,712	(3,044,712)
Total general revenues and transfers					55,874,733	(2,951,160)
Change in Net Position					6,696,096	4,954,356
Net position-Beginning					363,328,656	154,223,151
Net position-Ending					\$370,024,752	\$159,177,507

See accompanying notes to financial statements

	Net (Expense) Revenue and Changes in Net Position Component Unit Terrace Gardens Inc.
Total	
(\$10,240,522)	
2,260,278	
3,151,246	
(8,527,900)	
(1,708,306)	
(19,675,438)	
(14,211,064)	
(226,931)	
(49,178,637)	
3,444,809	
4,460,707	
7,905,516	
(41,273,121)	
	\$26,321
20,468,804	
20,196,432	
7,933,249	
516,612	
3,269,521	
36,679	
353,585	2,095
46,171	
102,520	
52,923,573	2,095
11,650,452	28,416
517,551,807	10,197,240
\$529,202,259	\$10,225,656



FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

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

GENERAL FUND

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

ECONOMIC DEVELOPMENT CORPORATION FUND

Established to account for the activities of the Milpitas Economic Development Corporation formed for the purpose of providing physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

HOUSING AUTHORITY FUND

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

STREET IMPROVEMENT FUND

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

TRANSIT AREA IMPACT FEE FUND

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



CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General	Economic Development Corporation	Housing Authority	Street Improvement
ASSETS				
Cash and investments available for operations (Note 3)	\$36,813,263	\$17,187,139	\$4,975,890	\$9,794,134
Restricted investments (Note 3)		4,049,723	128,296	
Receivables:				
Accounts	1,913,486		8,395	
Due from other governments	2,207,486			214,636
Interest	74,338	26,692	7,662	14,586
Loans receivable, net (Note 5)	9,472,571		29,617,215	
Prepays, materials, supplies and deposits (Note 1F)	468,464		4,470	
Property held for resale (Note 6)			19,482,370	
Advances to other funds (Note 4)		10,222,110		
Total Assets	\$50,949,608	\$31,485,664	\$54,224,298	\$10,023,356
LIABILITIES				
Accounts payable	\$1,776,700	\$3,090,245	\$4,932	\$255,477
Accrued payroll	2,184,533		3,702	
Refundable deposits	3,033,286		34,070	
Unearned revenue	1,703,344			
Advances from other funds (Note 4)				
Total Liabilities	8,697,863	3,090,245	42,704	255,477
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - interest on advances		1,592,949		
Unavailable revenue - loans receivable	9,472,571		29,617,215	
Total Deferred Inflows of Resources	9,472,571	1,592,949	29,617,215	
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	468,464		4,470	
Restricted		26,802,470	24,559,909	9,767,879
Committed	5,432,703			
Assigned	10,433,754			
Unassigned	16,444,253			
TOTAL FUND BALANCES	32,779,174	26,802,470	24,564,379	9,767,879
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$50,949,608	\$31,485,664	\$54,224,298	\$10,023,356

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

CAPITAL ASSETS

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

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

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

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable 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
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

<u>Transit Area Impact Fee</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$2,650,013	\$39,834,565	\$111,255,004 4,178,019
	93,561	2,015,442
	165,719	2,587,841
3,970	41,863	169,111
	3,458,537	42,548,323
	6,260	479,194
		19,482,370
		10,222,110
<u>\$2,653,983</u>	<u>\$43,600,505</u>	<u>\$192,937,414</u>
\$5,882	\$585,291	\$5,718,527
	14,024	2,202,259
	18,843	3,086,199
	41,210	1,744,554
<u>15,602,752</u>		<u>15,602,752</u>
<u>15,608,634</u>	<u>659,368</u>	<u>28,354,291</u>
		1,592,949
		<u>39,089,786</u>
		<u>40,682,735</u>
	6,260	479,194
	28,690,916	89,821,174
		5,432,703
	14,243,961	24,677,715
<u>(12,954,651)</u>		<u>3,489,602</u>
<u>(12,954,651)</u>	<u>42,941,137</u>	<u>123,900,388</u>
<u>\$2,653,983</u>	<u>\$43,600,505</u>	
		227,190,287
		9,082,839
		31,210,164
		(10,188,100)
		(7,750,768)
		<u>(3,420,058)</u>
		<u>\$370,024,752</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General	Economic Development Corporation	Housing Authority	Street Improvement
REVENUES				
Property taxes	\$16,489,093			
Sales taxes	20,908,497			
Other taxes	12,138,033			
Licenses and fines	5,875,312			
Use of money and property	633,725	(\$522,423)	\$1,137,361	\$167,211
Intergovernmental	1,267,394			2,001,567
Charges for services	5,229,014			
Developer contributions			1,480,000	500,183
Other	148,004	210	560,762	
Total Revenues	62,689,072	(522,213)	3,178,123	2,668,961
EXPENDITURES				
Current:				
General Government	11,168,223	302,375	198,953	40,148
Building and Safety	2,277,724			
Human Resources and Recreation	3,087,394			
Public Works	6,828,935			1,133,592
Planning and Neighborhood Services	1,572,522		93,299	
Police	20,892,442			
Fire	15,419,721			
Capital outlay		1,001,924		3,923,258
Debt service:				
Principal		4,208,419		
Interest and fees				
Total Expenditures	61,246,961	5,512,718	292,252	5,096,998
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,442,111	(6,034,931)	2,885,871	(2,428,037)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	46,171			
(Loss) on sale of property held for resale			(512,275)	
Transfers in (Note 4)	3,309,033	1,208,419		1,453,000
Transfers (out) (Note 4)	(7,731,885)			
Total Other Financing Sources (Uses)	(4,376,681)	1,208,419	(512,275)	1,453,000
NET CHANGE IN FUND BALANCES	(2,934,570)	(4,826,512)	2,373,596	(975,037)
Fund balances (deficits) at beginning of year	35,713,744	31,628,982	22,190,783	10,742,916
FUND BALANCES (DEFICITS) AT END OF YEAR	\$32,779,174	\$26,802,470	\$24,564,379	\$9,767,879

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
	\$3,976,856	\$20,465,949
		20,908,497
	1,204,725	13,342,758
		5,875,312
\$17,169	104,895	1,537,938
	2,573,251	5,842,212
	321,287	5,550,301
1,208,419	4,798,252	7,986,854
	5,582	714,558
<u>1,225,588</u>	<u>12,984,848</u>	<u>82,224,379</u>
	161,320	11,871,019
		2,277,724
		3,087,394
58,260	1,102,867	9,123,654
	364,074	2,029,895
	85,283	20,977,725
		15,419,721
10,923	2,574,122	7,510,227
		4,208,419
<u>668,385</u>	<u></u>	<u>668,385</u>
<u>737,568</u>	<u>4,287,666</u>	<u>77,174,163</u>
<u>488,020</u>	<u>8,697,182</u>	<u>5,050,216</u>
		46,171
		(512,275)
	7,809,663	13,780,115
<u>(1,208,419)</u>	<u>(1,795,099)</u>	<u>(10,735,403)</u>
<u>(1,208,419)</u>	<u>6,014,564</u>	<u>2,578,608</u>
(720,399)	14,711,746	7,628,824
<u>(12,234,252)</u>	<u>28,229,391</u>	<u>116,271,564</u>
<u>(\$12,954,651)</u>	<u>\$42,941,137</u>	<u>\$123,900,388</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, 2013

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$7,628,824
--	-------------

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 \$994,780 have already been added to capital assets)	7,497,076
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$811,620 which has already been allocated to serviced funds.)	(13,560,615)

LONG TERM DEBT PAYMENTS

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

Repayment of principal is added back to fund balance	4,208,419
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ACCRUAL OF NON-CURRENT ITEMS

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

Non-current portion of accrued vacation and sick leave	813,150
Non-current portion of uninsured claims payable	297,826
Unavailable revenue	211,370

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

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

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

Change in Net Position - All Internal Service Funds	(399,954)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$6,696,096
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See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$17,616,813	\$17,616,813	\$16,489,093	(\$1,127,720)
Sales taxes	19,228,558	19,228,558	20,908,497	1,679,939
Other taxes	10,823,000	10,823,000	12,138,033	1,315,033
Licenses and fines	4,601,000	4,934,042	5,875,312	941,270
Use of money and property	479,000	479,000	633,725	154,725
Intergovernmental	527,000	713,556	1,267,394	553,838
Charges for services	4,552,000	5,266,060	5,229,014	(37,046)
Other	126,000	136,127	148,004	11,877
Total Revenues	57,953,371	59,197,156	62,689,072	3,491,916
Expenditures				
Current:				
General Government:				
City Manager	1,275,000	1,299,000	1,163,655	135,345
City Attorney	810,754	1,026,687	1,025,199	1,488
Finance	1,958,706	1,964,706	1,937,472	27,234
Information Services	2,093,225	2,093,225	2,068,321	24,904
Non-departmental	5,741,086	4,637,259	4,488,017	149,242
Building and Safety	1,900,260	2,278,462	2,277,724	738
Human Resources and Recreation	4,271,726	4,325,731	3,917,988	407,743
Public Works	6,361,914	6,859,414	6,858,716	698
Planning and Neighborhood Services	1,758,782	1,742,622	1,572,522	170,100
Police	21,960,360	21,988,238	20,892,543	1,095,695
Fire	13,967,583	15,420,960	15,420,957	3
Total Expenditures	62,099,396	63,636,304	61,623,114	2,013,190
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,146,025)	(4,439,148)	1,065,958	5,505,106
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	3,000	3,000	46,171	43,171
Transfers in	5,043,265	5,043,265	3,309,033	(1,734,232)
Transfers (out)	(427,900)	(427,900)	(7,731,885)	(7,303,985)
Total Other Financing Sources (Uses)	4,618,365	4,618,365	(4,376,681)	(8,995,046)
Net change in fund balance	\$472,340	\$179,217	(3,310,723)	(\$3,489,940)
Adjustment to budgetary basis:				
Encumbrance expenditures			376,153	
Fund balance at beginning of year			35,713,744	
Fund balance at end of year			\$32,779,174	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Budget Positive (Negative)
Revenues				
Use of money and property		\$431,000	\$1,137,361	\$706,361
Developer contributions			1,480,000	1,480,000
Other		85,000	560,762	475,762
Total Revenues		516,000	3,178,123	2,662,123
Expenditures				
Current:				
General Government:				
Finance	\$62,044	62,044	47,962	14,082
Non-departmental	366,475	663,251	150,991	512,260
Planning and Neighborhood Services	88,618	93,299	93,299	
Total Expenditures	517,137	818,594	292,252	526,342
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(517,137)	(302,594)	2,885,871	3,188,465
OTHER FINANCING SOURCES (USES)				
(Loss) on sale of property for resale			(512,275)	(512,275)
Total Other Financing Sources (Uses)			(512,275)	(512,275)
Net change in fund balance	(\$517,137)	(\$302,594)	2,373,596	\$2,676,190
Fund balance at beginning of year			22,190,783	
Fund balance at end of year			\$24,564,379	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

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

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

WATER UTILITY FUND

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

SEWER UTILITY FUND

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

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

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

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments available for operations (Note 3)	\$18,892,429	\$28,007,259	\$46,899,688	\$9,039,421
Receivables:				
Accounts	1,362,527	794,549	2,157,076	
Due from other governments	119,918	27,238	147,156	
Interest	28,240	41,973	70,213	13,795
Loans (Note 5)				42,283
Prepays, materials, supplies and deposits (Note 1F)	372,831	21,439	394,270	103,355
Total current assets	20,775,945	28,892,458	49,668,403	9,198,854
Noncurrent assets:				
Advance to other funds (Note 4)		5,380,642	5,380,642	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	16,653,739	2,187,813	18,841,552	
Depreciable capital assets, net	31,080,502	63,882,375	94,962,877	3,625,018
Total noncurrent assets	47,734,241	71,450,830	119,185,071	3,625,018
Total assets	68,510,186	100,343,288	168,853,474	12,823,872
LIABILITIES				
Current liabilities:				
Accounts payable	1,545,908	158,006	1,703,914	24,440
Accrued payroll	48,900	34,112	83,012	15,097
Interest payable		46,494	46,494	1,881
Refundable deposits	162,733		162,733	36
Accrued vacation (Note 12)	41,949	41,949	83,898	16,446
Sick leave payable (Note 12)	21,750	21,750	43,500	5,743
Capital lease (Note 9)				85,686
Certificates of Participation (Note 9)		405,000	405,000	
Total current liabilities	1,821,240	707,311	2,528,551	149,329
Non-current liabilities:				
Accrued vacation (Note 12)	59,903	59,903	119,806	36,844
Sick leave payable (Note 12)	58,805	58,805	117,610	15,528
Capital lease (Note 9)				273,950
Certificates of Participation (Note 9)		6,910,000	6,910,000	
Total non-current liabilities	118,708	7,028,708	7,147,416	326,322
Total liabilities	1,939,948	7,736,019	9,675,967	475,651
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	47,734,241	58,755,188	106,489,429	3,265,382
Restricted for capital projects	14,263,223	18,625,461	32,888,684	
Unrestricted	4,572,774	15,226,620	19,799,394	9,082,839
Total net position	\$66,570,238	\$92,607,269	\$159,177,507	\$12,348,221

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$19,642,490	\$12,564,889	\$32,207,379	\$1,786,610
Other operating revenue	158,497	66,938	225,435	
Total Operating Revenues	19,800,987	12,631,827	32,432,814	1,786,610
OPERATING EXPENSES				
Purchased water	12,255,079		12,255,079	
Sewer treatment services		4,448,512	4,448,512	
Personnel services	2,198,283	1,267,161	3,465,444	605,972
Services and supplies	1,179,196	602,477	1,781,673	656,853
Depreciation	1,405,229	2,770,707	4,175,936	811,620
Repairs and maintenance	157,478	38,471	195,949	231,746
Total Operating Expenses	17,195,265	9,127,328	26,322,593	2,306,191
Operating Income (Loss)	2,605,722	3,504,499	6,110,221	(519,581)
NONOPERATING REVENUES				
Interest income	(60,188)	153,740	93,552	(13,563)
Interest expense		(290,632)	(290,632)	(1,881)
Subventions and grants	111,436	720	112,156	
Gain on sale of assets				30,955
Developer contributions	71,407	640,258	711,665	
Total Nonoperating Revenues	122,655	504,086	626,741	15,511
Income (Loss) Before Contributions and Transfers	2,728,377	4,008,585	6,736,962	(504,070)
Capital contributions				104,116
Capital contributions - connection fees	656,244	605,862	1,262,106	
Transfers in (Note 4)	9,962	9,962	19,924	
Transfers (out) (Note 4)	(1,706,077)	(1,358,559)	(3,064,636)	
Change in net position	1,688,506	3,265,850	4,954,356	(399,954)
Net position-beginning	64,881,732	89,341,419	154,223,151	12,748,175
Net position-ending	\$66,570,238	\$92,607,269	\$159,177,507	\$12,348,221

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$19,386,649	\$12,594,901	\$31,981,550	\$1,786,610
Payments to suppliers	(13,798,558)	(4,974,981)	(18,773,539)	(890,483)
Payments to employees	(2,224,291)	(1,281,455)	(3,505,746)	(600,102)
Net cash provided by operating activities	3,363,800	6,338,465	9,702,265	296,025
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	111,436	720	112,156	
Advance to other funds		(225,050)	(225,050)	
Loans receivable				42,282
Transfers in	9,962	9,962	19,924	
Transfers (out)	(1,706,077)	(1,358,559)	(3,064,636)	
Cash Flows from Noncapital Financing Activities	(1,584,679)	(1,572,927)	(3,157,606)	42,282
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt		(395,000)	(395,000)	(120,666)
Interest paid		(292,966)	(292,966)	
Proceeds from sale of capital assets				30,955
Acquisition of capital assets	(435,004)	(689,767)	(1,124,771)	(890,664)
Proceeds from capital lease				480,302
Capital contributions - connection fees	656,244	605,862	1,262,106	
Developer contributions	71,407	640,258	711,665	
Cash Flows from Capital and Related Financing Activities	292,647	(131,613)	161,034	(500,073)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		148,496	148,496	
Interest paid	(48,644)		(48,644)	(5,543)
Cash Flows from Investing Activities	(48,644)	148,496	99,852	(5,543)
Net increase (decrease) in cash and cash equivalents	2,023,124	4,782,421	6,805,545	(167,309)
Cash and investments at beginning of period	16,869,305	23,224,838	40,094,143	9,206,730
Cash and investments at end of period	\$18,892,429	\$28,007,259	\$46,899,688	\$9,039,421
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$2,605,722	\$3,504,499	\$6,110,221	(\$519,581)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,405,229	2,770,707	4,175,936	811,620
Change in assets and liabilities:				
Receivables, net	(370,344)	(36,926)	(407,270)	
Materials, supplies and deposits	(135,539)	(5,190)	(140,729)	2,335
Accrued payroll	(8,031)	3,683	(4,348)	
Accounts and other payables	(133,237)	101,692	(31,545)	1,651
Net cash provided by operating activities	\$3,363,800	\$6,338,465	\$9,702,265	\$296,025
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets, net				\$104,116

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

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

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

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

AGENCY FUNDS

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

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	\$10,269,363	\$6,930,745
Interest receivable	15,468	6,742
Property held for resale (Note 16B)	6,988,800	
Capital assets (Note 16D):		
Land and construction in progress	<u>101,928,140</u>	
Total Assets	<u>119,201,771</u>	<u>\$6,937,487</u>
LIABILITIES		
Accounts payable	4,793	
Refundable deposits		\$2,000,760
Due to Local Improvement Districts		4,936,727
Interest payable	2,571,078	
Long-term obligations (Note 16E):		
Due in one year	9,048,045	
Due in more than one year	<u>186,787,411</u>	
Total Liabilities	<u>198,411,327</u>	<u>\$6,937,487</u>
NET POSITION (DEFICIT)		
Held in trust for other governments	<u>(\$79,209,556)</u>	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Taxes	\$18,237,007
Use of money and properties	<u>164,042</u>
Total additions	<u>18,401,049</u>
Deductions:	
General and administrative	968,732
Payment of low and moderate income housing funds to the County (Note 16A)	6,582,557
Debt Service:	
Interest and fees	<u>9,207,507</u>
Total deductions	<u>16,758,796</u>
Net Change in net position	1,642,253
Net position (deficit) - beginning	<u>(80,851,809)</u>
Net position (deficit) - ending	<u><u>(\$79,209,556)</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 16, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Economic Development Corporation Special Revenue Fund.

The 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 Public Financing Authority or the City of Milpitas Housing Authority.

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2012 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

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

B. Basis of Presentation

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

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

C. Major Funds

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

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

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Economic Development Corporation Fund – Established to account for the activities of the Milpitas Economic Development Corporation, a nonprofit public benefit Corporation formed in fiscal 2011 by the City and the former Redevelopment Agency, established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

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

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

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

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

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

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

The City also reports the following fund types:

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

Fiduciary Funds – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

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

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

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

E. Prepaids, Materials, Supplies and Deposits

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

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

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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deferred Inflows and Deferred Outflows of Resources

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

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: interest on interfund advances, grants receivable and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

G. Property Tax

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

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

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

H. Revenue Recognition for Water Utility and Sewer Utility

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

I. 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.

J. Recategorized Fund

The activities of the former Recycled Water Utility Enterprise Fund are now reported within the Water Utility Enterprise Fund as of July 1, 2012.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 do not require the adoption of an annual budget.

C. *Expenditures in Excess of Budget*

The Public Art Capital Projects Fund had general government non-departmental expenditures in excess of budget in the amount of \$1,004. Sufficient resources were available within the fund to finance the expenditures.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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.

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	\$167,194,113
Restricted investments	4,178,019
Total Primary Government cash and investments	<u>171,372,132</u>
Cash and investments available for operations	26,715
Restricted investments	1,099,894
Total Component Unit cash and investments	<u>1,126,609</u>
Cash and investments	
in Fiduciary Funds (separate statement)	<u>17,200,108</u>
Total cash and investments	<u>\$189,698,849</u>

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$50,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/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, 2013

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>				
Federal Agency Obligations	\$21,979,830	\$22,953,384	\$25,912,960	\$70,846,174
Medium Term Corporate Notes	5,023,085	3,049,980	10,991,756	19,064,821
U.S. Treasury Notes	2,005,860	9,961,336	3,980,373	15,947,569
California Local Agency Investment Fund	75,020,491			75,020,491
Mutual Funds (U.S. Securities)	5,899,490			5,899,490
Negotiable Certificates of Deposit	250,000	1,001,157		1,251,157
<i>Terrace Gardens, Inc.:</i>				
Certificates of Deposit	1,022,229			1,022,229
Total Investments	<u>\$111,200,985</u>	<u>\$36,965,857</u>	<u>\$40,885,089</u>	189,051,931
<i>Demand Deposits - City of Milpitas</i>				542,538
<i>Demand Deposits - Terrace Gardens</i>				104,380
Total Cash and Investments				<u>\$189,698,849</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, 2013 these investments matured in an average of 278 days.

Mutual funds are available for withdrawal on demand and at June 30, 2013 matured in an average of 56 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-	BBB+	Total
Federal Agency Obligations		\$70,846,174			\$70,846,174
Medium Term Corporate Notes	\$1,001,050	17,064,981	\$998,790		19,064,821
Mutual Funds (U.S. Securities)	5,899,490				5,899,490
Negotiable Certificates of Deposit		250,000	501,157	\$250,000	1,001,157
Totals	<u>\$6,900,540</u>	<u>\$88,161,155</u>	<u>\$1,499,947</u>	<u>\$250,000</u>	<u>96,811,642</u>
<i>Not rated:</i>					
California Local Agency Investment Fund					75,020,491
Negotiable Certificates of Deposit					250,000
<i>Exempt from credit rate disclosure:</i>					
U.S. Treasury Notes					15,947,569
Total Investments					<u>\$188,029,702</u>

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2013.

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2013, all of Terrace Gardens' Time Certificates of Deposit 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, 2013:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$25,926,360
Federal Home Loan Bank	Federal Agency Obligations	20,152,544
Federal National Mortgage Association	Federal Agency Obligations	16,815,550

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
<i>Major Funds:</i>		
General Fund	Solid Waste Reduction and Services Special Revenue Fund	\$242,472 (A)
General Fund	Hetch Hetchy Ground Lease Special Revenue Fund	1,925 (A)
General Fund	Water Utility Enterprise Fund	1,706,077 (A)
General Fund	Sewer Utility Enterprise Fund	1,358,559 (A)
Economic Development Corporation Special Revenue Fund	Transit Area Impact Fee Capital Projects Fund	1,208,419 (B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	1,453,000 (C)
Water Utility Enterprise Fund	General Government Project Capital Projects Fund	9,962 (D)
Sewer Utility Enterprise Fund	General Government Project Capital Projects Fund	9,962 (D)
<i>Non-Major Funds:</i>		
Park Improvement Capital Projects Fund	Housing & Community Development Special Revenue Fund	77,778 (C)
General Government Project Capital Projects Fund	General Fund	7,731,885 (C)
Total Interfund Transfers		<u>\$13,800,039</u>

The reasons for these transfers are set forth below:

- (A) Reimbursement of costs incurred
- (B) Transfer Park in Lieu Fees for payment related to purchase of McCandless property
- (C) To fund capital projects
- (D) Return of unused capital projects funds

B. Long-Term Interfund Advances

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, 2013, the balance of the advance including principal and accrued interest was \$5,705,487.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

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, 2013, the balance of the Economic Development Corporation Special Revenue Fund advance including principal and accrued interest was \$1,596,000 and the balance of the Sewer Utility Enterprise Fund advance including principal and accrued interest was \$5,227,200.

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, 2013, the balance of the advance including principal and accrued interest was \$2,920,623.

During fiscal year 2012 the Sewer Utility Enterprise Funds advanced \$145,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with evaluating the existing development in the transit area. The advance is due on May 1, 2014 and bears simple interest of 5% annually. At June 30, 2013, the balance of the advance including principal and accrued interest was \$153,442.

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, 2013

NOTE 5 - LOANS RECEIVABLE

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012. 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, 2013:

Housing and Community Development Loans:

Rehabilitation Loans	\$3,458,537
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Housing Authority Loans:

Milpitas Housing Associates	4,418,211
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Parc Metropolitan Housing Development	125,007
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Montague Parkway Associates, LP	941,164
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Parc North Associates LLC	1,320,134
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Mid-Peninsula Milpitas Affordable Housing Associates	15,856,090
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KB Home South Bay Inc.	1,700,000
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Western Pacific Housing Inc.	1,841,126
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Shapell Industries	800,000
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MIL Aspen Associates, Ltd.	2,615,483
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Successor Agency	6,874,647
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Total Housing Authority Loans Receivable	39,950,399
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General Fund Loan:

Successor Agency	9,472,571
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Internal Service Fund Loan:

Terracare Associates	42,283
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Total Loans Receivable	49,465,253
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Less: Allowances for Doubtful Accounts	(16,347,218)
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Net Carrying Value	\$33,118,035
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CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013 the City had outstanding rehabilitation loans of \$3,458,537 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2013, the City received \$47,331 from all participants, and made new loans totaling \$214,972.

B. *Milpitas Housing Associates Loan*

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the year ended June 30, 2013, the Housing Authority received a payment of \$262,022. As of June 30, 2013, principal and accrued interest totaled \$4,418,211.

C. *Parc Metropolitan Housing Development Loans*

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2013, the Housing Authority received principal payments of \$88,667 and as of June 30, 2013, there were \$125,007 in loans outstanding.

D. *Montague Parkway Associates, LP*

The former Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, \$1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal of \$39,137 was paid in fiscal 2013, and as of June 30, 2013, the outstanding balance totaled \$941,164.

E. *Parc North Associates LLC Loan*

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. As of June 30, 2013, there were \$1,320,134 of such loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 5 - LOANS RECEIVABLE (Continued)

F. *Mid-Peninsula Milpitas Affordable Housing Associates*

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2013, interest of \$288,000 was accrued, and as of June 30, 2013, principal and accrued interest outstanding totaled \$15,856,090.

G. *KB Home South Bay Inc. Loans*

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

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

As of June 30, 2013, there were \$1,700,000 of loans to Parcel C households outstanding. As of June 30, 2013 subsidies totaling \$4,707,542 had been provided.

H. *Western Pacific Housing Inc., Loans*

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2013, there were \$644,126 such loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 5 - LOANS RECEIVABLE (Continued)

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

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2013, there were \$1,197,000 of silent second loans outstanding.

I. *Shapell Industries*

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2013, there were \$800,000 of silent second loans outstanding.

J. *MIL Aspen Associates, Ltd.*

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2013, the Housing Authority received a payment of \$70,138. As of June 30, 2013, principal and accrued interest totaled \$2,615,483.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 5 - LOANS RECEIVABLE (Continued)

K. Successor Agency Loans

On September 7, 2004, the former Redevelopment 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. 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 in fiscal year 2012 to reflect the revised interest rate and is offset with unavailable revenue in the General Fund. The balance of the loan as of June 30, 2013 is \$9,472,571, which has been offset by an allowance for doubtful accounts in the Statement of Net Position.

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 in fiscal year 2012 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. The balance of the loan as of June 30, 2013 is \$6,874,647.

L. 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, 2013, the principal outstanding was \$42,283.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

The former Redevelopment Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

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 7B 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.

As of June 30, 2013, property totaling \$19,482,370, is being held by the Housing Authority.

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS

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

A. *The Crossing at Montague*

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% (94 units) of the units to very low income households. On behalf of the developer, the City issued \$45,000,000 in tax exempt bonds and \$15,000,000 in taxable bonds in June 2000. As of June 30, 2013, the outstanding principal of the debt was \$52,000,000. The debt service payments on these bonds are solely the responsibility of the developer.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

B. South Main Senior Lifestyles, LLC.

In August 2009, the former Redevelopment Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of "Continuum of Care Senior Housing" (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. 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, 2013, the Corporation had not expended any funds on the grant.

C. D.R. Horton Bay, Inc.

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive fee credits totaling \$7,316,605 for impact fees, including park fee credits, and will be reimbursed \$914,405 for the cost of improvements to the Sewer Lines 11A/11B. As of June 30, 2013, the City had not reimbursed any funds to D.R. Horton, and no fee credits had been issued.

D. KLA-Tencor Corporation

In June 2009, the City entered into a Sales Tax Sharing Agreement with KLA-Tencor Corporation (KLA). Under the terms of the Agreement, the City agreed to pay KLA 50% of the calendar year sales and use tax revenues paid by KLA and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from KLA for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$175,539 of sales tax to KLA during fiscal year 2013.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - CAPITAL ASSETS

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2012	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:					
Land	\$58,611,487				\$58,611,487
Construction in progress	8,802,503	\$3,573,817		(\$1,438,272)	10,938,048
Total capital assets not being depreciated	67,413,990	3,573,817		(1,438,272)	69,549,535
Capital assets being depreciated:					
Buildings and improvements	96,323,815				96,323,815
Other improvements	25,262,656			898,272	26,160,928
Machinery and equipment	34,657,609	994,780	(\$398,559)	540,000	35,793,830
Landscape system	29,633,961	4,493			29,638,454
Storm system	74,299,423				74,299,423
Street system	225,609,560	3,906,920			229,516,480
Traffic system	18,823,214	11,846			18,835,060
Total capital assets being depreciated	504,610,238	4,918,039	(398,559)	1,438,272	510,567,990
Less accumulated depreciation for:					
Buildings and improvements	(43,484,601)	(3,646,154)			(47,130,755)
Other improvements	(16,245,458)	(830,132)			(17,075,590)
Machinery and equipment	(21,163,705)	(2,319,803)	398,559		(23,084,949)
Landscape system	(11,121,978)	(593,820)			(11,715,798)
Storm system	(68,884,102)	(717,404)			(69,601,506)
Street system	(167,221,733)	(5,562,691)			(172,784,424)
Traffic system	(10,831,985)	(702,231)			(11,534,216)
Total accumulated depreciation	(338,953,562)	(14,372,235)	398,559		(352,927,238)
Net capital assets being depreciated	165,656,676	(9,454,196)		1,438,272	157,640,752
Governmental activity capital assets, net	\$233,070,666	(\$5,880,379)			\$227,190,287

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2013:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Midtown Parking Garage East	\$140,688	\$140,688	
Library Project	90,154	90,154	
Senior Center	6,126	6,126	
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	
Street Light Pole Improvement	18,491		\$18,491
Abel Street Transit Connection	600,000	3,236	596,764
Library Design	23,556	8,964	14,592
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	1,209,919	290,081
Library Project	400,000	301,757	98,243
City Building Improvements	200,000	77,276	122,724
Alviso Adobe Renovations	5,594,272	5,282,106	312,166
Park Irrigation System Rehabilitation	400,000	376,008	23,992
Park Renovation Project	277,778	170,930	106,848
Main Street Park	350,000		350,000
Department of Energy - Grant Project	63,786	48,298	15,488
Park Renovation Project	400,000	27,398	372,602
Pinewood Park Picnic Renovation	350,000	100,416	249,584
2009 Finance System Upgrade	125,000	125,000	
McCarthy Blvd Landscape	200,000	30,373	169,627
Fire Station Improvements	1,500,000	354,781	1,145,219
City Building Improvements	200,000	80,490	119,510
Midtown Parking Garage	113,804	18,153	95,651
Storm Drain System	700,000	85,729	614,271
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	216,729	74,535	142,194
Storm Pump Station Improvements	28,590	526	28,064
Transit Area Storm Drive	150,000		150,000
Light Rail Median Lane	6,005,000	1,713,207	4,291,793
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
Total construction in progress	<u>\$20,683,808</u>	<u>\$10,938,048</u>	<u>\$9,745,760</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2012	Additions	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	21,916,081	\$586,316	(\$4,793,924)	17,708,473
Total capital assets not being depreciated	23,049,160	586,316	(4,793,924)	18,841,552
Capital assets being depreciated:				
Distribution facilities	67,261,796			67,261,796
Service lines	12,889,968		23,981	12,913,949
Sewer lines	72,599,877		4,769,943	77,369,820
Capacity rights	41,347,447	538,455		41,885,902
Total capital assets being depreciated	194,099,088	538,455	4,793,924	199,431,467
Less accumulated depreciation for:				
Distribution facilities	(42,753,607)	(1,170,766)		(43,924,373)
Service lines	(4,936,406)	(234,463)		(5,170,869)
Sewer lines	(39,771,689)	(1,495,952)		(41,267,641)
Capacity rights	(12,830,952)	(1,274,755)		(14,105,707)
Total accumulated depreciation	(100,292,654)	(4,175,936)		(104,468,590)
Net capital assets being depreciated	93,806,434	(3,637,481)	4,793,924	94,962,877
Business-type activity capital assets, net	\$116,855,594	(\$3,051,165)		\$113,804,429

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2013:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Main SPS Site Improvements	\$2,302,000	\$2,146,998	\$155,002
Minor Sewer Projects	35,000		35,000
Sewer System Replacement I	1,500,000	38,787	1,461,213
Sewer System Replacement	1,500,000	527	1,499,473
TASP Sewer Line Replacement	5,000,000		5,000,000
Pressure Reducing Valve Replacement	320,000	39,779	280,221
Well Upgrade Program	4,645,000	1,757,651	2,887,349
South Milpitas Water Line Replacement	3,565,000	3,548,532	16,468
Water System Seismic Improvements	6,187,951	619,973	5,567,978
Gibraltar Reservoir & Pump Station	9,025,000	8,738,475	286,525
Ayer Reservoir & Pump Station Improvements	1,050,000	658,514	391,486
Water System Replacement 08-09	700,000	114,890	585,110
Hydrant Replacement	170,000	621	169,379
Minor Water Projects	95,000	2	94,998
Reservoir Cleaning	150,000		150,000
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	5,900	69,100
Cathodic Protection I	375,000	37,824	337,176
Minor Water Projects	150,000		150,000
Total construction in progress	<u>\$36,994,951</u>	<u>\$17,708,473</u>	<u>\$19,286,478</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013:

	Balance December 31, 2011	Additions	Balance December 31, 2012
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Construction in Progress		\$17,132	17,132
Total capital assets not being depreciated	<u>1,565,277</u>	<u>17,132</u>	<u>1,582,409</u>
Capital assets being depreciated:			
Buildings	11,440,038	90,641	11,530,679
Furniture	198,413	9,674	208,087
Office equipment	65,096		65,096
Improvements	1,938,849	203,439	2,142,288
Total capital assets being depreciated	<u>13,642,396</u>	<u>303,754</u>	<u>13,946,150</u>
Less accumulated depreciation	<u>(5,901,634)</u>	<u>(365,553)</u>	<u>(6,267,187)</u>
Net capital assets being depreciated	<u>7,740,762</u>	<u>(61,799)</u>	<u>7,678,963</u>
Total capital assets, net	<u><u>\$9,306,039</u></u>	<u><u>(\$44,667)</u></u>	<u><u>\$9,261,372</u></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:

Governmental Activities	
General Government	\$3,061,394
Public Works	8,487,713
Parks and Recreation	809,599
Police	843,336
Fire	358,573
Internal Service Fund	811,620
Total Governmental Activities	<u><u>\$14,372,235</u></u>
Business-Type Activities	
Water Utility	\$1,405,229
Sewer Utility	2,770,707
Total Business-Type Activities	<u><u>\$4,175,936</u></u>
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	<u><u>\$365,553</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 7.638% of the total plant capacity. The City has capitalized its share in the amount of \$22,718,180. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2013 the City's operation and maintenance share was approximately 5.99% of the total WPCP operations.

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

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

NOTE 9 - LONG TERM DEBT

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

A. Current Year Transactions and Balances

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

	Original Issue Amount	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
Governmental Activity Debt:						
Purchase Agreement with Mission West Properties 0%, due February 15, 2016	\$21,780,000	\$14,036,883		\$4,208,419	\$9,828,464	\$3,000,000
Cisco Phone System Capital Lease 0.620%, due September 18, 2016	480,302		\$480,302	120,666	359,636	85,686
Total Governmental Activity Debt	<u>\$22,260,302</u>	<u>\$14,036,883</u>	<u>\$480,302</u>	<u>\$4,329,085</u>	<u>\$10,188,100</u>	<u>\$3,085,686</u>
Business-type Activity Debt:						
Sewer Certificates of Participation, 2006 Series A 3.4% - 4.20%, due November 1, 2026	\$9,535,000	\$7,710,000		\$395,000	\$7,315,000	\$405,000
Total Business-type Activity Debt	<u>\$9,535,000</u>	<u>\$7,710,000</u>		<u>\$395,000</u>	<u>\$7,315,000</u>	<u>\$405,000</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 9 - LONG TERM DEBT (Continued)

B. Mission West Purchase Agreement

In February 2011, the former Redevelopment Agency entered into an Agreement with Mission West Properties to purchase 10.89 acres of land in three parcels for \$21,780,000 in the Milpitas Redevelopment Project Area No. 1 to be used as open space. The Agency assigned the Agreement to the Economic Development Corporation in March 2011. A down payment of \$3 million was due on or before December 31, 2011. The remaining balance does not bear interest and is due in four annual installments of \$3 million and one final installment. The purchase is to be funded by park in lieu fees collected by the City on certain land parcels as specified in the Agreement. The City agrees to transfer the park in lieu fees to the Corporation as they are collected and the Corporation agrees to pay the same amount to the seller in addition to the annual installments to reduce the outstanding balance of the purchase price. The fifth installment payment is contingent upon the City's receipt of the park in-lieu fees. On the fifth anniversary of the effective date of the Agreement, if the City has not received any park in lieu fees from one of the parcels, the Corporation is to pay \$3 million. However, if on the fifth anniversary the City has not received any park in lieu fees from two of the parcels, the Corporation need not pay the remaining balance of \$3.78 million until the City collects and transfers the park in lieu fees to the Corporation. In August 2012, \$1,208,419 in park in-lieu fees were received and paid to Mission West Properties.

C. Cisco Phone System Capital Lease

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

D. Sewer Certificates of Participation, 2006 Series A

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of \$9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2013, net revenues amounted to \$6,428,946, which represented coverage of 9.35 over the \$687,966 of debt service. In lieu of a reserve fund, the COPs are secured by a \$695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

E. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Total Principal	Total Interest	Total Principal	Total Interest
2014	\$3,085,686	\$11,566	\$405,000	\$278,965
2015	3,088,442	8,810	420,000	264,528
2016	3,919,750	5,966	435,000	249,348
2017	94,222	3,030	450,000	233,193
2018			470,000	216,055
2019 - 2023			2,625,000	789,597
2024 - 2027			2,510,000	215,102
	<u>\$10,188,100</u>	<u>\$29,372</u>	<u>\$7,315,000</u>	<u>\$2,246,788</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 9 - LONG TERM DEBT (Continued)

F. Defeased Bonds

As of June 30, 2013, outstanding balances for defeased debt were \$22,505,000 for the Redevelopment Agency 1997 Tax Allocation Bonds and \$1,645,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET POSITION AND FUND BALANCES

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

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

A. Net Position

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

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

Total capital assets and capacity rights	\$227,190,287
Total outstanding debt	<u>(10,188,100)</u>
Net Investment in Capital Assets	<u>\$217,002,187</u>

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

B. Fund Balances

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

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

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

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

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

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council 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, 2013

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2013, 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:							
Prepays, materials, supplies and deposits	\$468,464		\$4,470			\$6,260	479,194
Subtotal Nonspendable	<u>468,464</u>		<u>4,470</u>			<u>6,260</u>	<u>479,194</u>
Restricted for:							
Redevelopment Projects and Programs		\$26,802,470					26,802,470
Street and Road Improvements and Maintenance				\$9,767,879		2,717,475	12,485,354
Housing and community development			24,559,909			3,459,383	28,019,292
Law enforcement services						261,078	261,078
Solid waste reduction and services						1,897,140	1,897,140
Assessment district services						922,319	922,319
Hetch-Hetchy ground lease						1,686,162	1,686,162
Park improvement projects						16,172,667	16,172,667
Storm drain projects						1,574,692	1,574,692
Subtotal Restricted		<u>26,802,470</u>	<u>24,559,909</u>	<u>9,767,879</u>		<u>28,690,916</u>	<u>89,821,174</u>
Committed to:							
PERS stabilization	5,432,703						5,432,703
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Sales and use taxes	21,445						21,445
Public art projects						264,804	264,804
Other contracts	376,153						376,153
General government capital projects	7,219,462					13,979,157	21,198,619
Subtotal Assigned	<u>10,433,754</u>					<u>14,243,961</u>	<u>24,677,715</u>
Unassigned:							
General Fund	16,444,253						16,444,253
Other governmental fund deficit residuals					(\$12,954,651)		(12,954,651)
Subtotal Unassigned	<u>16,444,253</u>				<u>(12,954,651)</u>		<u>3,489,602</u>
Total fund balances (deficit)	<u>\$32,779,174</u>	<u>\$26,802,470</u>	<u>\$24,564,379</u>	<u>\$9,767,879</u>	<u>(\$12,954,651)</u>	<u>\$42,941,137</u>	<u>\$123,900,388</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. *Minimum Fund Balance Policies*

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

- 1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 15% requirement of the operating expenditures has been met.
- 3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 4) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.
- 5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 6) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 7) Maintain at least \$300,000 in the Recycled Water Utility Enterprise Fund (a component of the Water Utility Enterprise Fund) for the purpose of infrastructure replacement and enhancement.
- 8) 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.
- 9) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund.

D. *Fund Balance Deficit*

The Transit Area Impact Fee Capital Projects Fund had deficit fund balance of \$12,954,651. The deficit will be eliminated by future revenues.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013, are summarized as follows:

	Safety		
Hire Date	Prior to April 8, 2012	After April 8, 2012	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50	50 - 55	57
Monthly benefits, as a % of annual salary	3%	2.4 - 3%	2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	30.175%	30.175%	30.175%
	Safety		
Actuarially required contributions	\$5,578,503		
	Miscellaneous		
Hire Date	Prior to October 9, 2011	After October 9, 2011	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50 - 55	55 - 60	62
Monthly benefits, as a % of annual salary	2.0 - 2.7%	1.092 - 2%	2%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	19.769%	19.769%	19.769%
	Miscellaneous		
Actuarially required contributions	\$2,968,004		

CITY OF MILPITAS Notes to Basic Financial Statements For the Year Ended June 30, 2013

NOTE 11 - PERS PENSION PLAN (Continued)

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:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<i>Safety Plan</i>			
June 30, 2011	\$4,390,648	100%	\$0
June 30, 2012	5,135,662	100%	0
June 30, 2013	5,578,503	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2011	\$2,902,359	100%	\$0
June 30, 2012	3,335,630	100%	0
June 30, 2013	2,968,004	100%	0

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2011, an investment rate of return of 7.50% is assumed, including inflation at 2.75%. 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						Unfunded (Overfunded)
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Liability as % of Payroll
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%
2011	181,010,553	230,193,199	49,182,646	78.6%	18,135,987	271.188%

Miscellaneous Plan:

Actuarial						Unfunded (Overfunded)
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Liability as % of Payroll
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%
2011	132,512,273	162,749,601	30,237,328	81.4%	19,964,595	151.455%

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, 2013

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, 2011 (the most recent available) as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Beginning Balance 6/30/10	\$172,166,024	\$124,779,616
Contributions received	6,286,882	4,823,961
Benefits and Refunds Paid	(9,228,786)	(5,674,025)
Miscellaneous Adjustments	(143,811)	(254,458)
Expected Investment Earnings Credited	13,219,684	9,616,641
Expected Actuarial Value of Assets 6/30/11	<u>\$182,299,993</u>	<u>\$133,291,735</u>
Market Value of Assets 6/30/11	<u>\$160,974,261</u>	<u>\$118,161,084</u>
Actuarial Value of Assets 6/30/11	<u>\$181,010,553</u>	<u>\$132,512,273</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 \$17,541 and the employee's required contributions of \$70,159 were made during the fiscal year ending June 30, 2013.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2013 there were 249 participants receiving these health care benefits.

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 (\$74.75 per month in 2013)
	Retired January 1, 1990 - December 31, 1994	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired on or before February 20, 2007	1 but less than 10 At least 10	50% of the benefit cap 100% of the benefit cap
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10 At least 10	Up to 50% of the lesser of the retiree cap and the premium rate Up to 100% of the lesser of the retiree cap and the premium rate
	Hired on or after January 1, 1995 and retire on or before February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 (\$74.75 per month in 2013)
	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, 2013 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 costs 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, 2013

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, 2013, the City contributed the ARC of \$3,475,268 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	\$3,475,268
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	3,475,268
Contributions made	<u>(3,475,268)</u>
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2012	<u>0</u>
Net OPEB obligation (asset) June 30, 2013	<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 reimbursed to the City, resulted in assets with CERBT of \$24,778,279 as of June 30, 2013, which partially reduces the unfunded actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2011, 2012 and 2013 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2011	\$3,494,309	\$3,494,309	100%	\$0
June 30, 2012	3,343,969	3,343,969	100%	0
June 30, 2013	3,475,268	3,475,268	100%	0

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 latest available 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, 2013, sick leave benefits payable decreased by \$601,047 and vacation benefits payable decreased by \$238,855. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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, 2012	\$4,482,783	\$227,204	\$4,146,494	\$173,564
Additions	2,969,854	231,161	1,310,953	97,868
Payments and adjustments	(3,185,209)	(254,661)	(1,899,546)	(110,322)
Balance as of June 30, 2013	<u>\$4,267,428</u>	<u>\$203,704</u>	<u>\$3,557,901</u>	<u>\$161,110</u>
General Government	\$442,678		\$220,685	
Building	141,422		92,509	
Public Works	151,026		60,101	
Engineering and Planning	241,432		260,361	
Recreation	72,171		56,552	
Police	2,204,002		1,109,368	
Fire	961,407		1,737,054	
Water Utility		\$101,852		\$80,555
Sewer Utility		101,852		80,555
Internal Service	53,290		21,271	
Total	<u>\$4,267,428</u>	<u>\$203,704</u>	<u>\$3,557,901</u>	<u>\$161,110</u>
Long-Term Portion:				
Governmental activities	\$3,661,961		\$3,235,018	
Business-type activities	53,292	\$119,806	21,271	\$117,610
Total long term portions	<u>\$3,715,253</u>	<u>\$119,806</u>	<u>\$3,256,289</u>	<u>\$117,610</u>
Current Portion:				
Governmental activities	\$552,175		\$301,612	
Business-type activities		\$83,898		\$43,500
Total current portions	<u>\$552,175</u>	<u>\$83,898</u>	<u>\$301,612</u>	<u>\$43,500</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, 2013

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, 2013 the City contributed \$473,037 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, 2013 the City paid \$636,401 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, 2013

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:

	2013			2012
	Worker's Compensation	General Liability	Total	
Beginning balance	\$2,856,681	\$861,203	\$3,717,884	\$3,452,421
Liability for current fiscal year claims	486,513	374,438	860,951	1,818,420
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	249,456	(526,454)	(276,998)	(547,068)
Claims paid	(773,706)	(108,073)	(881,779)	(1,005,889)
Ending balance	<u>\$2,818,944</u>	<u>\$601,114</u>	<u>\$3,420,058</u>	<u>\$3,717,884</u>
Due in one year	<u>\$725,364</u>	<u>\$136,273</u>	<u>\$861,637</u>	<u>\$963,992</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, except for the lawsuit against the County of Santa Clara and the State of California related to activities of the former Redevelopment Agency as disclosed in Note 16F(2) below.

B. Federal and State Grant Programs

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. Encumbrances

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2013 were as follows:

Major Governmental Funds:	
General Fund	\$397,598
Economic Development Corporation	66,714
Street Improvement Fund	1,162,965
Transit Area Impact Fee Fund	73,563
Non-Major Governmental Funds	932,765
Total Encumbrances	<u>\$2,633,605</u>

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, 2013 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2013
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$295,000 - 360,000	2014-2017	\$1,300,000
LID #18	1999	5.85%	215,000 - 285,000	2014-2019	1,495,000
LID #18 Refunding	1998	5.65%	660,000 - 695,000	2014-2015	1,355,000
LID #20	1999	5.65 - 5.70%	1,010,000 - 1,330,000	2014-2019	6,985,000
Total					<u>\$11,135,000</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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 amount of the remaining assets that should be transferred to the Milpitas Successor Agency. Therefore, additional adjustments resulting from the State Controller's review were 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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

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

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

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

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

Cash and investments of the Successor Agency as of June 30, 2013 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, 2013.

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.

C. *DEVELOPMENT AGREEMENTS*

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

1. *Installment Purchase Agreement*

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

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.

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. The Successor Agency expended \$700,000 under the agreement during the year ended June 30, 2012, and \$400,000 under the agreement during the year ended June 30, 2013, which has been recorded as a conditional grant, therefore the balance of the loan is offset with an equal allowance for forgiveness of the loan. An additional payment of \$200,000 was due to Sun Power during fiscal year 2013 but the payment was denied by the Department of Finance.

D. **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 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, 2013 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, 2013

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

E. LONG-TERM OBLIGATIONS

1. Current Year Transactions and Balances

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

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
2003 Tax Allocation Bonds					
2%-5.25%, due September 1, 2032	\$163,530,000		\$5,595,000	\$157,935,000	\$5,825,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	31,135,242		2,707,357	28,427,885	3,223,045
Successor Agency Loan Purchase and Sale Agreement with the City of Milpitas	9,444,474	\$28,097		9,472,571	
Total	<u>\$204,109,716</u>	<u>\$28,097</u>	<u>\$8,302,357</u>	<u>\$195,835,456</u>	<u>\$9,048,045</u>

2. 2003 Redevelopment Agency Tax Allocation Bonds

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of \$200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also 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 \$237,413,669 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. The Successor Agency only receives the funds necessary to fulfill its approved obligations. In fiscal year 2013, total tax increment calculated and available for distribution by the County Auditor-Controller was \$33,351,162, and the total received by the Successor Agency was \$18,237,007. The tax increment available for distribution represented coverage of 245% of the \$13,568,533 of debt service.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

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 \$28,427,885 at June 30, 2013, 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.

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 cannot 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 in fiscal year 2012 to reflect the revised interest rate.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

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, 2013 is \$6,874,647, but the Successor Agency will not record a liability for this loan until it is approved as an enforceable obligation by the State Department of Finance.

5. Debt Service Requirements

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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	9,731,607	8,765,651
2019-2023	55,096,084	42,272,048
2024-2028	52,645,000	14,508,493
2029-2033	31,775,000	3,504,229
	<u>\$186,362,885</u>	<u>\$106,050,784</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.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

2. *State Asset Transfer Review, Demand for Return of Assets and Standstill Agreement*

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and as discussed in Note 16A, some of the assets were returned and others remain in the possession of the Economic Development Corporation. 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. Therefore, assets totaling \$54,854,616, comprised of current assets of \$31,485,664 and capital assets of \$23,368,952, remain with the Economic Development Corporation as of June 30, 2013.

On February 25, 2013, the City, the Corporation and the Successor Agency executed a Standstill Agreement to preserve the assets of the former Redevelopment Agency that had been transferred to the Corporation and to the City. Under the Agreement, the Corporation agrees that it will not transfer, sell or convey any of the property conveyed by the Agency or purchased with assets transferred from the Agency, refrain from incurring new financial obligations and satisfy only its specific outstanding obligations and contracts that are listed in the Agreement, including the payments required for the Mission West Purchase Agreement discussed in Note 9B. Under the Agreement, the City agrees that it will not transfer, sell or convey any of the capital assets or property held for resale conveyed by the former Agency, that the General Fund will reimburse the Successor Agency for any Corporation payments on the contracts listed in the Agreement if a final judicial determination holds that the transfer was invalid or the obligation should not have been paid from Corporation funds, except for the Mission West Purchase Agreement. In the event there is a final judicial decision that the transfers to the City and/or Corporation were invalid and subject to the "clawback" provisions of AB1484, the City and Corporation agree to return the assets to the Successor Agency.

As noted above, the City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputes the results of the DDR and the City has filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. The County and State have filed responses to the City's complaint. The two cases have been coordinated and will proceed to hearing on February 28, 2014. 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
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, 2013

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Use of money and property	\$62,000	\$167,211	\$105,211
Intergovernmental	706,362	2,001,567	1,295,205
Developer contributions	200,000	500,183	300,183
Total Revenues	<u>968,362</u>	<u>2,668,961</u>	<u>1,700,599</u>
Expenditures			
Current:			
General Government:			
Non-departmental	48,373	43,027	5,346
Public Works	1,133,592	1,133,592	
Total Expenditures	<u>1,181,965</u>	<u>1,176,619</u>	<u>5,346</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(213,603)</u>	<u>1,492,342</u>	<u>1,705,945</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,453,000</u>	<u>1,453,000</u>	
Total Other Financing Sources (Uses)	<u>1,453,000</u>	<u>1,453,000</u>	
Net change in fund balance	<u>\$1,239,397</u>	<u>2,945,342</u>	<u>\$1,705,945</u>
Adjustment to budgetary basis:			
Capital outlay		(5,083,345)	
Encumbrance adjustments		1,162,966	
Fund balance, July 1		<u>10,742,916</u>	
Fund balance, June 30		<u>\$9,767,879</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, 2013

	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	\$2,572,118	\$4,656	\$302,005	\$1,850,886	\$469,267
Receivables:					
Accounts				93,561	
Due from other governments	141,504	23,213		80	
Interest	3,853		452	2,770	702
Loans receivable		3,458,537			
Prepays, materials, supplies and deposits		615		1,048	837
Total Assets	<u>\$2,717,475</u>	<u>\$3,487,021</u>	<u>\$302,457</u>	<u>\$1,948,345</u>	<u>\$470,806</u>
LIABILITIES					
Accounts payable		\$25,389	\$169	\$27,250	\$644
Accrued payroll		1,634		4,064	964
Unearned revenue			41,210		
Refundable deposits				18,843	
Total Liabilities		<u>27,023</u>	<u>41,379</u>	<u>50,157</u>	<u>1,608</u>
FUND BALANCE					
Fund Balances:					
Nonspendable		615		1,048	837
Restricted	\$2,717,475	3,459,383	261,078	1,897,140	468,361
Assigned					
Total Fund Balances	<u>2,717,475</u>	<u>3,459,998</u>	<u>261,078</u>	<u>1,898,188</u>	<u>469,198</u>
Total Liabilities and Fund Balances	<u>\$2,717,475</u>	<u>\$3,487,021</u>	<u>\$302,457</u>	<u>\$1,948,345</u>	<u>\$470,806</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	
\$475,923	\$1,684,088	\$318,327	\$16,512,964	\$14,040,297	\$1,604,034	\$39,834,565
						93,561
922						165,719
856	2,074	477	24,788	3,488	2,403	41,863
						3,458,537
1,327	2,433					6,260
<u>\$479,028</u>	<u>\$1,688,595</u>	<u>\$318,804</u>	<u>\$16,537,752</u>	<u>\$14,043,785</u>	<u>\$1,606,437</u>	<u>\$43,600,505</u>
\$17,110		\$54,000	\$365,085	\$63,899	\$31,745	\$585,291
6,633				729		14,024
						41,210
						18,843
<u>23,743</u>		<u>54,000</u>	<u>365,085</u>	<u>64,628</u>	<u>31,745</u>	<u>659,368</u>
1,327	\$2,433					6,260
453,958	1,686,162		16,172,667		1,574,692	28,690,916
		264,804		13,979,157		14,243,961
<u>455,285</u>	<u>1,688,595</u>	<u>264,804</u>	<u>16,172,667</u>	<u>13,979,157</u>	<u>1,574,692</u>	<u>42,941,137</u>
<u>\$479,028</u>	<u>\$1,688,595</u>	<u>\$318,804</u>	<u>\$16,537,752</u>	<u>\$14,043,785</u>	<u>\$1,606,437</u>	<u>\$43,600,505</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Property taxes					
Other taxes				\$492,226	\$310,154
Use of money and property	\$13,989	\$1,858	\$314	11,752	2,619
Intergovernmental	1,630,636	541,894	148,304	190,284	
Charges for services				321,135	
Developer contributions					
Other				5,582	
Total Revenues	1,644,625	543,752	148,618	1,020,979	312,773
EXPENDITURES:					
Current:					
General Government		39,056		25,304	
Public Works				477,119	215,673
Engineering and Planning		364,074			
Police			85,283		
Capital outlay			13,154		
Total Expenditures		403,130	98,437	502,423	215,673
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,644,625	140,622	50,181	518,556	97,100
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(1,453,000)	(77,778)		(242,472)	
Total Other Financing Sources (Uses)	(1,453,000)	(77,778)		(242,472)	
NET CHANGE IN FUND BALANCES	191,625	62,844	50,181	276,084	97,100
FUND BALANCES AT BEGINNING OF YEAR	2,525,850	3,397,154	210,897	1,622,104	372,098
FUND BALANCES AT END OF YEAR	\$2,717,475	\$3,459,998	\$261,078	\$1,898,188	\$469,198

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	
				\$3,976,856		\$3,976,856
\$402,345						1,204,725
3,389	\$16,042	\$12,538	\$14,785	17,868	\$9,741	104,895
			30,907	31,226		2,573,251
		152				321,287
			4,167,311		630,941	4,798,252
						5,582
405,734	16,042	12,690	4,213,003	4,025,950	640,682	12,984,848
4,938	28,678	63,344				161,320
351,419				30,656	28,000	1,102,867
						364,074
						85,283
			2,217,887	304,262	38,819	2,574,122
356,357	28,678	63,344	2,217,887	334,918	66,819	4,287,666
49,377	(12,636)	(50,654)	1,995,116	3,691,032	573,863	8,697,182
			77,778	7,731,885		7,809,663
	(1,925)			(19,924)		(1,795,099)
	(1,925)		77,778	7,711,961		6,014,564
49,377	(14,561)	(50,654)	2,072,894	11,402,993	573,863	14,711,746
405,908	1,703,156	315,458	14,099,773	2,576,164	1,000,829	28,229,391
\$455,285	\$1,688,595	\$264,804	\$16,172,667	\$13,979,157	\$1,574,692	\$42,941,137

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, 2013

	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	\$13,000	\$13,989	\$989		\$1,858	\$1,858
Intergovernmental	1,162,000	1,630,636	468,636	\$391,000	541,894	150,894
Charges for services						
Other						
Total Revenues	1,175,000	1,644,625	469,625	391,000	543,752	152,752
EXPENDITURES						
Current:						
General Government:						
Finance				14,800	14,800	
Non-departmental				29,326	23,326	6,000
Public Works						
Planning and Neighborhood Services				657,648	657,648	
Police						
Total Expenditures				701,774	695,774	6,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,175,000	1,644,625	469,625	(310,774)	(152,022)	158,752
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,453,000)	(1,453,000)		(77,778)	(77,778)	
Total Other Financing Sources (Uses)	(1,453,000)	(1,453,000)		(77,778)	(77,778)	
NET CHANGE IN FUND BALANCES	(\$278,000)	191,625	\$469,625	(\$388,552)	(229,800)	\$158,752
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					292,644	
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		2,525,850			3,397,154	
Fund balances at end of year		\$2,717,475			\$3,459,998	

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)
			\$410,000	\$492,226	\$82,226	\$311,800	\$310,154	(\$1,646)
\$3,000	\$314	(\$2,686)	8,000	11,752	3,752	2,000	2,619	619
243,836	148,304	(95,532)	177,181	190,284	13,103			
			300,000	321,135	21,135			
				5,582	5,582			
246,836	148,618	(98,218)	895,181	1,020,979	125,798	313,800	312,773	(1,027)
			27,300	25,304	1,996			
			645,278	504,320	140,958	315,160	216,173	98,987
290,822	186,883	103,939						
290,822	186,883	103,939	672,578	529,624	142,954	315,160	216,173	98,987
(43,986)	(38,265)	5,721	222,603	491,355	268,752	(1,360)	96,600	97,960
			(242,472)	(242,472)				
			(242,472)	(242,472)				
(\$43,986)	(38,265)	\$5,721	(\$19,869)	248,883	\$268,752	(\$1,360)	96,600	\$97,960
	(13,154)							
	101,600			27,201			500	
	210,897			1,622,104			372,098	
	\$261,078			\$1,898,188			\$469,198	

(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, 2013

	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	\$380,000	\$402,345	\$22,345			
Use of money and property	1,000	3,389	2,389	\$40,000	\$16,042	(\$23,958)
Intergovernmental						
Charges for services						
Other						
Total Revenues	381,000	405,734	24,734	40,000	16,042	(23,958)
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	7,000	4,938	2,062	29,000	28,678	322
Public Works	396,095	371,414	24,681			
Planning and Neighborhood Services						
Police						
Total Expenditures	403,095	376,352	26,743	29,000	28,678	322
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(22,095)	29,382	51,477	11,000	(12,636)	(23,636)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)				(1,925)	(1,925)	
Total Other Financing Sources (Uses)				(1,925)	(1,925)	
NET CHANGE IN FUND BALANCES	(\$22,095)	29,382	\$51,477	\$9,075	(14,561)	(\$23,636)
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments		19,995				
Fund balances at beginning of year		405,908			1,703,156	
Fund balances at end of year		\$455,285			\$1,688,595	

PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			\$1,101,800	\$1,204,725	\$102,925
\$7,000	\$12,538	\$5,538	74,000	62,501	(11,499)
	152	152	1,974,017	2,511,118	537,101
			300,000	321,287	21,287
				5,582	5,582
7,000	12,690	5,690	3,449,817	4,105,213	655,396
184,840	185,844	(1,004)	14,800	14,800	
			278,270	268,090	10,180
			1,356,533	1,091,907	264,626
			656,844	657,648	(804)
			290,822	186,883	103,939
184,840	185,844	(1,004)	2,597,269	2,219,328	377,941
(177,840)	(173,154)	4,686	852,548	1,885,885	1,033,337
			(1,775,175)	(1,775,175)	
			(1,775,175)	(1,775,175)	
(\$177,840)	(173,154)	\$4,686	(\$922,627)	110,710	\$1,033,337
				292,644	
				(13,154)	
	122,500			271,796	
	315,458			10,552,625	
	<u>\$264,804</u>			<u>\$11,214,621</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, 2013

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$2,095,926		\$107,146	\$1,988,780
Receivables:				
Interest	5,004	\$3,008	5,004	3,008
Total Assets	<u>\$2,100,930</u>	<u>\$3,008</u>	<u>\$112,150</u>	<u>\$1,991,788</u>
<u>Liabilities</u>				
Refundable deposits	\$2,100,930	\$3,008	\$112,150	\$1,991,788
Total Liabilities	<u>\$2,100,930</u>	<u>\$3,008</u>	<u>\$112,150</u>	<u>\$1,991,788</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$8,462	\$8,959	\$8,462	\$8,959
Receivables:				
Interest	20	13	20	13
Total Assets	<u>\$8,482</u>	<u>\$8,972</u>	<u>\$8,482</u>	<u>\$8,972</u>
<u>Liabilities</u>				
Refundable deposits	\$8,482	\$8,972	\$8,482	\$8,972
Total Liabilities	<u>\$8,482</u>	<u>\$8,972</u>	<u>\$8,482</u>	<u>\$8,972</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,475,679	\$1,204,992	\$1,484,521	\$1,196,150
Cash and investments held by trustees	1,233,753	5,393	7,250	1,231,896
Receivable:				
Interest	3,525	1,793	3,525	1,793
Total Assets	<u>\$2,712,957</u>	<u>\$1,212,178</u>	<u>\$1,495,296</u>	<u>\$2,429,839</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	\$2,712,957	\$1,212,178	\$1,495,296	\$2,429,839
Total Liabilities	<u>\$2,712,957</u>	<u>\$1,212,178</u>	<u>\$1,495,296</u>	<u>\$2,429,839</u>

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
<u>LID #20</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,373,210	\$1,442,833	\$1,529,031	\$1,287,012
Cash and investments held by trustees	1,215,976	5,699	3,727	1,217,948
Receivables:				
Interest	3,280	1,928	3,280	1,928
Total Assets	<u>\$2,592,466</u>	<u>\$1,450,460</u>	<u>\$1,536,038</u>	<u>\$2,506,888</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,592,466</u>	<u>\$1,450,460</u>	<u>\$1,536,038</u>	<u>\$2,506,888</u>
Total Liabilities	<u>\$2,592,466</u>	<u>\$1,450,460</u>	<u>\$1,536,038</u>	<u>\$2,506,888</u>
<u>LID #9R and #12R</u>				
<u>Assets</u>				
Cash and investments available for operations	\$131,324		\$131,324	
Receivables:				
Interest	314		314	
Total Assets	<u>\$131,638</u>	<u></u>	<u>\$131,638</u>	<u></u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$131,638</u>	<u></u>	<u>\$131,638</u>	<u></u>
Total Liabilities	<u>\$131,638</u>	<u></u>	<u>\$131,638</u>	<u></u>
<u>TOTAL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments available for operations	\$5,084,601	\$2,656,784	\$3,260,484	\$4,480,901
Cash and investments held by trustees	2,449,729	11,092	10,977	2,449,844
Receivables:				
Interest	12,143	6,742	12,143	6,742
Total Assets	<u>\$7,546,473</u>	<u>\$2,674,618</u>	<u>\$3,283,604</u>	<u>\$6,937,487</u>
<u>Liabilities</u>				
Refundable deposits	\$2,109,412	\$11,980	\$120,632	\$2,000,760
Due to Local Improvement Districts	<u>5,437,061</u>	<u>2,662,638</u>	<u>3,162,972</u>	<u>4,936,727</u>
Total Liabilities	<u>\$7,546,473</u>	<u>\$2,674,618</u>	<u>\$3,283,604</u>	<u>\$6,937,487</u>

STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

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

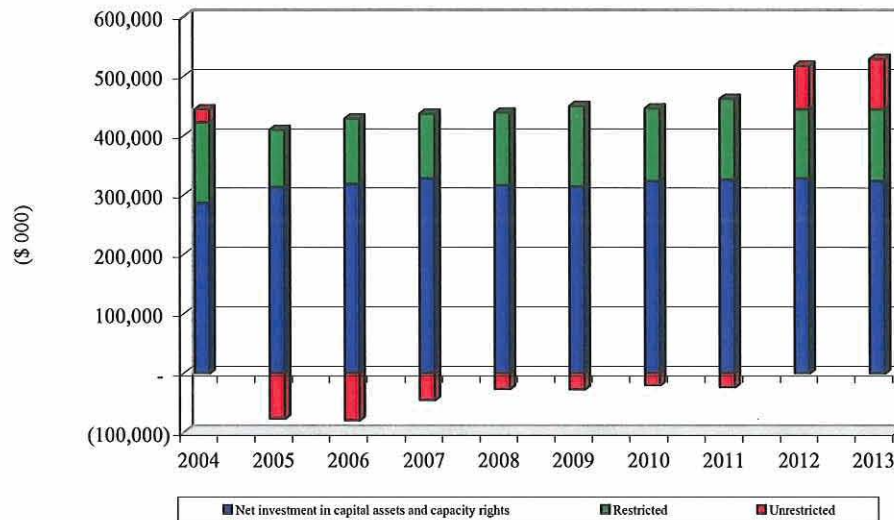
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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



	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
Governmental activities					
Net investment in capital assets and capacity rights	\$192,380	\$225,140	\$224,223	\$232,841	\$224,603
Restricted	130,126	89,652	97,069	92,504	104,161
Unrestricted	(798)	(97,657)	(92,209)	(62,097)	(50,764)
Total governmental activities net position	\$321,708	\$217,135	\$229,083	\$263,248	\$278,000
Business-type activities					
Net investment in capital assets and capacity rights	\$94,693	\$88,191	\$94,467 (a)	\$95,300	\$92,028
Restricted	4,974	6,774	12,852	16,179	18,252
Unrestricted	23,102	21,125	12,980	16,652	23,603
Total business-type activities net position	\$122,769	\$116,090	\$120,299	\$128,131	\$133,883
Primary government					
Net investment in capital assets and capacity rights	\$287,073	\$313,331	\$318,690	\$328,141	\$316,631
Restricted	135,100	96,426	109,921	108,683	122,413
Unrestricted	22,304	(76,532)	(79,229)	(45,445)	(27,161)
Total primary government net position	\$444,477	\$333,225	\$349,382	\$391,379	\$411,883
	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013 (b)
Governmental activities					
Net investment in capital assets and capacity rights	\$221,744	\$218,878	\$218,116	\$219,034	\$217,002
Restricted	110,463	98,426	115,474	90,878	88,147
Unrestricted	(41,574)	(38,500)	(44,592)	53,417	64,876
Total governmental activities net position	\$290,633	\$278,804	\$288,998	\$363,329	\$370,025
Business-type activities					
Net investment in capital assets and capacity rights	\$92,576	\$104,370	\$107,707	\$109,146	\$106,489
Restricted	24,911	24,059	20,743	25,239	32,889
Unrestricted	14,172	17,851	20,577	19,838	19,799
Total business-type activities net position	\$131,659	\$146,280	\$149,027	\$154,223	\$159,177
Primary government					
Net investment in capital assets and capacity rights	\$314,320	\$323,248	\$325,823	\$328,180	\$323,491
Restricted	135,374	122,485	136,217	116,117	121,036
Unrestricted	(27,402)	(20,649)	(24,015)	73,255	84,675
Total primary government net position	\$422,292	\$425,084	\$438,025	\$517,552	\$529,202

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

(b) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

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

	Fiscal Year Ended June 30			
	2004	2005	2006	2007
Expenses				
Governmental activities				
General Government	\$13,243	\$17,412	\$18,651	\$16,297
Building and Safety	2,017	2,048	2,195	2,334
Public Works	17,537	17,794	17,156	20,647
Planning and Neighborhood Services	7,114	7,116	7,453	2,396
Parks and Recreation	4,246	4,170	4,266	7,301
Police	19,575	18,773	20,473	21,452
Fire	13,865	14,448	14,381	14,329
Payment under developer agreements			9,384	
Interest on Long Term Debt	9,829	9,338		9,419
Total governmental activities expenses	87,426	91,099	93,959	94,175
Business-type activities				
Water Utility	9,877	9,668	9,837	10,673
Recycled Water Utility	255	247	328	337
Sewer Utility	6,165	6,040	7,047	8,210
Total business-type activities expenses	16,297	15,955	17,212	19,220
Total primary government expenses	\$103,723	\$107,054	\$111,171	\$113,395
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$860	\$906	\$580	\$662
Building and Safety	1,488	2,899	5,800	5,029
Public Works	307	311	344	2,817
Planning and Neighborhood Services	1,185	1,678	2,412	436
Parks and Recreation	1,391	1,482	1,496	1,599
Police	1,273	1,693	1,132	1,406
Fire	766	305	1,070	1,109
Operating grants and contributions	4,197	3,780	4,089	4,600
Capital grants and contributions	13,770	12,012	12,971	16,056
Total government activities program revenues	25,237	25,066	29,894	33,714
Business-type activities				
Charges for services:				
Water Utility	12,265	12,430	13,224	14,523
Recycled Water Utility	878	1,017	1,086	1,203
Sewer Utility	7,472	8,253	8,966	9,833
Operating grants and contributions				
Capital grants and contributions	1,602	604	3,854	2,418
Total business-type activities program revenue	22,217	22,304	27,130	27,977
Total primary government program revenues	\$47,454	\$47,370	\$57,024	\$61,691
Net (Expense)/Revenue				
Governmental activities	(\$62,189)	(\$66,033)	(\$64,065)	(\$60,461)
Business-type activities	5,920	6,349	9,918	8,757
Total primary government net expense	(\$56,269)	(\$59,684)	(\$54,147)	(\$51,704)

- (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.
- (e) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position"
- (f) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (g) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

2008	2009	2010	2011	2012	2013 (e)
\$18,130	\$18,184	\$33,535 (c)	\$21,474 (c)	\$17,418 (d)	\$15,329
2,626	2,401	1,972	1,984	2,029	2,293
20,745	19,605	22,843	16,777	21,787	17,700 (f)
3,239	3,249	2,874	2,155	2,144	2,553
6,527	6,518	6,096	6,529	5,823	3,107 (f)
22,440	22,514	22,771	22,661	22,620	21,702
15,411	15,260	14,748	15,085	14,904	15,810
11,534	9,402	9,570	9,536	2,050	227
100,652	97,133	114,409	96,201	88,775	78,721
11,567	12,545	11,788	12,766	15,229	17,195
481	576	476	470	599	(g)
8,626	12,312	8,730	9,240	8,399	9,418
20,674	25,433	20,994	22,476	24,227	26,613
\$121,326	\$122,566	\$135,403	\$118,677	\$113,002	\$105,334
\$996	\$956	\$1,165	\$1,071	\$1,349	\$1,700
4,194	2,897	2,031	2,823	3,436	4,554
2,410	1,996	2,571	1,826	2,440	2,668
459	358	182	139	237	301
1,663	1,655	1,642	1,662	1,833	1,987
1,351	1,425	1,091	1,263	1,134	1,051
1,144	1,108	1,137	1,210	1,292	1,508
4,617	4,920	3,892	4,869	6,146	7,487
15,242	9,801	8,840	5,704	8,294	8,286
32,076	25,116	22,551	20,567	26,161	29,542
14,937	13,873	14,051	15,201	16,773	19,801
1,323	1,288	1,260	1,300	1,447	(g)
10,041	9,849	10,393	11,406	12,445	12,632
		79	70	43	111
956	471	6,406	163	1,629	1,975
27,257	25,481	32,189	28,140	32,337	34,519
\$59,333	\$50,597	\$54,740	\$48,707	\$58,498	\$64,061
(\$68,576)	(\$72,017)	(\$91,858)	(\$75,634)	(\$62,614)	(\$49,179)
6,583	48	11,195	5,664	8,110	7,906
(\$61,993)	(\$71,969)	(\$80,663)	(\$69,970)	(\$54,504)	(\$41,273)

(Continued)

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

	Fiscal Year Ended June 30			
	2004	2005	2006	2007
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$36,788	\$38,913	\$44,026	\$44,565
Less: Educational Revenue Augmentation				
Fund payment	(1,950)	(2,993)	(2,422)	
Sales and use taxes	12,065	13,816	15,613	16,765
Hotel/Motel taxes	4,717	4,986	5,669	6,427
Other taxes	138	132	133	125
Franchise fees	2,650	2,772	2,643	2,912
Motor vehicle in lieu	2,969	421	1,548	357
Investment earnings	(2,427) (a)	1,069	1,302	2,225
Gain on sale of capital assets/property			12	18,257
Miscellaneous	258	332	856	355
Redevelopment expense		(102,281) (b)		
Transfers	8,213	4,294	6,633	2,638
Extraordinary item				
Total government activities	<u>63,421</u>	<u>(38,539)</u>	<u>76,013</u>	<u>94,626</u>
Business-type activities				
Investment earnings	1,068 (a)	627	924	1,714
Loss on adjustment of capital assets valuation				
Transfers	(8,213)	(4,294)	(6,633)	(2,638)
Total business-type activities	<u>(7,145)</u>	<u>(3,667)</u>	<u>(5,709)</u>	<u>(924)</u>
Total primary government	<u>\$56,276</u>	<u>(\$42,206)</u>	<u>\$70,304</u>	<u>\$93,702</u>
Change in net position				
Governmental activities	\$1,232	(\$104,572)	\$11,948	\$34,165
Business-type activities	(1,225)	2,682	4,209	7,833
Total primary government	<u>\$7</u>	<u>(\$101,890)</u>	<u>\$16,157</u>	<u>\$41,998</u>

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

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

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

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

(e) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position"

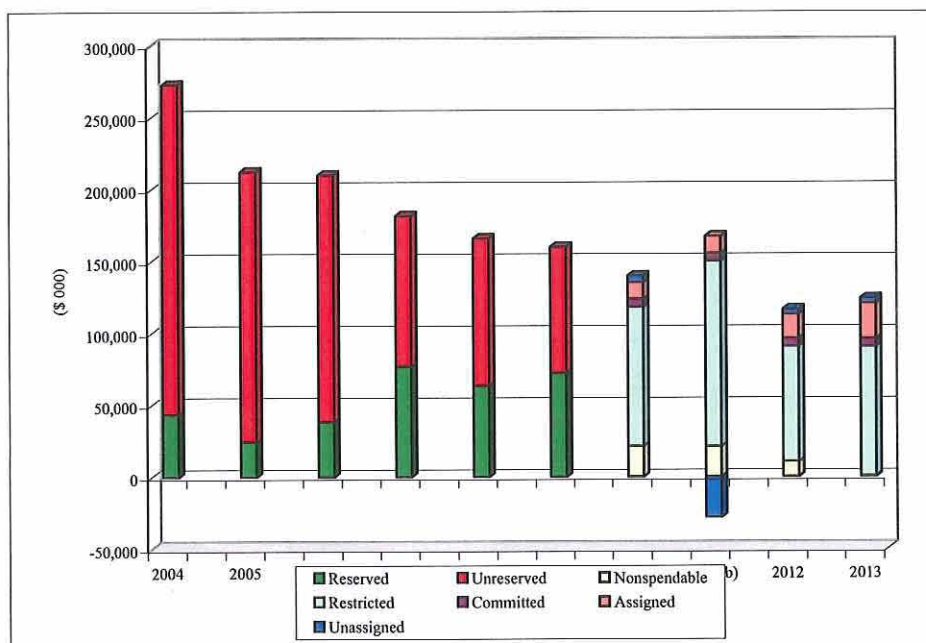
(f) The parks division is part of the Public Works department beginning in fiscal year 2013.

(g) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

2008	2009	2010	2011	2012	2013 (e)
\$49,061	\$53,917	\$58,012 (c)	\$55,655 (c)	\$34,029	\$20,469
15,551	15,670	14,725	16,429	18,758	20,196
7,195	5,550	5,297	6,124	7,068	7,933
602	416	407	380	491	516
2,968	3,151	2,993	3,083	3,218	3,270
296	237	209	323	35	37
4,100	1,553	700	399	1,093	260
34	35	171			46
109	92	85	62	67	103
3,411	4,029	(2,570)	3,374	3,304	3,045
				68,882 (d)	
<u>83,327</u>	<u>84,650</u>	<u>80,029</u>	<u>85,829</u>	<u>136,945</u>	<u>55,875</u>
2,580	1,756	857	455	390	94
(3,411)	(4,029)	2,570	(3,374)	(3,304)	(3,045)
<u>(831)</u>	<u>(2,273)</u>	<u>3,427</u>	<u>(2,919)</u>	<u>(2,914)</u>	<u>(2,951)</u>
<u>\$82,496</u>	<u>\$82,377</u>	<u>\$83,456</u>	<u>\$82,910</u>	<u>\$134,031</u>	<u>\$52,924</u>
\$14,751	\$12,633	(\$11,829)	\$10,195	\$74,331	\$6,696
5,752	(2,225)	14,622	2,745	5,196	4,955
<u>\$20,503</u>	<u>\$10,408</u>	<u>\$2,793</u>	<u>\$12,940</u>	<u>\$79,527</u>	<u>\$11,651</u>



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



	Fiscal Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010 (b)	2011 (b)	2012	2013
General Fund										
Reserved	\$2,366	\$1,344	\$1,315	\$21,753	\$21,749	\$21,542				
Unreserved	30,636	26,699	27,966	26,716	29,359	29,293				
Nonspendable							\$20,977	\$20,970	\$577	\$468
Restricted								24,555		
Committed							5,433	5,433	5,433	5,433
Assigned							9,465	9,698	13,904	10,434
Unassigned							14,920	15,448	15,800	16,444
Total General Fund	\$33,002	\$28,043	\$29,281	\$48,469	\$51,108	\$50,835	\$50,795	\$76,104	\$35,714	\$32,779
All Other Governmental Funds										
Reserved	\$41,131	\$23,049	\$36,812	\$54,763	\$41,416	\$50,608				
Unreserved, reported in:										
Special revenue funds	19,493	23,745	3,524	4,025	4,213	4,603				
Capital project funds	179,291	137,415	140,259	74,178	69,028	53,845				
Debt service funds										
Nonspendable							\$115	\$23	\$9,788	\$11
Restricted							96,873	104,290	80,112	89,821
Assigned							2,196	2,127	2,892	14,244
Unassigned							(10,219)	(43,624)	(12,234)	(12,955)
Total all other governmental funds	\$239,915	\$184,209	\$180,595	\$132,966	\$114,657	\$109,056	\$88,965	\$62,816	\$80,558	\$91,121 (a)

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

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

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

	Fiscal Year Ended June 30				
	2004	2005	2006	2007	2008
Revenues					
Property taxes	\$36,186	\$38,337	\$43,155	\$44,289	\$49,060
Less: Educational Revenue					
Augmentation Fund payment	(1,950)	(2,993)	(2,422)		
Sales taxes	12,655	14,409	16,228	17,383	16,173
Other taxes	8,555	9,066	10,003	10,508	11,636
Licenses and fines	3,020	4,328	7,357	6,958	5,991
Use of money and property	2,515 (a)	6,149	6,260	8,292	11,096
Intergovernmental	11,124	4,914	6,045	5,589	4,092
Charges for services	3,277	3,842	4,165	4,715	4,612
Developer contributions	3,452	1,439	5,010	1,217	2,884
Other	798	4,097	1,186	8,978	584
Total Revenues	79,632	83,588	96,987	107,929	106,128
Expenditures					
Current:					
General government	10,365	13,026	15,608	34,136	15,079
Building and safety	1,978	2,075	2,226	2,232	2,566
Human resources and recreation					
Public works	7,130	7,736	7,789	10,646 (c)	11,016
Engineering and planning	5,983	6,444	6,581	(c)	
Planning and neighborhood services				2,329 (c)	2,528
Recreation	3,860	4,199	4,284	(c)	
Parks and recreation				6,486 (c)	6,513
Police	18,384	19,723	20,167	20,081	21,701
Fire	12,864	15,363	14,312	13,717	14,664
Supplemental educational revenue					
augmentation fund payment					
Capital outlay	11,169	15,998	16,861	46,076	33,133
Payments under developer agreements	127				
Debt service:					
Principal	8,860	6,605	8,559	8,508	8,490
Interest and fees	9,686	9,379	9,424	15,250	11,528
Total Expenditures	90,406	100,548	105,811	159,461	127,218
Excess (deficiency) of revenues over (under) expenditures	(10,774)	(16,960)	(8,824)	(51,532)	(21,090)
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					1,868
Loss from sale of property					
Transfers in	124,899	23,095	28,523	22,561	20,420
Transfers (out)	(115,936)	(18,801)	(22,075)	(19,924)	(16,869)
Total other financing sources (uses)	147,171	4,294	6,448	23,092	5,419
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	\$136,397	(\$60,666)	(\$2,376)	(\$28,440)	(\$15,671)
Debt service as a percentage of noncapital expenditures	23.4%	18.9%	20.2%	26.5%	21.3%

(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.

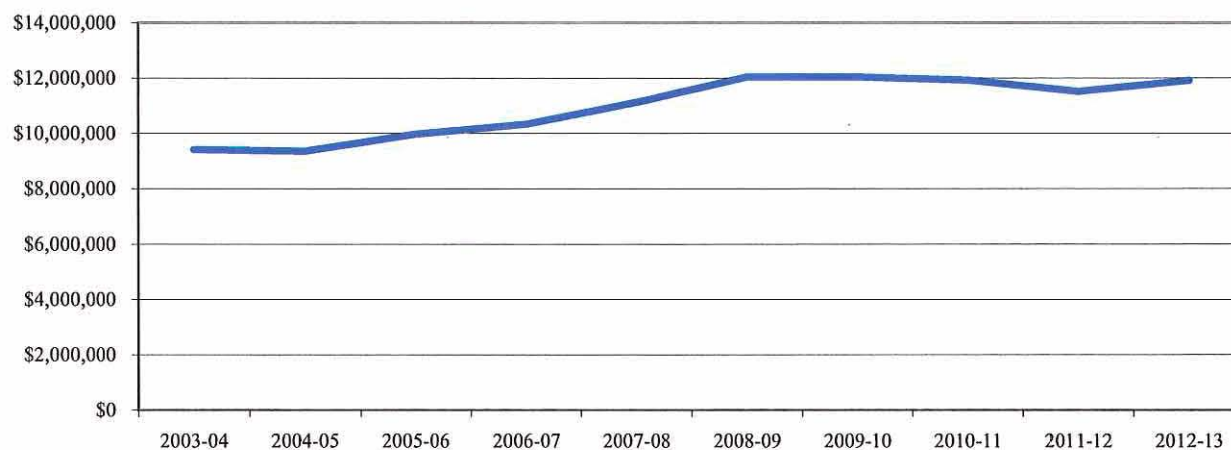
Years prior to 2010 have not been restated to reflect this change in presentation.

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

(f) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.

Fiscal Year Ended June 30				
2009	2010	2011	2012	2013
\$53,917	\$58,012 (d)	\$55,655 (d)	\$34,029 (e)	\$20,466
16,251	15,268	16,994	19,403	20,908
9,937	9,495	10,917	12,230	13,343
4,619	3,481	4,309	4,956	5,875
8,984	7,168	3,948	5,303	1,538
6,004	6,362	5,082	4,834	5,842
4,146	3,704	4,020	4,725	5,550
2,558	4,739	3,360	7,549	7,987
816	933	1,039	578	715
107,232	109,162	105,324	93,607	82,224
17,834	20,602 (d)	19,003 (d)	12,753 (e)	11,871
2,420	1,992	1,975	2,060	2,278
10,066	13,619	7,960	8,772	3,087 (f)
2,576	2,180	2,267	2,196	9,124
6,416	6,052	5,688	5,261	2,030
21,602	22,071	21,682	21,733	(f)
15,279	14,249	14,994	14,562	20,978
21,585	11,774	2,424	28,876	15,420
	16,938	12,940		7,510
8,481	8,169	8,225	13,153	4,209
11,516	11,982	12,386	6,823	668
117,775	129,628	109,544	116,189	77,175
(10,543)	(20,466)	(4,220)	(22,582)	5,049
			21,780	
14	4	5	8	46
23,278	23,590	119,213	34,994	(512)
(18,624)	(23,259)	(115,839)	(31,690)	13,780
4,668	335	3,379	25,092	(10,735)
			17,274 (e)	
			(42,431) (e)	
(\$5,875)	(\$20,131)	(\$841)	(\$22,647)	\$7,628
20.8%	18.5%	21.5%	22.9%	7.0%

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				
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	2,772,798	346,493	1,557,639	(282,326)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%

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
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
2012-13	1.00	1.00	0.0412	0.1114	0.0069

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 2012-13 and 2003-04
 (Dollars in thousands)

Taxpayer	2012-2013			2003-2004		
	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.	\$ 920,982,774	1	7.74%	\$207,514,518	2	2.21%
Milpitas Mills LP	327,273,683	2	2.75%			
KLA Tencor Corporation	218,574,011	3	1.84%	190,495,033	3	2.03%
Linear Technology Corporation	127,580,218	4	1.07%			
BRE Milpitas LLC	118,766,415	5	1.00%			
California Diversified	114,342,000	6	0.96%			
Headway Technologies Inc.	97,763,124	7	0.82%	112,637,146	9	1.20%
Sandbox Expansion LLC	90,412,630	8	0.76%			
EQR Fresca 2009 LP	80,692,794	9	0.68%			
Silicon Valley California LLC	77,414,549	10	0.65%			
Richard T. Peery Trustee				212,161,160	1	2.26%
Great Mall of the Bay Area				170,925,487	4	1.82%
Sollectron Corporation				164,757,502	5	1.75%
Irvine Company				123,000,006	6	1.31%
Fleming Business Park LLC				117,559,214	7	1.25%
Seagate Technology				113,942,177	8	1.21%
Trinet Milpitas Associates				109,992,090	10	1.17%
Subtotal	<u>\$ 2,173,802,198</u>		<u>18.27%</u>	<u>\$ 1,522,984,333</u>		<u>16.21%</u>
Fiscal Year 2012-2013 Total Net Assessed Valuation			\$11,900,712,000			
Fiscal Year 2003-2004 Total Net Assessed Valuation			\$9,397,562,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2012/13 Combined Tax Rolls

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

Fiscal Year	Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
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%
2012-13 (c)	20,469	20,469	100.00%	0	20,469	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)
	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation			
2003-04	\$5,675	\$200,000	\$0	\$0	\$0	\$0	\$205,675	6.92%	\$3,182
2004-05	4,630	194,440	54,281	0	0	0	253,351	7.95%	3,898
2005-06	3,540	190,780	50,471	0	0	0	244,791	7.50%	3,750
2006-07	2,410	187,030	46,843	0	0	9,535	245,818	6.71%	3,693
2007-08	1,230	183,175	43,388	0	0	9,160	236,953	5.79%	3,413
2008-09	0	179,215	40,097	0	0	8,815	228,127	5.46%	3,221
2009-10	0	174,180	36,963	0	0	8,460	219,603	5.29%	3,069
2010-11	0	168,940	33,978	0	0	8,090	211,008	5.17%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	21,747	0.53%	322
2012-13	0	0	0	9,828	360	7,315	17,503	(c)	258

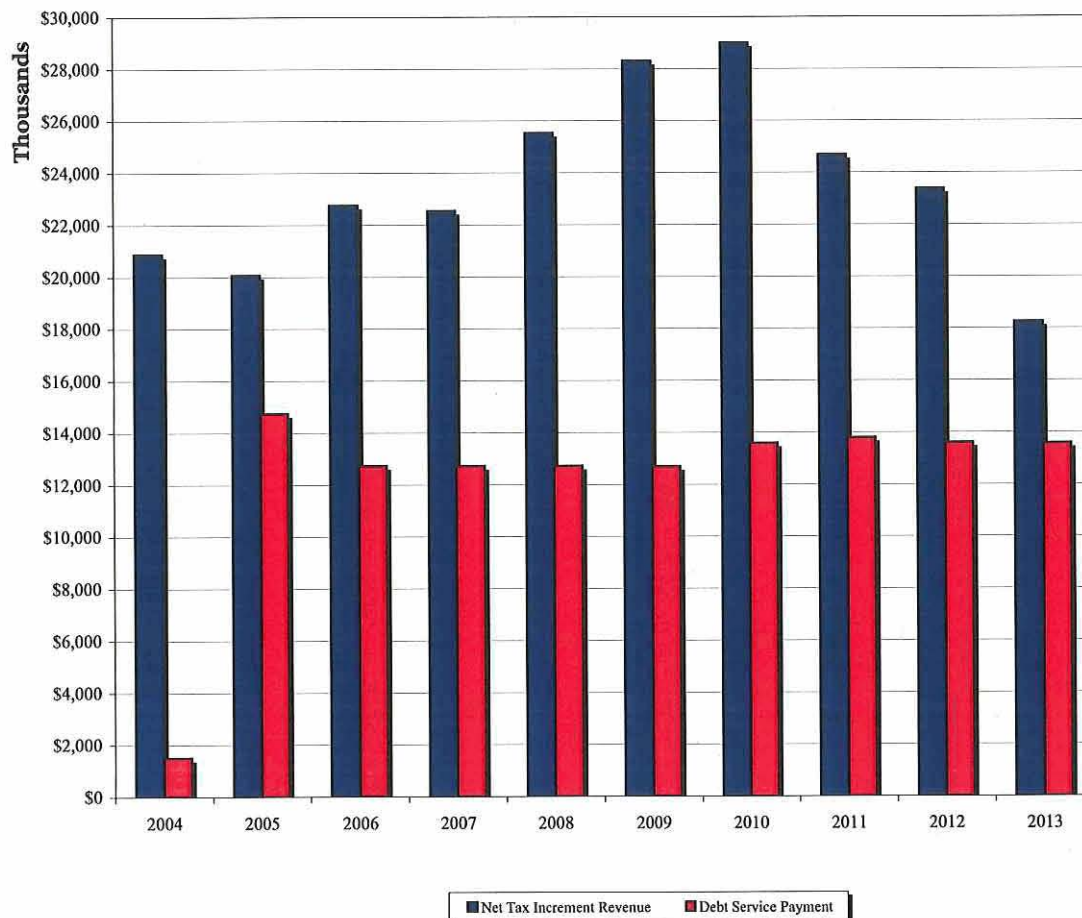
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(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 2012-13 not available until May of 2014.

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	
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
2013	18,237,007 (f)	0	18,237,007	5,595,000 (f)	7,973,533 (f)	13,568,533	1.34

- (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.
- (f) Tax increment reported in this table is the amount calculated by the County Auditor-Controller and received by the Successor Agency. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Debt service reported was paid by the Successor Agency.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2013

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2012-13 Assessed Valuation, Direct and Overlapping Debt		<u>\$11,900,711,799</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.856%	\$31,071,648
San Jose- Evergreen Community College District	11.798%	35,618,421
Milpitas Unified School District	98.928%	95,054,969
East Side Union High School District	0.340%	2,232,894
Berryessa Union School District	2.233%	747,899
Santa Clara Valley Water District Benefits Assessment District	3.856%	4,746,736
City of Milpitas 1915 Act Bonds	100%	<u>11,135,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>180,607,567</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.856%	31,617,536
Santa Clara County Pension Obligations	3.856%	14,614,040
Santa Clara County Board of Education Certificates of Participation	3.856%	401,024
San Jose- Evergreen Community College District OPEB Bonds	11.798%	5,598,151
East Side Union High School District OPEB Bonds	0.340%	105,825
City of Milpitas	100%	0
Santa Clara County Vector District Certifications of Participations	3.856%	<u>133,225</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>52,469,801</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	<u>157,935,000</u>
TOTAL DIRECT DEBT		<u><u>\$0</u></u>
TOTAL OVERLAPPING DEBT		<u><u>\$391,012,368</u></u>
COMBINED TOTAL DEBT		<u><u>\$391,012,368 (2)</u></u>

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

<u>Ratios to 2012-13 Assessed Valuation:</u>	
Total Overlapping Tax and Assessment Debt	1.52%
<u>Ratios to Assessed Valuation:</u>	
Direct Debt %	0.00%
Total Gross Debt %	3.29%

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 2012-13

Assessed value (net) - June 30, 2013	<u>\$11,900,712</u>
Debt limit: 3.75% of assessed value (a)	\$446,277
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>\$446,277</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
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%
2012-13	446,277	0	446,277	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 SIX FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2007-08	\$11,508,195	\$6,208,050	\$5,300,145	\$375,000	\$353,893	\$728,893	7.27
2008-09	10,703,586	9,838,790	864,796	345,000	406,212	751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34

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	
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	
2012-13	75.92	51.06	33.36	13.72	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>
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	4,116,036	61	9,949	8.70%	13.66
2012-13	67,894	4,970	(c)	(c)	10,033	6.80%	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 2012-13 is not available until May of 2014.

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

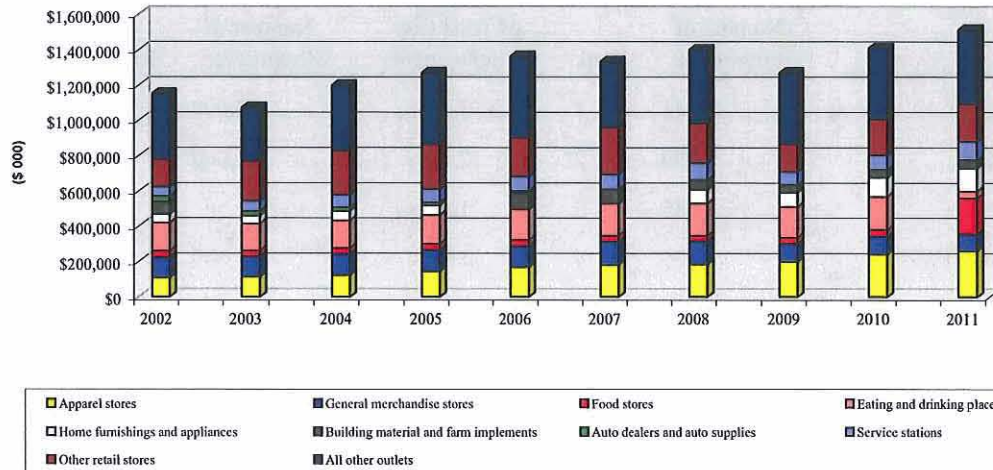
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2011-12 and 2003-2004

Employer	2011-12 (a)			2003-2004		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	2,741	1	3.36%	3,000	2	3.67%
KLA-Tencor Corporation	2,099	2	2.57%	1,000	7	1.22%
SanDisk Corporation	1,485	3	1.82%			
Milpitas Unified School District	825	4	1.01%	849	9	1.04%
Headway Technology, Inc.	394	5	0.48%			
Spectra Laboratories	358	6	0.44%			
Vitas Healthcare Corporation of CA	320	7	0.39%			
Linear Technology Corporation	284	8	0.35%	900	8	1.10%
JDS Uniphase Corporation	277	9	0.34%			
Wal-Mart Store #2119	268	10	0.33%			
Great Mall				3,000	1	3.67%
Lifescan, Inc.				2,500	3	3.06%
LSI Logic Corporation				1,320	4	1.62%
Seagate Technology				1,100	5	1.35%
Solelectron California				1,000	6	1.22%
Adaptec Inc.				505	10	0.62%
Subtotal	<u>9,051</u>		<u>11.09%</u>	<u>15,174</u>		<u>18.59%</u>
Estimated City Day Population, Census 2000			81,646			81,646

(a) Data for fiscal year 2012-13 is not available until December 2013.

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Apparel stores	\$109,078	\$114,599	\$123,583	\$145,317	\$168,985	\$181,878	\$185,023	\$200,140	\$241,992	\$261,414
General merchandise stores	115,336	113,574	119,471	120,297	118,348	131,594	130,193	101,561	100,790	94,828
Food stores	35,830	33,765	32,950	33,592	34,979	34,362	31,105	34,453	38,004	203,411
Eating and drinking places	159,420	152,736	156,318	164,694	173,424	181,668	183,049	174,016	187,002	39,344
Home furnishings and appliances	48,513	45,497	54,460	54,906	(a)	(a)	77,669	80,746	108,491	130,572
Building material and farm implements	70,600	(a)	(a)	(a)	91,571	79,360	57,594	44,818	45,501	48,131
Auto dealers and auto supplies	32,433	25,558	19,990	15,132	12,221	(a)	(a)	(a)	(a)	(a)
Service stations	52,369	58,491	71,231	76,455	82,868	85,468	93,324	73,280	83,100	102,231
Other retail stores	156,196	227,373	251,599	255,805	220,862	266,915	225,954	158,982	204,074	215,350
All other outlets	373,179	301,404	370,253	405,111	460,265	373,394	417,099	402,516	401,569	420,024
Total	\$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	\$1,515,305
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	
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)
2012-13	1.00	1.25 (d)	6.50 (e)	

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%

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

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

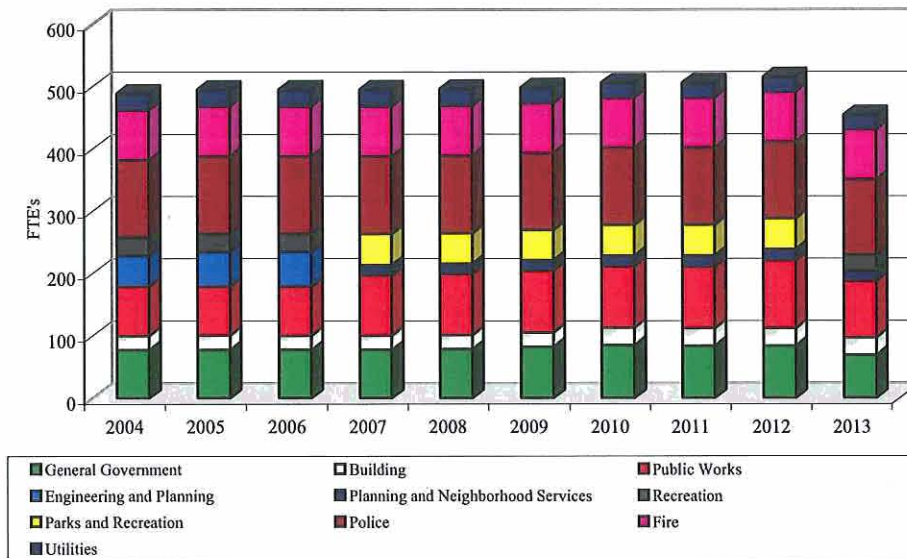
Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 CALENDAR YEARS 2012 and 2002
 IN ALPHABETICAL ORDER

2012	2002
Best Buy Stores	ADAC Laboratories
Burlington Coat Factory	Best Buy Stores
Chevron Service Stations	Billings Chevrolet
Cisco Systems Inc.	Burlington Coat Factory
Coach Stores	Chevron Service Stations
Contract Office Group	Chili's Grill & Bar
Dave & Busters	Dave & Busters
Flextronics	Hanson Concrete Products
Forever 21	Headway Technologies
Headway Technologies	Home Depot
Home Depot	Honda of Milpitas
KLA Tencor Corporation	KLA Tencor Corporation
Kohl's Department Stores	Lifescan
Leotank Electronics USA	Marshall's Department Stores
Marshall's Department Stores	Maxtor Corporation
Mazak Corporation	McDonald's Restaurant
Milpitas Materials Company	Mervyn's Department Stores
Neiman Marcus Department Store	Milpitas Materials Company
Nike Factory Store	Old Navy Clothing Company
One Workspace	One Workplace L. Ferrari
Piercey Toyota & Scion	Orchard Supply Hardware
Pivot Interiors	Pioneer Standard Electronics
Shell Service Stations	Saks Fifth Avenue
South Bay Honda	Solelectron Corporation
WalMart Stores	WalMart Stores

Source: MBIA MuniServices Company

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



Function	Adopted for Fiscal Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	77.0	77.3	77.0	77.0	78.0	82.0	84.5	83.5	83.5	68.5
Building and Safety	23.0	23.0	23.0	23.0	23.0	23.0	28.0	28.0	28.0	28.0
Public Works	79.0	78.8	79.0	97.0 (a)	98.0	99.0	99.0	99.0	109.0	91.0
Engineering and Planning	49.5	55.5	55.5	(a)						
Planning and Neighborhood Services				16.5 (a)	16.5	17.0	17.0	18.0	18.0	16.5
Recreation	29.0	29.0	29.0	(a)						25.5 (b)
Parks and Recreation				50.0 (a)	49.0	48.5	49.5	49.5	49.5	(b)
Police:										
Sworn Police	94.0	94.0	94.0	94.0	94.0	94.5	94.5	94.5	94.0	91.5
Civilians	30.5	30.5	30.5	30.5	30.5	29.0	29.0	29.0	29.0	29.5
Fire:										
Firefighters and Safety	70.0	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	25.0	24.5	24.5	24.5	24.0
Total	489.0	495.0	495.0	495.0	496.0	498.0	506.0	506.0	515.5	454.5

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

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

Source: City of Milpitas, final budget

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

Function/Program	Fiscal Year				
	2004	2005	2006	2007	2008
Building and Safety					
Building permits issued	1,650	3,156	3,788	3,500	3,500
Plan checked performed	590	650	1,181	1,000	1,000
Public Works					
Street miles maintained	137	138	139	139	139
Customer Service Requests	3,506	3,500	3,326	3,208	3,500
Development projects reviewed	n/a	n/a	293	190	150
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	1,656	1,620	1,802	1,470	1,100
Applications to Planning Commission	100	120	150	165	150
Parks and Recreation					
Sports Center members	5,800	6,500	7,508	7,885	8,278
Senior nutrition meals served	16,139	16,932	19,421	20,667	21,165
Athletic Field maintenance (hours)	4,098	1,947	1,947	1,947	1,946
Police					
Avg response time to emergency calls (minutes)	3:35	3:44	3:12	3:06	3:06
Number of anti-terrorist patrol checks	7,649	10,664	12,813	12,300	3,500
Crime prevention presentations	201	180	179	190	240
Number of vehicle citations issued	15,041	14,453	14,161	10,624	12,386
DARE presentations: schools/students	13/1,610	14/1579	13/1538	14/1572	14/1492
Fire					
Emergency calls for service	4,100	4,200	4,250	4,000	4,368
Public education events	73	73	70	65	80
Permits Inspections	1,909	2,514	4,231	4,300	5,400
Plan Review	786	845	1,005	1,000	750
Utility					
Clean sewer lines (feet)	358,610	500,000	500,000	500,000	500,000
Repair, replace or set water meters	341	422	425	600	580
Average daily consumption (thousands of gallons)	11,222	10,090	9,162	9,693	9,566

Source: City of Milpitas, final budget

Fiscal Year				
2009	2010	2011	2012	2013
3,500	2,700	2,800	2,800	3,400
1,000	800	800	800	1,100
139	139	139	139	139
3,924	3,900	3,000	3,350	3,500
100	118	225	200	200
1,250	980	800	725	725
112	84	45	96	106
8,500	10,000	1,200	1,400	1,600
23,228	24,056	23,076	23,304	22,090
2,242	2,100	1,641	n/a	n/a
2:46	2:47	2:49	2:42	2:32
3,500	1,469	1,469	1,693	1,996
275	266	281	235	201
11,558	11,391	8,544	6,901	4,120
13/1440	12/850	11/845	12/770	0
4,300	4,400	4,400	4,075	4,356
70	90	80	120	45
4,000	4,000	4,000	4,334	4,510
995	1,000	900	671	807
500,000	550,000	500,000	500,000	329,313
700	500	380	491	149
8,870	9,200	8,100	8,200	9,340

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

Function/Program	Fiscal Year				
	2004	2005	2006	2007	2008
Public Works					
Miles of streets	137	137	139	139	139
Street lights	4,324	4,346	4,354	4,354	4,435
Square feet of buildings maintained (in thousands)	344	350	350	350	350
City vehicles	626	631	635	635	630
Signs	7,150	7,250	7,167	7,400	8,000
Signal lights	68	68	68	68	68
City Parks	24	26	26	29	32
Acres of Parkland	171	172	172	172	172
Playgrounds	26	32	32	30	29
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	4	4
Tennis courts	24	22	22	22	22
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	13	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	28	27
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	15	13	14	16	14
Fire hydrants	1,739	1,755	1,756	1,756	1,809
Utility					
Miles of water mains	202	203	204	204	206
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	16.21
Miles of sanitary sewers	168	173	173	173	177
Miles of storm drain	99	99	105	105	107
Miles of recycled water main	7.5	11.0	11.0	11.0	11.0

Source: City of Milpitas, final budget

Fiscal Year				
2009	2010	2011	2012	2013
138	139	139	287	287
4,460	4,496	4,496	4,500	4,500
350	350	427	376	376
617	622	622	247	242
8,131	8,363	8,363	8,534	8,534
71	71	71	72	72
32	29	31	31	33
179	179	178	179	179
37	33	33	33	24
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	4	4	3	3
24	20	17	20	20
1	1	1	1	1
21	15	15	12	8
13	5	2	3	9
5.5	5.0	5.0	4.0	8
7	5	4	5	4
4	1	1	1	5
2	2	2	2	2
28	28	28	27	27
4	4	4	4	4
14	13	15	13	22
1,756	1,840	1,840	1,840	1,840
204	213	213	213	213
15.64	16.26	16.26	16.26	16
173	178	178	179	179
106	110	110	110	110
11.0	3.1	3.1	3.9	4

