MAZE & ASSOCIATES

RA6

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

CITY OF MILPITAS
AGREED UPON PROCEDURES REPORT ON COMPLIANCE WITH THE PROPOSITION 111 2006-2007 APPROPRIATIONS LIMIT INCREMENT

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

We have applied the procedures below to the Gann Appropriations Limit History (Worksheet) for the City of Milpitas for the year ended June 30, 2007. These procedures, which were suggested by the League of California Cities and presented in their Article XIIIB Appropriations Limitation Uniform Guidelines were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIIIB of the California Constitution. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is intended for the information of management and the City Council; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

A. We obtained the Appropriations Limitation Worksheet and determined that the 2006-2007 Appropriations Limit amounting to $56,673,996 and annual adjustment factors were adopted by resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.

B. We recomputed the 2006-2007 Current Appropriations Limit by multiplying the 2005-2006 Prior Year Appropriations Limit by the Total Growth Factor.

C. For the Appropriations Limitation Worksheet, we agreed the Per Capita Income and County Population Factors to California State Department of Finance Worksheets.

These agreed-upon procedures are substantially less in scope than an audit, the objective of which is the expression of an opinion on the Appropriations Limitation Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we made an audit of the Gann Worksheet and the other completed worksheets described in above, matters might have come to our attention, which would have been reported to you.

Maze and Associates

September 21, 2007

CITY OF MILPITAS
MEMORANDUM ON
INTERNAL CONTROL STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2007

MAZE & ASSOCIATES

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

September 21, 2007

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

In planning and performing our audit of the financial statements of the City of Milpitas as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions of a significant deficiency or material weakness that we believe to be of potential benefit to the City.

The City's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze and Associates

CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

2007-01 Purchase and Sale Agreement between the City and the Redevelopment Agency

In September 2004, the Redevelopment Agency entered into two agreements with the City to purchase 8 parcels of land and to lease 6 of those parcels back to the City. A monetary lease payment was not required, however the City is responsible for maintenance, insurance and utility payments on the 6 parcels.

The purchase and sale agreement established a sales price of $29.3 million, but did not establish a defined repayment date. Unpaid principal and interest were due "in one lump sum" on any date "designated" by the City. During fiscal year 2005, we reviewed the transaction with Finance staff and concluded that there was no transaction to record at the time. No cash changed hands, and although title for the 8 parcels was transferred from the City to the Agency, the City continued to maintain all of the facilities related to the 6 parcels. Therefore, the City did not record any activity on the general ledger related to the purchase and sale or lease agreements. Prior to fiscal year 2007, the City had not recorded any activity for this transaction on the general ledger.

The purchase and sale agreement did provide for one initial payment of $6.1 million to the City due on or before June 30, 2005, and for interest to accrue at 10% on the outstanding principal and unpaid interest balance (compound interest). The repayment terms of the Promissory Note stated that "the remaining principal balance of this Note together with all accrued interest shall be due and payable in one lump sum on such date as [the City] may designate in writing to [the Agency]." The Agency budgeted for $6.1 million to be paid in fiscal year 2006 and $5.1 million to be paid in fiscal 2007, but neither amount was paid as the City did not require it.

We reviewed the detail of the Agency's land recorded in the general ledger as of April 18, 2007 and noted that 4 of the parcels included in the purchase and sale agreement above had already been recorded in the Agency's books prior to June 30, 2002. It appeared that the Agency was being required to repurchase parcels from the City that it had already provided funding to purchase.

After we discussed these issues with City staff, they researched the Agency's ownership of the parcels and amended the sales price in the agreement to deduct the cost of the parcels that were already funded by the Agency, as well as convert the interest rate to a simple annual interest rate of 10%.

Future agreements between the City and the Agency should be reviewed to ensure that they contain terms that will be enforced. Should the City or Agency find that the terms of an agreement will not be enforced, the agreement should be amended to reflect the revised arrangement. In addition, the funding source of capital assets should be researched prior to entering agreements for their sale to ensure the correct entity is credited with ownership of the property.

Management's Response:

The City concurs with the recommendations. The sales price pursuant to the Agreement was amended to deduct the cost of the parcels that were funded by the Agency. The terms of the loan were also amended to a defined 40 year term and provided for simple interest calculation not to exceed a maximum amount.

CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

2007-02 Monitoring the Usage of Fuel and the Usage of Vehicles

We included a recommendation regarding the usage of fuel and vehicles in the fiscal year 2006 Memorandum on Internal Control Structure. To implement the recommendation, the City was going to develop a written policy for the usage of fuel at the City's fuel stations. We understand that the policy has not yet been established.

Management's Response:

In lieu of a written policy for the usage of fuel and the log book, the City will develop and install a card key system to access the fuel stations.

2007-03 GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (effective for Fiscal Year 2007-2008)

This Statement establishes financial reporting of several categories of transactions. We have organized the topics into those we believe are most relevant to cities first, followed by the other topics in the Statement:

Issues Most Relevant to Cities:

- *Intra-Entity Transfers of Assets @ Carrying Value:* This Statement stipulates that governments should *not* revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred. Differences between the sales price and carrying value are recognized as a gain/ (loss) on the seller's statements and as an expense/ (revenue) on the buyer's statements. A transfer or subsidy treatment should be used in the basic financial statements.

- *Disclosures of Revenue Pledged for Repayment of Debt:* Though this GASB does not appear to impact the recording of debt with pledged revenues, it will expand disclosure requirements. We have italicized what we believe to be the *change* from current disclosures as follows:

    - Identification of the specific revenue pledged and *the approximate amount of the pledge* [e.g. remaining debt service].

    - Identification of, and general purpose for, the debt secured by the pledged revenue.

    - The *term of the commitment* [e.g. remaining term of the debt].

    - *The relationship of the pledged amount to the total for that specific revenue*, if estimable—that is, the proportion of the specific revenue stream that has been pledged.

    - *A comparison of the pledged revenues recognized during the period to the principal and interest requirements for the debt directly or indirectly collateralized by those revenues.* For this disclosure, *pledged revenues recognized during the period may be presented net of specified operating expenses, based on the provisions of the pledge agreement*; [e.g. revenue coverage calculation] however, the amounts should not be netted in the financial statements.

SCHEDULE OF OTHER MATTERS

2007-03 GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (effective for Fiscal Year 2007-2008) (Continued)

- *Financing Authorities*: The Statement does not change the substance of accounting for revenues received by a government which are pledged for repayment of debt issued by a financing authority. The Statement requires the financing authority to recognize revenue when the pledging government is obligated to make the payments. This is essentially the counterparty perspective of recognizing debt service when due.

Other Topics:

- *Exchanges of Specific Receivables/Revenues for Cash*: Statement #48 states that "Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments—generally, a single lump sum. The issue addressed is whether exchanges should be reported as a sale or as a collateralized borrowing resulting in a liability. A sale treatment is permitted only if the government relinquishes control of the exchanged receivable/revenue. Specific criteria are listed in the Statement which are used to determine whether control is retained (indicating a borrowing treatment) or relinquished (indicating a sales treatment)

  Exchange examples listed include the sale of future tobacco settlement revenues and the sale of delinquent property tax liens. These types of transactions are highly unusual and infrequent. This would have been helpful for those cities which securitized the VLF receivables.

- *Residual Interests and Recourse Provisions:* This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions.

Management's Response:

The City will implement the provisions of the Statement, if applicable, in fiscal year 2008.

2007-04 GASB Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations* (Effective for Fiscal Year 2008-2009)

This Statement addresses accounting and financial reporting for pollution remediation obligations (including contamination), which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement excludes pollution prevention and landfill closure or post-closure costs. A municipality must estimate expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem.

- A government has violated a pollution prevention-related permit or license.

SCHEDULE OF OTHER MATTERS

2007-04 GASB Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations* (Effective for Fiscal Year 2008-2009) (Continued)

- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up.
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution.
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements.

Pollution remediation outlays should be capitalized in the government-wide and proprietary fund statements when goods and services are acquired if acquired for any of the following circumstances:

a. To prepare property for sale. Capitalized costs (including pollution remediation costs) continue to be limited to lower of cost or net realizable value

b. To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated. Governments should capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use.

c. To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment. Governments should capitalize only those pollution remediation outlays expected to be necessary to place the asset into its intended location and condition for use.

d. To acquire property, plant, and equipment that have a future alternative use. Outlays should be capitalized only to the extent of the estimated service utility that will exist after pollution remediation activities uses have ceased.

For outlays under criteria a and b, capitalization is appropriate only if the outlays take place within a reasonable period prior to the expected sale or following acquisition of the property, respectively, or are delayed, but the delay is beyond the government's control.

The City should review agreements or potential agreements to determine whether pollution remediation is required and whether a potential liability or disclosure will be necessary for those agreements.

Management's Response:

The City will implement the provisions of the Statement, if applicable, in fiscal year 2009.

CITY OF MILPITAS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

CITY OF MILPITAS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

Page

Schedule of Current Year Findings and Questioned Costs 1

Section I - Summary of Auditor's Results 1

Section II – Financial Statement Findings 3

Section III – Federal Award Findings and Questioned Costs 3

Section IV - Status of Prior Year Findings and Questioned Costs 4

Schedule of Expenditures of Federal Awards 5

Notes to Schedule of Expenditures of Federal Awards 7

Report On Internal Control over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards* 8

Report On Compliance with Requirements Applicable To Each Major Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133 10

MAZE & ASSOCIATES

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

We are required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, to present an overview of the Single Audit which is presented below.

We have audited the basic financial statements of the City of Milpitas, California, for the year ended June 30, 2007 and have issued our unqualified report thereon dated September 21, 2007. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non profit Organizations*. We performed a Single Audit as requested by the City to comply with the provisions of the Single Audit Act as amended in 1996 and OMB A-133.

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	_____	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	X	none reported
Noncompliance material to financial statements noted?	_____	yes	X	no

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and type B programs: $300,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II – Financial Statement Findings

Our audit did not disclose any material weaknesses or instances of noncompliance material to the basic financial statements. However, we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated September 21, 2007.

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Questioned Costs

Our audit did not disclose any findings or questioned costs required to be reported in accordance with OMB Circular A-133.

Section IV - Status of Prior Year Findings and Questioned Costs

Prepared by Management

Finding 06-01: Department of Housing and Urban Development, CFDA # 14.218

Per cost Circular A-87, attachment A-3 (Allocable costs), " a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

During our CDBG payroll testing, we judgmentally selected 3 employees and 4 pay periods. We noted that the City had overcharged the CDBG program by $534. We then decided to expand our testing scope by selecting an additional pay period for each employee above. In this additional sample, we noted that the City had undercharged the CDBG program by $329. Per City staff, the errors were caused by timesheet entry. The City re-calculated the total effect of the timesheet entry errors for all the employees' salaries subject to the grant for the entire fiscal year and found that the total net effect in the fiscal year on the CDBG program was $677 undercharged to the program. The net impact is immaterial to the program; however, the number of errors rate is significant. All reimbursement reports should be reviewed in detail and compared against the supporting documentation prior to being submitted to HUD for reimbursement.

Current Status:

The City has implemented a process which includes reconciliation of timesheet entry with the grant report. For fiscal year 2006, the City maximized its reimbursements for allowable administrative costs. Therefore the City did not undercharge the CDBG program.

CITY OF MILPITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant	B 05-MC-06-0055	14.218	
Loan Expenditures			$468,301
Program Expenditures			174,377
Subgrants			423,000
Total Community Development Block Grants		14.218	1,065,678
U.S. Department of Homeland Security			
(Passed through State of California Office of Emergency Services)			
FY 03 Community Emergency Response Team		97.054	1,354
Santa Clara Office of the Sheriff	2005-15	97.067	700
Santa Clara County Office of Emergency Services	2005-15	97.067	3,960
(Passed through City of San Jose Office of Emergency Services)			
FY05 Urban Area Security Initiative	Grant #2005-15 OES ID #085-68000	97.067	12,135
			16,795
FY04 Urban Area Security Initiative	Grant #2004-14 OES ID #085-68000	97.008	95,933
Total U.S. Department of Homeland Security			114,082
U.S. Department of Justice			
Local Law Enforcement Block Grant	2004-LB-BX-1326	16.592	688
Bulletproof Vest Grant	2004BUBX04024143	16.607	3,460
(Passed through Santa Clara County)			
Edward Byrne Memorial Justice Assistance Grant	2005-DJ-BX-1720	16.738	7,254
Edward Byrne Memorial Justice Assistance Grant	2006-DJ-BX-1720	16.738	10,845
			18,099
Total U.S. Department of Justice			22,247

(Continued)

CITY OF MILPITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Transportation			
Sobriety Checkpoint Program for Local Law Enforcement Agencies	AMO5145	20.600	$11,526
(Passed through State of California Department of Traffic Safety)			
Federal-Aid Highway Program			
Holiday Driving Under the Influence Campaign-Avoid the 13	AL0456	20.600	1,366
Click It or Ticket Program for Local Law Enforcement Agencies	AL0456	20.600	14,223
			27,115
(Passed through State of California Department of Traffic Safety)			
Highway Planning & Construction			
Silicon Valley Intelligent Transportation System	CML-5005 (059)	20.205	24,797
(Passed through the State of California Department of Transportation)			
Highway Planning & Research			
S. Park Victoria Drive Pavement Rehabilitation	STPL 5314 (002)	20.205	1,008,102
			1,032,899
Total U.S. Department of Transportation			1,060,014
U.S. Department of Agriculture			
(Passed through County of Santa Clara Social Services Agency Department of Aging and Adult Services)			
Nutrition Program for the Elderly		10.570	70,483
Total Federal Assistance			$2,332,504

See Notes to Schedule of Expenditures of Federal Awards

CITY OF MILPITAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1-Reporting Entity

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City and its component units as disclosed in the notes to the Basic Financial Statements.

Note 2-Basis of Accounting

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

Note 3-Direct and Indirect (Pass-Through) Federal Awards

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types Federal award programs when they occur.

MAZE & ASSOCIATES

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

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

Honorable Mayor and City Council
City of Milpitas, California

We have audited the basic financial statements of the City of Example as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with generally accepted auditing standards 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, or prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial date reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about the whether City financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, the audit committee, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maye and Associates

September 21, 2007

MAZE & ASSOCIATES

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Milpitas, California

Compliance

We have audited the compliance of the City of Milpitas with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in Section I - Summary of Auditor's Results included on the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Example's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider as material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council, others within the entity City of Milpitas and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Maze and Associates

September 21, 2007

CITY OF MILPITAS

BICYCLE/PEDESTRIAN PROJECTS

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

CITY OF MILPITAS
Bicycle/Pedestrian Projects
For the Years Ended June 30, 2007 and 2006

Table of Contents

	Page
INDEPENDENT AUDITOR'S REPORT	1
Financial Statements	
Balance Sheets	2
Statements of Revenues, Expenditures and Changes in Fund Balances	3
Notes to Financial Statements	4
Independent Auditors' Report	5

MAZE & ASSOCIATES

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

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Milpitas, California

We have audited the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) of the City of Milpitas, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Milpitas Bicycle/Pedestrian Projects at June 30, 2007 and 2006, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

Maze and Associates

September 21, 2007

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
BALANCE SHEETS
JUNE 30, 2007 AND 2006

	Allocation Instruction Number		Totals	
	06-001123	07-001086	2007	2006
ASSETS				
Due from MTC		$25,925	$25,925	$8,584
LIABILITIES				
Due to the City		$25,925	$25,925	$8,584

See accompanying notes to financial statements

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

	Allocation Instruction Number		Totals	
	06-001123	07-001086	2007	2006
Revenues:				
TDA Article 3.0 (Note 2)	$38,528	$25,925	$64,453	$8,584
Total Revenues	38,528	25,925	64,453	8,584
Expenditures:				
ADA Pedestrian Ramps Along School Routes	38,528		38,528	8,584
Minor Traffic Improvements		25,925	25,925	
Total Expenditures	38,528	25,925	64,453	8,584
Excess of revenues over expenditures				
Fund at beginning of year				
Fund balance at end of year				

See accompanying notes to financial statements

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Fund Accounting

The Project is accounted for as part of the Street Improvement Capital Projects Fund of the City of Milpitas. This Fund is a set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures.

B. Basis of Accounting

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

NOTE 2 - TDA ARTICLE 3.0 REVENUE

For the year ended June 30, 2007 the City received allocation instructions from the Metropolitan Transportation Commission for the following projects:

Instruction #	Project Name	Grant Award	Revenue for the year ended June 30, 2007	Revenue to Date
06-001123	Install ADA pedestrian ramps along routes to schools	$47,112	$38,528	$47,112
07-001086	Install ADA compliant ramps,pedestrian-activated flashing beacons and high visibility pedestrian signs and markings around schools	51,307	25,925	25,925
	Total allocation	$98,419	$64,453	$73,037

MAZE & ASSOCIATES

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) in accordance with generally accepted auditing standards in the United States of America as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 21, 2007.

In connection with our audit, we have read and performed the applicable audit procedures contained in Section 6666 of the *Transportation Development Act Statutes and Administrative Code* adopted by the Department of Transportation.

In conjunction with our audit, we performed tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions and the rules and regulations of the Metropolitan Transportation Commissions as required by Title 21 of California Code of Regulations §6666. Based on these procedures, we noted no instance of noncompliance with the applicable statutes, rules, and regulations of the Transportation Development Act and the applicable allocation instructions and resolutions of the Metropolitan Transportation Commission.

This report is intended for the information of the Mayor, Members of the City Council, management, and others within the City, and officials of applicable state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Maze and Associates

September 21, 2007

MILPITAS REDEVELOPMENT AGENCY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

This Page Left Intentionally Blank

MILPITAS REDEVELOPMENT AGENCY
Component Unit Financial Statements
For the Fiscal Year Ended June 30, 2007

Page

FINANCIAL SECTION:

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Component Unit Financial Statements:

Statement of Net Assets 16

Statement of Activities 17

Fund Financial Statements:

Major Governmental Funds:

Balance Sheet 20

Statement of Revenues, Expenditures, and Changes in Fund Balance 21

Reconciliation of the Net Change in Fund Balances – Total Governmental Funds With the Statement of Activities 22

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:

Housing Reserve Fund 23

Notes to Basic Financial Statements 25

Supplemental information:
Major Governmental Funds Other Than the General Fund and Special Revenue Funds:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

Redevelopment Project Fund 42

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 43

This Page Left Intentionally Blank

MAZE & ASSOCIATES

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

INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
Milpitas Redevelopment Agency
Milpitas, California

We have audited the accompanying component unit financial statements of the governmental activities and each major fund of the Milpitas Redevelopment Agency, a component unit of the City of Milpitas, California, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic component unit financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2007 and the respective changes in the financial position and the respective budgetary comparison for the Housing Reserve Fund for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued reports dated September 21, 2007 on our consideration of the Agency's internal control structure and on its compliance with laws and regulations.

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

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic component unit financial statements of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the government-wide and fund financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maze and Associates

September 21, 2007

This Page Left Intentionally Blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the Milpitas Redevelopment Agency's (Agency) financial statements a narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007. Please read this document in conjunction with the accompanying Basic Financial Statements.

As a component unit of the City of Milpitas, the Agency's purpose is to eliminate blight in its project areas, all of which are in the City, while ensuring an adequate stock of low and moderate income housing. The Agency has the power to condemn properties for this purpose and to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities. The Agency may enter into development agreements with developers and others to further its purposes.

FISCAL 2007 FINANCIAL HIGHLIGHTS

The Agency's revenues in fiscal 2007 reflected a positive economic recovery despite decrease of property tax revenue by $0.2 million. The decrease was due to successful appeals by several property owners on prior years' assessed valuation on unsecured properties. The resolution resulted in 30% reduction in the assessed valuation of unsecured properties. However, secured properties which made up of approximately 84% of the total assessed valuation increased by 9%. Fiscal 2007 financial highlights include the following:

Agency-wide:

- The Agency's net assets totaled $47 million at June 30, 2007, all of which were Governmental assets.
- Agency-wide revenues include program revenues of $5.5 million and general revenues of $37.4 million for a total of $42.9 million, an increase of $4.5 million from the prior year's total of $38.4 million.
- Total Agency-wide expenses were $34.9 million, an increase of $9.8 million from the prior year's $25.1 million.

Fund Level:

- Governmental Fund balances were $132.7 million in fiscal 2007, a decrease of $21.7 million from $154.4 million in fiscal 2006.
- Governmental Fund revenues increased to $42.2 million in fiscal 2007, up $10 million from the prior year's $32.2 million.
- Governmental Fund expenditures increased to $55.4 million in fiscal 2007, up $21.5 million from fiscal 2006's level of $33.9 million.
- Redevelopment Project Fund revenues of $41.1 million represented an increase of $11.5 million from fiscal 2006's revenues of $29.6 million.
- Net transfers out and other financing uses of the Redevelopment Project Fund were $10.8 million in fiscal 2007, compared with net transfers out and other financing sources of $6.9 million in fiscal 2006.
- Redevelopment Project Fund balance of $118.3 million at the fiscal 2007 year end was $9.3 million less than fiscal 2006's fund balance of $127.6 million.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This report is in three parts:

1) Management's Discussion and Analysis (this part),
2) The Basic Financial Statements, which include the Agency-wide and the Fund financial statements, along with the Notes to these financial statements,
3) Budget/Actual Statements for Capital Projects Funds.

The Basic Financial Statements

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

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

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

Major Funds account for the major financial activities of the Agency 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 other funds. Major Funds are explained below.

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

The Agency-wide Financial Statements

All of the Agency's basic services are considered to be governmental activities, including general government and community development. These services are supported by general Agency revenues such as property tax increments, and by program revenues such as grants and contributions.

Agency-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency 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 Agency-wide financial statements.

The Fund financial statements provide detailed information about each of the Agency'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 Agency for the year. The Agency's Redevelopment Projects Fund serves as its general fund, and is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of Agency's activities.

The Agency has two Major Funds in 2007. These are the Redevelopment Project Fund and the Housing Reserve Fund.

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

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

The analysis focuses on the net assets and changes in net assets of the Agency as a whole. Comparisons of the fiscal 2007 net assets and activities with fiscal 2006 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

	Governmental Activities	
	2007	2006
Cash and investments	$129.8	$148.2
Other assets	29.3	16.0
Capital assets	156.6	121.5
Total assets	**315.7**	**285.7**
Long-term liabilities	252.8	233.9
Other liabilities	15.9	12.8
Total liabilities	**268.7**	**246.7**
Net assets:		
Invested in capital assets, net of debt	66.3	79.1
Restricted	35.2	27.8
Unrestricted	(54.5)	(67.9)
Total net assets	**$47.0**	**$39.0**

The Agency's net assets were $47 million in fiscal 2007, increased by $8 million from $39 million in fiscal 2006. This increase is reflected in Changes in Governmental Net Assets as shown in Table 2 of this analysis and is explained below.

- Cash and investments decreased $18.4 million, principally due to spending of bond proceeds for capital improvement projects and funding of grants and loans for affordable housing.
- Other assets increased $13.3 million as a result of the Agency funding close to $13.3 million loans in fiscal 2007 for first time homebuyer and a non-profit senior housing developer. The details for these loan transactions are discussed in Note 5 of this financial report.
- Capital assets increased $35.1 million due to addition of construction-in-progress for several major public improvement projects such as Library construction, Main Street Midtown improvement and Parking Garage. In addition, the Agency purchased eight properties from the City of Milpitas for $20.4 million in fiscal 2007 for redevelopment purposes. Capital assets additions were partially offset by depreciation of approximately $4.3 million.
- Long-term liabilities increased $18.9 million due to long-term debt entered into between the Agency and the City for the purchase of eight City properties. Total purchase price of the parcels and accrued interest was $26.2 million. The Agency also made approximately $7.3 million principal payments on outstanding bonds and the Installment Purchase Agreement with the County.
- Other liabilities increased $3.1 million primarily due to increased accounts payable for capital project expenditures at year end.

Fiscal Year 2007 Government Activities

Table 2
Changes in Governmental Net Assets
(in Millions)

	Governmental Activities	
	2007	2006
Expenses		
General Government	$8.5	$5.5
Public Works	1.5	0.3
Planning & Neighborhood Services	0.1	1.1
Police	0.5	0.5
Fire	0.3	0.3
Interest on long term debt	15.1	9.2
Transfer to the City of Milpitas	8.9	8.2
Total expenses	34.9	25.1
Revenues		
Program revenues:		
Operating grants and contributions	1.3	0.8
Capital grants and contributions	4.2	1.8
Total program revenues	5.5	2.6
General revenues		
Taxes:		
Property taxes	28.4	26.2
Investment earnings	4.2	3.4
Miscellaneous	4.5	0.1
Transfer from the City of Milpitas	0.3	6.1
Total general revenues and transfers	37.4	35.8
Changes in net assets	8.0	13.3
Beginning net assets	39.0	25.7
Ending net assets	**$47.0**	**$39.0**

Of the Agency's fiscal 2007 revenues, $28.4 million came from incremental property taxes. This amount decreased $0.2 million in fiscal 2007 primarily due to assessed valuation appeals. Fiscal 2006's property tax shown in this table is net of $2.4 million contribution to the Education Revenue Augmentation Fund (ERAF) mandated by the State. In fiscal 2007, the ERAF contribution was terminated pursuant to Proposition 1A.

Investment earnings accounted for $4.2 million of Agency revenues. Interest income increased by $0.8 million due to increased investment yield as some the lower yielding investment securities matured. However, approximately $590,000 of the interest income increase was due to market value gain. Transfers from the City of Milpitas decreased $5.8 million from fiscal 2006's level of $6.1 million, due to contributions received from the City for various Redevelopment capital projects in fiscal 2006 that are non-recurring in fiscal 2007. Miscellaneous revenue increased $4.4 million due to settlement of a lawsuit relating to the City Hall construction.

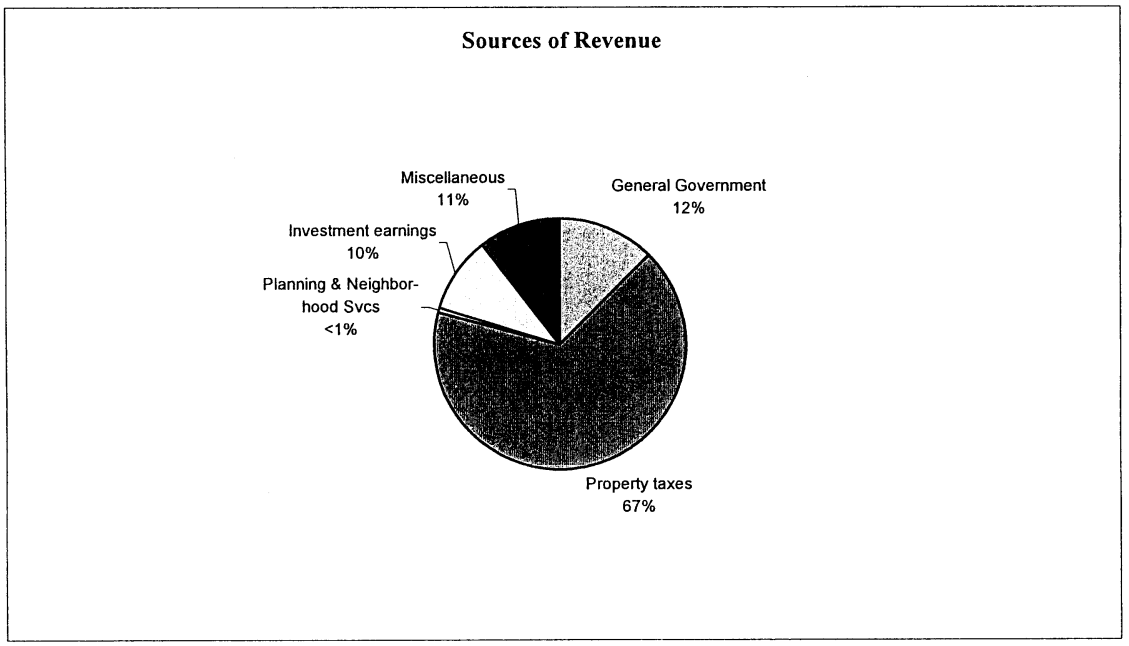
The functional expenses shown in Table 2 include only current year expenses. These expenses do not include capital outlays, which are added to the Agency's capital assets. In fiscal 2007, the Agency added $35.1 million in capital assets, net of depreciation. The composition of fiscal 2007's capital asset additions is shown in detail at Table 5. Transfers to the City of Milpitas increased $0.7 million, directly related to the level of funding contributions to the City for infrastructure construction projects that benefit the project areas.

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

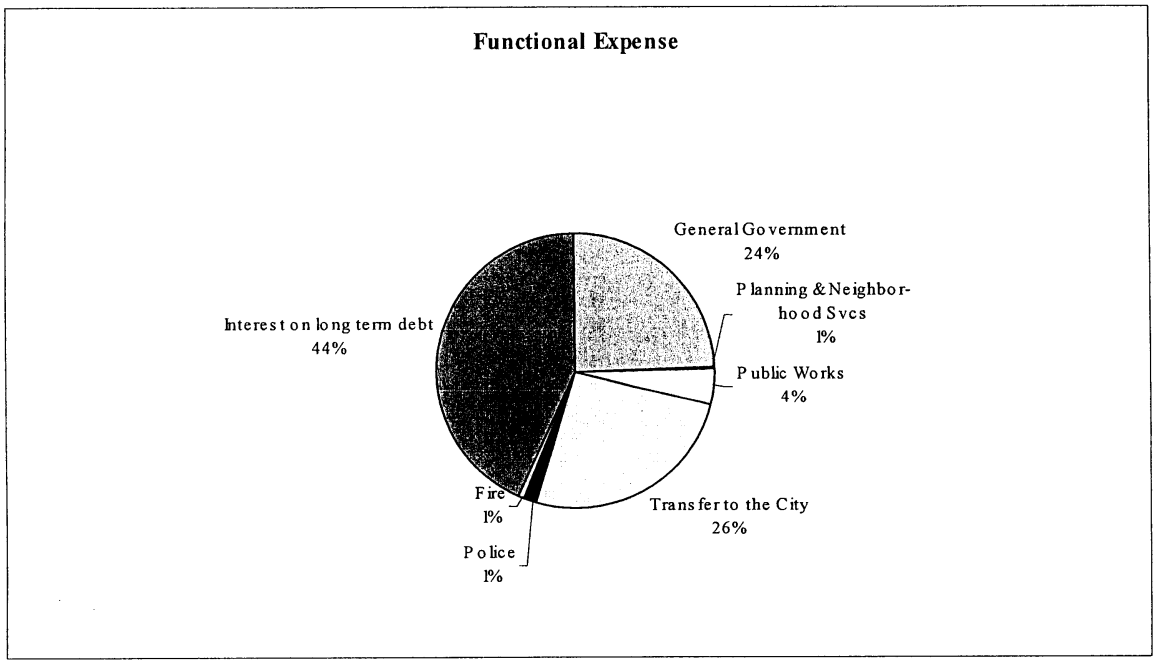
Table 3
Governmental Activities
(in Millions)

	Net (Expense) Revenue From Services	
	2007	2006
General Government	($3.3)	($2.9)
Public Works	(1.5)	(0.3)
Planning & Neighborhood Services	0.1	(1.1)
Police	(0.5)	(0.5)
Fire	(0.3)	(0.3)
Interest on long term debt	(15.1)	(9.2)
Transfers to the City of Milpitas	(8.9)	(8.2)
Totals	**$(29.5)**	**$(22.5)**

Table 3 presents the net cost of each of the Agency's largest programs - general government, public works, planning and neighborhood services, police, fire, interest on long-term debt and transfers to the City of Milpitas. Net cost is defined as total program cost less the revenues generated by those specific activities.



As the Sources of Revenue Chart above shows, $28.4 million or 67% of the Agency's fiscal 2007 governmental activities revenue came from property taxes, while investment earnings contribute $4.2 million or 10%. Miscellaneous revenue of $4.5 million was from settlement of a lawsuit relating to the City Hall construction. The remainder came from grants and contributions, and transfers from the City.



The Functional Expenses Chart above includes only current year expenses, which comprise administrative expenses, affordable housing subsidies, interest on long term debt and transfers to the City to contribute towards infrastructure construction projects that benefit the project areas and administrative expense reimbursements. It does not include capital outlays, which are added to the Agency's capital assets. In fiscal 2007 the Agency added $35.1 million in capital assets. The composition of Fiscal 2007's additions is shown in detail at Table 5.

The Agency's Fund Financial Statements

Table 4 below summarizes Agency's activities and balances at the fund level:

Table 4
Financial Highlights at Fund Level at June 30
(in Millions)

	2007	2006
Total assets	$159.1	$164.2
Total liabilities	26.4	9.8
Total fund balances	132.7	154.4
Total revenues	42.2	32.1
Total expenditures	55.3	33.9
Total other financing sources (uses)	(8.6)	(2.1)

At June 30, 2007, the Agency's funds reported combined fund balances of $132.7 million, a decrease of $21.7 million from fiscal 2006's fund balances of $154.4 million. The Redevelopment Projects Fund and Housing Reserve Fund decreased by $9.3 million and $12.4 million respectively.

Revenues at the fund level increased $10.1 million this year to a new total of $42.2 million. Revenues of the Redevelopment Projects Fund were $41.1 million and Housing Reserve Fund revenues were $1.1 million.

Expenditures increased $21.4 million this year to a new total of $55.3 million. Expenditures of the Redevelopment Projects Fund were $39.7 million and Housing Reserve Fund expenditures were $15.6 million.

Analyses of Major Funds

Redevelopment Project Fund

This Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas and debt service payments of principal and interest on the Agency's 2003 series Tax Allocation Bonds. The Fund's revenues were $41.1 million in fiscal 2007, an increase of $11.5 million. Property tax increment revenue was $28.4 million in fiscal 2007, an decrease of $0.2 million or 1% from fiscal 2006. This decrease was due to successful assessed valuation appeals by several taxpayers, primarily on unsecured properties. The Agency was required to shift $2.4 million to the Education Revenue Augmentation Fund in fiscal 2006. but that requirement was terminated in fiscal 2007. Other revenues included $4.1 million developer contributions for capital projects and $4.5 million settlement on a lawsuit related to the City Hall construction project.

Fund expenditures were $39.7 million in fiscal 2007, a net increase of $8.6 million, reflecting increase in capital outlay expenditure. Increase in capital outlay expenditures is primarily due to construction-in-progress for all the Midtown capital improvements in fiscal 2007.

Transfers in from the City of $325,000 represented contributions received from the City for various redevelopment projects, while transfers out to the City represented reimbursement of the Agency's share of overhead costs of $6.2 million and $1.4 million contribution to the City's infrastructure construction that benefit the project areas. The transfer to the Housing Reserve Fund was to meet the 20% set-aside Housing Reserve requirement.

The Fund's fiscal year end fund balance of $118.3 million may be used only for redevelopment purposes. Of this amount, $29.2 million was reserved for outstanding encumbrances and prepaids, $7.0 million was reserved for property held for resale or redevelopment, $39.8 million was designated for committed capital projects, and $42.3 million was undesignated.

Housing Reserve

This Fund accounts for the portion of property tax increment required under California law to be set aside to fund low and moderate-income housing expenditures. The Agency's residential and commercial loan program for low and moderate-income residents and corporations developing such housing are accounted for in this Fund. In this Fund, new loans are accounted for as expenditures and repayments on loans are accounted for as revenues. The balance of outstanding loans is recorded as a receivable, with an offsetting credit to deferred revenue.

In fiscal 2007, the balances of loans under the above programs increased from $7.2 million to $20.5 million, due to additional loans provided for low and moderate income first time home buyers and a non-profit developer for low-income senior housing project.

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

Revenues consisted interest income of $1.1 million in fiscal 2007.

The Fund's fiscal year end fund balance of $14.4 million is available only to fund future low and moderate-income housing expenditures.

CAPITAL ASSETS

At the end of fiscal 2007, the cost of capital assets net of accumulated depreciation recorded on the Agency's financial statements was as shown in Table 5 below (further detail may be found in Note 7 to the financial statements):

Table 5
Capital Assets at Year-end
(in Millions)

	2007	2006
Governmental Activities:		
Land	$39.1	$18.9
Construction in progress	46.0	26.9
Buildings and improvements	87.8	87.5
Other improvements	8.8	8.8
Machinery and equipment	5.6	5.6
Less accumulated depreciation	(30.7)	(26.2)
Totals	**$156.6**	**$121.5**

The principal addition in fiscal 2007 was purchase of eight City-owned properties that were recorded as land. One of the properties was subsequently sold to a non-profit developer at a nominal price for low-income senior housing development. Other additions include construction in progress of $19 million primarily related to mid-town construction projects such as the parking garage and the new library. Further detail on capital assets, current year additions and construction in progress can be found in Note 7.

The Agency 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 7.

DEBT ADMINISTRATION

Each of the Agency's debt issues is discussed in more detail in Note 9 to the financial statements. At June 30, 2007 the Agency's bonded indebtedness totaled $187 million and is secured by property tax revenues. Other obligations included an Installment Purchase Agreement with the County of Santa Clara with an outstanding principal balance of $46.9 million and the Agreement of Purchase and Sale Agreement with the City of Milpitas with an outstanding balance of $26.2 million in principal and accrued interest.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the Agency and its major initiatives for the coming year are discussed in detail in the Transmittal Letter to the City of Milpitas' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, 455 East Calaveras Blvd., Milpitas, CA 95035-5479 or to the City's website at www.ci.milpitas.ca.gov.

This Page Left Intentionally Blank

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

The Statement of Net Assets summarizes the financial position of all the Agency's financial position in a single column.

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

The Statement of Activities presents the Agency's expenses that are listed by program first. 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 program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

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

MILPITAS REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
ASSETS	
Cash and investments available for operations (Note 3)	$64,513,679
Restricted cash and investments (Note 3)	65,314,725
Receivables:	
Accounts	179,482
Due from other governments	49,846
Interest	1,375,559
Loans receivable (Note 5)	20,547,322
Prepaids, materials, supplies and deposits	92,256
Property held for resale (Note 8)	6,988,800
Capital assets (Note 7):	
Land and construction in progress	85,082,452
Depreciable capital assets, net	71,522,261
Total assets	315,666,382
LIABILITIES	
Accounts payable	5,601,045
Accrued payroll	26,366
Interest payable	2,953,555
Long term debt (Note 9):	
Due within one year	7,310,350
Due in more than one year	252,805,905
Total liabilities	268,697,221
NET ASSETS (Note 10)	
Invested in capital assets, net of related debt	66,350,665
Restricted for:	
Housing and community development projects	35,151,138
Unrestricted	(54,532,642)
Total net assets	$46,969,161

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:				
General Government	$8,528,506	$1,230,960	$4,052,000	($3,245,546)
Public Works	1,490,172			(1,490,172)
Planning and Neighborhood Services	89,550	80,510	110,906	101,866
Police	499,114			(499,114)
Fire	312,753			(312,753)
Interest on long term debt	15,090,230			(15,090,230)
Transfer to the City of Milpitas (Note 4B)	8,909,612			(8,909,612)
Total Governmental Activities	$34,919,937	$1,311,470	$4,162,906	(29,445,561)
General revenues:				
Taxes:				
Property				28,413,636
Investment earnings				4,155,180
Miscellaneous				4,508,582
Transfer from the City of Milpitas (Note 4B)				324,569
Total general revenues and transfers				37,401,967
Change in Net Assets				7,956,406
Net Assets-Beginning				39,012,755
Net assets-Ending				$46,969,161

See accompanying notes to financial statements

This Page Left Intentionally Blank

FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. The Agency considers all its funds to be major funds which are described below:

THE REDEVELOPMENT PROJECT FUND is to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds) and to account for payment of interest and principal on the 2003 Tax Allocation Bonds.

THE HOUSING RESERVE FUND is a Special Revenue Fund which is used to account for 20% of property tax increments set aside for low and moderate income housing projects.

MILPITAS REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	Redevelopment Project	Housing Reserve	Total Governmental Funds
ASSETS			
Cash and investments available for operations (Note 3)	$50,370,649	$14,143,030	$64,513,679
Restricted investments (Note 3)	65,314,725		65,314,725
Receivables:			
Accounts	110,937	68,545	179,482
Due from other governments	49,846		49,846
Interest	1,187,596	187,963	1,375,559
Loans receivable (Note 5)		20,547,322	20,547,322
Prepaids and deposits	71,585	20,671	92,256
Property held for resale (Note 8)	6,988,800		6,988,800
Total Assets	$124,094,138	$34,967,531	$159,061,669
LIABILITIES			
Accounts payable	$5,593,741	$7,304	$5,601,045
Accrued payroll	25,861	505	26,366
Deferred revenue	191,416	20,547,322	20,738,738
Total Liabilities	5,811,018	20,555,131	26,366,149
FUND BALANCES			
Fund balances (Note 10)			
Reserved for:			
Encumbrances	29,169,793	39,592	29,209,385
Prepaids and deposits	71,585	20,671	92,256
Property held for resale	6,988,800		6,988,800
Low and moderate income housing		14,352,137	14,352,137
Unreserved, designated for:			
Projects	39,798,630		39,798,630
Unreserved, undesignated reported in:			
Capital Projects Fund	42,254,312		42,254,312
Total Fund Balances	118,283,120	14,412,400	132,695,520
Total Liabilities and Fund Balances	$124,094,138	$34,967,531	

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

CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	156,604,713
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	20,738,738
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:	
Interest receivable	
Long-term debt:	
2003 Tax Allocation Bonds	(187,030,000)
Installment Purchase Agreement	(46,843,094)
Purchase and Sale Agreement	(26,243,161)
Interest payable	(2,953,555)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$46,969,161

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	Redevelopment Project	Housing Reserve	Total Governmental Funds
REVENUES			
Property taxes	$28,413,636		$28,413,636
Interest and others	4,155,180	$1,055,095	5,210,275
Other	8,553,859	6,733	8,560,592
Total Revenues	41,122,675	1,061,828	42,184,503
EXPENDITURES			
Current:			
General Government	728,977	15,562,646	16,291,623
Public works	1,093,147		1,093,147
Planning and Neighborhood Services		89,550	89,550
Capital outlay	21,165,802		21,165,802
Debt service:			
Principal	7,378,118		7,378,118
Interest and fees	9,337,116		9,337,116
Total Expenditures	39,703,160	15,652,196	55,355,356
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,419,515	(14,590,368)	(13,170,853)
OTHER FINANCING SOURCES (USES)			
Transfers in from the City (Note 4B)	324,569		324,569
Transfers out to the City (Note 4B)	(7,568,655)	(1,340,957)	(8,909,612)
Transfers in (Note 4A)	2,362,384	5,886,749	8,249,133
Transfers (out) (Note 4A)	(5,886,749)	(2,362,384)	(8,249,133)
Total Other Financing Sources (Uses)	(10,768,451)	2,183,408	(8,585,043)
NET CHANGE IN FUND BALANCES	(9,348,936)	(12,406,960)	(21,755,896)
Fund balances at beginning of period	127,632,056	26,819,360	154,451,416
FUND BALANCES AT END OF PERIOD	$118,283,120	$14,412,400	$132,695,520

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY

Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($21,755,896)
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 (Additions of $20,455,191 related to the land purchase and sale agreement with the City have already been added to capital assets)	21,165,802
Depreciation expense is deducted from the fund balance	(4,531,173)
Retirements are deducted from fund balance	(2,012,879)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balance	3,750,000
Installment payment to the County is added back to fund balance	3,628,118
Interest accrued to principal is deducted from fund balance	(5,787,970)
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):	
Interest payable	34,856
Deferred revenue	13,465,548
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$7,956,406

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of assets	$455,000	$640,000	$1,055,095	$415,095
Other	37,800	35,800	6,733	(29,067)
Total Revenues	492,800	675,800	1,061,828	386,028
Expenditures				
Current:				
City Manager	108,793	108,763	93,439	15,324
Planning and Neighborhood Services	54,000	131,215	89,550	41,665
Non-departmental		15,509,360	15,508,799	561
Total Expenditures	162,793	15,749,338	15,691,788	57,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	330,007	(15,073,538)	(14,629,960)	443,578
OTHER FINANCING SOURCES (USES)				
Transfers to the City	(1,057,130)	(1,340,957)	(1,340,957)	
Transfers in	5,471,000	5,886,749	5,886,749	
Transfers out		(2,362,384)	(2,362,384)	
Total Other Financing Sources (Uses)	4,413,870	2,183,408	2,183,408	
Net change in fund balances	$4,743,877	($12,890,130)	(12,446,552)	$443,578
Adjustment to budgetary basis:				
Encumbrance adjustments			39,592	
Budgetary fund balance, July 1			26,819,360	
Budgetary fund balance, June 30			$14,412,400	

See accompanying notes to financial statements

This Page Left Intentionally Blank

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Milpitas Redevelopment Agency is a component unit of the City of Milpitas formed in 1958. The first project area was adopted on September 21, 1976 for the purpose of renovating designated areas within the City limits.

The second project area, the Great Mall Project Area, was adopted on November 2, 1993. In lieu of property tax increment, the Agency received sales tax generated by sales at the Great Mall to accomplish redevelopment within the Great Mall Project Area until the Sales Tax Revenue Bonds, Series 2000 Bonds were repaid in fiscal year 2004. Beginning in fiscal year 2006, all sales tax from the Great Mall Project Area is distributed to the City.

On November 21, 2006, the Agency merged the two project areas into the Merged Redevelopment Project Area.

The Agency is an integral part of the City and the accompanying financial statements are included as a component unit of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

B. Basis of Presentation

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

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency'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 all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency considers all its funds to be major funds and reported the following major governmental funds in the accompanying financial statements:

THE REDEVELOPMENT PROJECT FUND is to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds) and payment of interest and principal on the 2003 Tax Allocation Bonds.

THE HOUSING RESERVE FUND is a Special Revenue Fund which is used to account for 20% of property tax increments set aside for low and moderate income housing projects.

D. Basis of Accounting

The government-wide 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.

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 Agency 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 compensated absences, 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 Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 include sales taxes, intergovernmental revenues and interest.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property Tax

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the Agency. 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 of the preceding fiscal year.

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 Agency in the fiscal year they are assessed, provided they become available as defined above.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The Agency adopts an annual operating budget on or before June 30 for all fund. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the Board 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 all funds providing the total increase does not exceed 1% of the original total General Fund budget of the City. All additional appropriations must be approved by Board. Expenditures cannot exceed the appropriated budget at the department level without Board approval.

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

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Adjustments to GAAP Basis From Budgetary Basis

Agency 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. The effects of these differences are shown as encumbrance adjustments and capital outlay in the budget and actual statements.

NOTE 3 - CASH AND INVESTMENTS

The Agency's cash, except cash with fiscal agents, is included in a City-wide cash and investments pool, the details of which are presented in the City's basic financial statements. The City's investment policy and the California Government Code permit investments in the following: Obligations of the U.S. Treasury and its agencies, commercial paper, banker's acceptances, repurchase agreements, time certificates of deposit, corporate notes, insured deposits, money market and mutual funds of government securities, negotiable certificates of deposit, security swaps, and the State of California Local Agency Investment Fund. As of June 30, 2007 the City's portfolio was composed primarily of investments in securities issued by the U.S. Government and its agencies, corporate notes, and the State of California Local Agency Investment Fund.

A. 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 Agency debt instruments. Investments are carried at fair value as follows at June 30, 2007:

Cash and investments	$ 64,513,679
Restricted cash and investments	65,314,725
Total cash and investments	$ 129,828,404

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. *Investments Authorized by Debt Agreements*

The Agency 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 as reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Money Market Funds	Upon Demand	AAm	20%	10%
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	A1	15%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		N/A	$40,000,000 per account
Pre-refunded Municipal Bonds	N/A	AAA	N/A	No Limit
Investment Agreements	N/A	AA+	N/A	No Limit
Repurchase Agreements	1 Year		100%	No Limit

C. *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 Agency generally manages its interest rate risk by holding investments to maturity.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Agency'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 Agency's investments by maturity:

	Amount	Maturity Date
City of Milpitas' Pooled Investments	$ 62,499,025	
Investments:		
California Local Agency Investment Fund	6,896,861	
Investment Repurchase Agreement	60,416,149	November 15, 2007
Mutual Funds (U.S. Securities)	16,369	
Total cash and investments	$ 129,828,404	

The Agency 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 Agency 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 available for withdrawal 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, 2007, these investments mature in an average of 176 days.

The City of Milpitas' Pooled Investments mature in an average of 470 days at June 30, 2007.

Mutual Funds are available for withdrawal on demand and at June 30, 2007 matured in an average of 30 days.

D. 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. The actual ratings as of June 30, 2007 for the mutual funds and the underlying collateral of the Investment Purchase Agreement were both AAA, as provided by Standard and Poor's Investment Rating System. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2007.

E. Concentration of Credit Risk

Included in the table at A. above are significant investments held by individual Agency Funds in the securities of issuers other than mutual funds and external investment pools. The Redevelopment Project Fund holds the $60,416,149 in the Investment Repurchase Agreement with Citigroup Global Markets, Inc.

NOTE 4 - INTERFUND TRANSACTIONS

A. *Transfers Between Funds*

With Agency Board approval, resources may be transferred from one Agency 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, 2007 were as follows.

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
Special Revenue Funds:			
Housing Reserve	Redevelopment Project Capital Projects Fund	$5,886,749	(A)
Capital Projects Funds:			
Redevelopment Project	Housing Reserve Special Revenue Fund	2,362,384	(B)
Total Interfund Transfers		$8,249,133	

The reasons for these transfers are set forth below:
(A) State-required set-aside of Low and Moderate Income Housing portion of property tax increment
(B) To fund share of debt service and reimburse the costs incurred

B. *Transfers Between the City and the Agency*

Transfers are made between the City and the Agency during the normal course of business. Transfers between the City and the Agency were as follows as of June 30, 2007:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
To the City:			
General Fund	Housing Reserve Special Revenue Fund	$1,340,957	(A)
General Fund	Redevelopment Project Capital Projects Fund	6,166,913	(A)
Public Art Special Revenue Fund	Redevelopment Project Capital Projects Fund	236,777	(B)
Street Improvement Capital Projects Fund	Redevelopment Project Capital Projects Fund	238,805	(C)
Street Improvement Capital Projects Fund	Redevelopment Project Capital Projects Fund	18,561	(D)
Sewer Utility Enterprise Fund	Redevelopment Project Capital Projects Fund	307,599	(C)
Park Improvement Fund	Redevelopment Project Capital Projects Fund	600,000	(D)
Total transfers out to the City		$8,909,612	
From the City:			
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	$136,986	(C)
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	3,583	(D)
Redevelopment Project Capital Projects Fund	Water Utility Enterprise Fund	5,000	(C)
Redevelopment Project Capital Projects Fund	Sewer Utility Enterprise Fund	5,000	(C)
Redevelopment Project Capital Projects Fund	Park Improvement Capital Projects Fund	85,000	(D)
Redevelopment Project Capital Projects Fund	General Government Capital Projects Fund	89,000	(C)
Total transfers in from the City		$324,569	

The reasons for these transfers are set forth below:
(A) Reimbursement of operating costs
(B) Transfer to fund public art projects
(C) Transfer of capital projects amounts
(D) Return of unused capital projects funds

NOTE 5 - LOANS RECEIVABLE

A. Milpitas Housing Associates Loan

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, $3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the fiscal year, the City received a payment of $100,712 and as of June 30, 2007, principal and accrued interest totaled $4,114,763.

B. Parc Metropolitan Housing Development Loans

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the fiscal year, the Agency received principal payments of $6,723 and as of June 30, 2007, there were $493,277 in loans outstanding.

C. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, $1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; interest of $35,807 was accrued and paid in fiscal 2007. 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. As of June 30, 2007, the outstanding balance totaled $1,193,580.

D. Parc North Associates LLC Loan

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of $1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. As of June 30, 2007, there were $1,974,000 of such loans outstanding.

NOTE 5 - LOANS RECEIVABLE (Continued)

E. Mid-Peninsula Milpitas Affordable Housing Associates.

In December 2005, the Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of $1 million to the Developer and will provide a development loan up to $14.6 million to the Developer. No interest is accrued on the first $5 million of loan proceeds. The remaining $9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by second deed of trust on the property. Construction began in fiscal year 2006 and the Developer drew down $12,706,267 of the loan during fiscal year 2007. As of June 30, 2007, principal and accrued interest totaled $12,771,702.

NOTE 6 - DEVELOPMENT AGREEMENTS

The Agency has 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 of Milpitas 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. The debt service payments on these bonds are solely the responsibility of the developer.

B. Shapell Industries

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of $800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. At June 30, 2007, the Agency had not expended any funds on the silent second loans.

C. Apton Properties LLC

In September 2004, the Agency entered into an Owner Participation Agreement with Apton Properties, LLC for the development of a mixed-use project that will include commercial retail and a 93-unit condominium complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of $852,560 for permits, fees and infrastructure, and a $378,000 developer loan upon completion of the nineteen affordable housing units. As of June 30, 2007, the Agency had not expended any funds on the grant or on the developer loan.

NOTE 6 - DEVELOPMENT AGREEMENTS (Continued)

D. Fairfield Development LLC

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project, of which 93 units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of $369,560 for permits, fees, and infrastructure. The Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. As of June 30, 2007, the Agency had not expended any funds on the grant or silent-second loans.

E. Installment Purchase Agreement

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

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

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

F. KB Home South Bay Inc.

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D) mentioned in Note 7F above. In addition, the Agency will provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, and approximately $8,750,000 of subsidies or silent-second mortgages to twenty-five moderate income households on Parcel D, respectively, along with subsidies to low and moderate income households in Parcel D. As of June 30, 2007, the Agency had provided subsidies totaling $873,122, but had not yet provided any loans.

G. Western Pacific Housing, Inc.

In September 2006, the Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc for the development of a 147-unit townhome project 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 As of June 30, 2007, the Agency had not expended any funds on the silent-second loans.

NOTE 6 - DEVELOPMENT AGREEMENTS (Continued)

H. 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 will sell 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 will construct certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements. The County will reimburse the Agency for the construction costs incurred in connection with a common driveway area between the health center and the MP Milpitas Affordable Housing Associates senior housing project. The property was sold to the County in fiscal 2008.

I. MIL Aspen Associates, Ltd.

In April 2007, the Agency entered into an Owner Participation Agreement with MIL Aspen Associates, LTD. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. The Agency will provide a $2,300,000 loan to the Developer. As of June 30, 2007, the Agency had not expended any funds on the loan.

NOTE 7 - 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.

All capital assets with limited useful lives are 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 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 Agency has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	2-20

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

NOTE 7 - CAPITAL ASSETS (Continued)

Governmental activities capital assets at June 30 comprise:

	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Governmental activities					
Capital assets not being depreciated:					
Land	$18,861,773	$20,455,191	($2,000,000)	$1,812,870	$39,129,834
Construction in Progress	26,876,423	20,998,736	(12,879)	(1,909,662)	45,952,618
Total capital assets not being depreciated	45,738,196	41,453,927	(2,012,879)	(96,792)	85,082,452
Capital assets being depreciated:					
Buildings and Improvements	87,567,769	167,066		96,792	87,831,627
Other improvements	8,834,055				8,834,055
Machinery and equipment	5,613,320				5,613,320
Total capital assets being depreciated	102,015,144	167,066		96,792	102,279,002
Less accumulated depreciation for:					
Buildings and Improvements	(19,036,604)	(3,419,527)			(22,456,131)
Other improvements	(4,207,150)	(441,703)			(4,648,853)
Machinery and equipment	(2,981,814)	(669,943)			(3,651,757)
Total accumulated depreciation	(26,225,568)	(4,531,173)			(30,756,741)
Net capital assets being depreciated	75,789,576	(4,364,107)		96,792	71,522,261
Governmental activity capital assets, net	$121,527,772	$37,089,820	($2,012,879)		$156,604,713

NOTE 7 - CAPITAL ASSETS (Continued)

Construction in progress comprises the following at June 30, 2007:

Project	Total Budgeted	Expended	Budget Unexpended
Public Works Yard Parking Lot Expansion	$250,000	$214,766	$35,234
Community Center Renovations	460,000	331,558	128,442
Storm Water Pump Station Improvement	135,000	100,501	34,499
New Finance System	3,096,093	3,054,384	41,709
Department Hardware	2,575,617	2,534,052	41,565
Computer Aided Draft	2,985,000	2,983,643	1,357
Radio Replacement Plan	1,083,245	997,562	85,683
Information Management System	700,000	609,787	90,213
Miscellaneous City Building Improvement Projects	876,866	585,557	291,309
Berryessa Pump Station Engine	1,800,000	1,220,702	579,298
Oakcreek Pump Station Engine	337,000	240,873	96,127
Milpitas Library Offsite Utility Improvements	6,024,910	5,586,088	438,822
Land Acquisition, Abatement & Site Preparation for Midtown Parking Garage East	4,500,000	2,033,806	2,466,194
Calaveras/Abel Dual Left Turn Lanes	373,500	128,083	245,417
Abel Street Midtown Improvements	1,493,120	1,371,558	121,562
Evidence Freezer	135,000	120,739	14,261
Sports Center Large Gym Improvement	1,400,000	61,088	1,338,912
Midtown Parking Garage East	12,500,000	10,665,964	1,834,036
Library Project	39,000,000	9,340,657	29,659,343
Sports Center Underwater Pool	105,000	103,335	1,665
Bart Extension Coordination & Plan	250,000	180,943	69,057
Main Street Midtown Improvement	8,000,000	1,472,193	6,527,807
Main/Great Mall Dr Sewer Replacement	20,000	1,491	18,509
Curtis Avenue Improvements	490,000	7,374	482,626
N Main Street EIR Mitigation	700,000	561,538	138,462
Public Works Security	100,000	263	99,737
Range Lead Containment	210,000	136,374	73,626
Senior Center	2,300,000	398,205	1,901,795
Transit Area Specific	1,372,697	527,210	845,487
Sports Center Swimming Pool	252,000	251,844	156
Singley Area Phase 4 Rehabilitation	150,000	130,480	19,520
Total	$93,675,048	$45,952,618	$47,722,430

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:

General Government	$3,322,281
Public Works	397,025
Police	499,114
Fire	312,753
Total	$4,531,173

NOTE 8 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000 the Redevelopment 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.

NOTE 9 – LONG TERM DEBT

A. Composition and Changes

The Agency generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
2003 Tax Allocation Bonds					
2%-5.25%, due September 1, 2032	$190,780,000		$3,750,000	$187,030,000	$3,855,000
Installment Purchase Agreement with the County of Santa Clara					
due June 30, 2023	50,471,212		3,628,118	46,843,094	3,455,350
Agreement of Purchase and Sale with the City of Milpitas					
10%, due September 7, 2044		$26,243,161		26,243,161	
Total	$241,251,212	$26,243,161	$7,378,118	$260,116,255	$7,310,350

B. 2003 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. In lieu of a reserve fund, the 2003 Bonds 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.

C. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original amount of $135,000,000, as mentioned in Note 6E above. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of $46,843,094, at June 30, 2007, representing the present value of future payments due under this Agreement.

NOTE 9 – LONG TERM DEBT (Continued)

D. Agreement of Purchase and Sale with 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. Pursuant to the terms of the Amendment the obligation and related capital assets have been included in the fiscal 2007 financial statements.

The loan is due in September 7, 2044 and bears simple interest of 10% annually.

E. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Principal	Interest
2008	$7,310,350	$11,450,834
2009	7,250,810	11,483,167
2010	8,169,105	11,459,972
2011	8,224,862	11,423,365
2012	8,252,725	11,385,677
2013-2017	45,417,551	56,494,134
2018-2022	53,219,567	53,415,227
2023-2027	52,708,124	30,730,440
2028-2032	38,755,000	15,474,555
2033-2037	4,565,000	10,340,579
2038-2042		10,227,595
2043-2045	26,243,161	4,439,729
	$260,116,255	$238,325,274

F. Defeased Bonds

As of June 30, 2007, outstanding balances for defeased debt were $30,280,000 for the Redevelopment Agency 1997 Tax Allocation Bonds, $10,535,000 for the Redevelopment Agency 2000 Tax Allocation Bonds, and $5,715,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET ASSETS AND FUND BALANCES

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

A. Net Assets

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

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

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

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

B. Reservations

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The Agency cannot modify or remove these restrictions or reserves. At June 30, 2007, reserves included:

Reserve for encumbrances represents the portion of fund balance set aside for open purchase orders.

Reserve for prepaids and deposits is the portion of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserved for property held for resale is the carrying value of property held by the Agency, which is reserved since it is not an available spendable resource.

Reserved for low and moderate income housing is legally restricted to expenditure for low and moderate income housing under the California Health and Safety Code.

C. Designations

Designations are imposed by the Agency Board to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

Designated for projects is the portion of fund balance to be used for projects approved by the Board as part of the Capital Improvement Program budget.

NOTE 11 – CONTINGENT LIABILITIES

The Agency 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 Agency.

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from $240 million to $502 million. The limitation was subsequently increased to $2.4 billion in 2003. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During fiscal 2007, the Agency made pass-thru payments in the amount of $712,273.

MILPITAS REDEVELOPMENT AGENCY
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	$28,214,500	$28,413,636	$199,136
Use of assets	2,848,000	4,155,180	1,307,180
Intergovernmental	1,670,106		(1,670,106)
Other	2,110,906	8,553,859	6,442,953
Total Revenues	34,843,512	41,122,675	6,279,163
Expenditures			
Current:			
Policy, Planning and Implementation	364,947	328,822	36,125
Finance	9,990		9,990
Public works	1,313,137	1,093,147	219,990
Non-departmental	571,655	481,735	89,920
Debt service:			
Principal	7,378,118	7,378,118	
Interest and fiscal charges	15,129,852	9,337,116	5,792,736
Total Expenditures	24,767,699	18,618,938	6,148,761
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,075,813	22,503,737	12,427,924
OTHER FINANCING SOURCES (USES)			
Transfers in from the City	324,569	324,569	
Transfers to the City	(7,568,655)	(7,568,655)	
Transfers from other Agency funds	2,363,384	2,362,384	(1,000)
Transfers to other Agency funds	(5,886,749)	(5,886,749)	
Total Other Financing Sources (Uses)	(10,767,451)	(10,768,451)	(1,000)
Net change in fund balances	($691,638)	11,735,286	$12,426,924
Adjustment to budgetary basis:			
Capital outlay		(50,254,015)	
Encumbrance adjustments		29,169,793	
Budgetary fund balance, July 1		127,632,056	
Budgetary fund balance, June 30		$118,283,120	

MAZE & ASSOCIATES

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

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

Members of the Governing Board
Milpitas Redevelopment Agency
Milpitas, California

We have audited the financial statements of the Milpitas Redevelopment Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. We have conducted our audit in accordance with generally accepted auditing standards 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. As part of our audits, we prepared and issued our separate Memorandum on Internal Control dated September 21, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the *Guidelines for Compliance Audits of California Redevelopment Agencies*. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Maze and Associates

September 21, 2007

This Page Left Intentionally Blank

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Midtown

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Prepared by

THE DEPARTMENT OF FINANCIAL SERVICES

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

Page

INTRODUCTORY SECTION:

Table of Contents i

Letter of Transmittal v

Directory of City Officials xiv

Map of City's Location xv

Organization Chart xvi

GFOA Certificate of Achievement xvii

FINANCIAL SECTION:

Independent Auditor's Report on Basic Financial Statements 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 21

Statement of Activities 22

Fund Financial Statements:

Governmental Funds:

Balance Sheet 25

Statement of Revenues, Expenditures, and Changes in Fund Balances 26

Reconciliation of the Net Change in Fund Balances Total Governmental Funds with the Statement of Activities 27

Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

General Fund 28

Housing Reserve Fund 29

FINANCIAL SECTION: (Continued)

Page

Proprietary Funds:

Statement of Net Assets 31

Statement of Revenue, Expenses and Changes in Fund Net Assets 32

Statement of Cash Flows 33

Fiduciary Funds:

Statement of Fiduciary Net Assets 35

Notes to Basic Financial Statements 37

Supplemental Information:

Major Governmental Funds Other Than the General Fund and Special Revenue Funds:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

Redevelopment Project Fund 69

Street Improvement Fund 70

Non-major Governmental Funds:

Combining Balance Sheets 72

Combining Statements of Revenues, Expenditures and Changes in Fund Balances 74

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non GAAP Legal Basis) 76

Fiduciary Funds:

Statements of Changes in Assets and Liabilities – All Agency Funds 81

Page

STATISTICAL SECTION:

Net Assets – Last Six Fiscal Years 85

Changes in Net Assets – Last Six Fiscal Years 86

Fund Balances, Governmental Funds – Last Ten Fiscal Years 88

Changes in Fund Balances, Governmental Funds – Last Six Fiscal Years 89

Assessed Value and Actual Value of Taxable Property – Last Ten Fiscal Years 90

Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years 91

Principal Property Tax Payers – Fiscal Year 2006-07 and 1997-98 92

Property Tax Levies and Collections – Last Ten Fiscal Years 93

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years 94

Bonded Debt Pledge Revenue Coverage Redevelopment Agency
Tax Allocation Bonds – Last Ten Fiscal Years 95

Computation of Direct and Overlapping Debt 96

Legal Debt Margin Information – Last Ten Fiscal Years 97

Installment Payment Coverage, Sewer Certificates of Participation 98

Bimonthly Sewer Rates by Customer Class – Last Ten Fiscal Years 99

Demographic and Economic Statistics – Last Ten Fiscal Years 100

Principal Employers – Fiscal Year 2005-06 and 1997-98 101

Taxable Sales by Category – Last Seven Calendar Years 102

Direct and Overlapping Sales Tax Rates – Last Ten Fiscal Years 103

Principal Sales Tax Payers – Fiscal Year 2006-07 and 1999-2000 104

Authorized Full-Time Equivalent Employees by Function/Program –
Last Ten Fiscal Years 105

Operating Indicators by Function/Program – Last Ten Fiscal Years 106

Capital Assets Statistics by Function/Program – Last Ten Fiscal Years 108

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 www.ci.milpitas.ca.gov 408-586-3000

October 26, 2007

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, 2007. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

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

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Redevelopment Agency (the Agency) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. In accordance with the criteria of the Government Accounting Standards Board Statement 14, the basic financial statements include the financial activity of the City, the Agency, and Terrace Gardens. The Agency and Terrace Gardens are separate legal entities from the City and are controlled by the City. The Agency has the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Agency and Terrace Gardens Inc. issue their own component unit financial statements.

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

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

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They

are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Transportation Advisory Commission; Citizen's Emergency Preparedness Advisory Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 30 years, the population growth has increased from 26,561 in 1970 to over 62,698 in 2000 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2002 and 2004, over 130,000 jobs were lost as a result of the economic recession. This region was severely impacted due to concentration of the high-tech industry and shifting of some of these technology and manufacturing jobs overseas. Milpitas was similarly impacted because of its location and comparable economic mix. In the last three years, the economy has shown signs of recovery as indicated by increased sales tax revenue, transient occupancy tax revenue and property tax revenue. The section below entitled "Major Activity in the City" will discuss some of the more large scale development activities that are occurring in Milpitas.

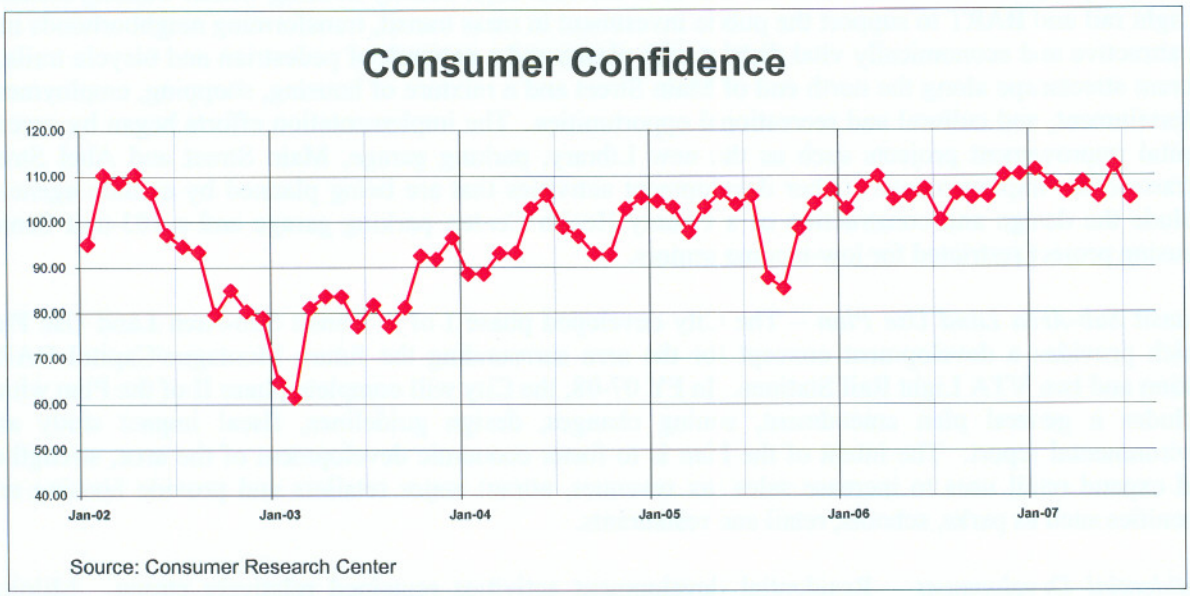
There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks. An estimated 350 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. There are 550 manufacturing plants in Milpitas. 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 restaurants, apparel stores and electronics equipment. The five largest manufacturing employers are Cisco Systems, Inc., Lifescan Inc., LSI Logic Corporation, Seagate Technology and Solectron Corporation. Other major employers include SanDisk, Linear Technology, and KLA-Tencor. Several of these top employers make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

Milpitas Redevelopment Agency (RDA) is one of the top ten RDAs in the State. With the 2003 expansion of the RDA, Redevelopment Area 1 encompasses 2,230 acres or 26% of the City. The Project produces over $28 million in annual gross tax increment. In November 2003 the RDA issued $200 million in tax allocations bonds to generate funds for key City and Agency projects including a new library, major infrastructure improvements and a new senior center.

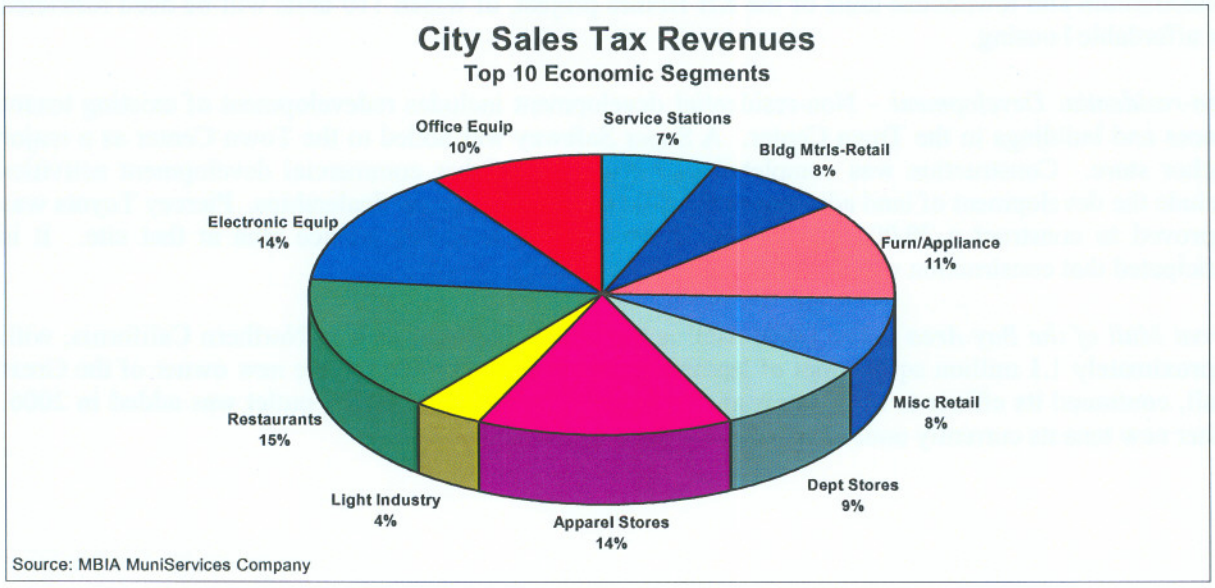
Consumer Confidence Level

Despite recent fluctuations of the consumer confidence index, the overall consumers' assessment of current economic conditions is moderately favorable, primarily due to improved job outlook. Consumers are more optimistic than they were a year ago, which could lead to consumer spending. This sentiment is reflected by increased local sales tax revenue in fiscal 2007.



Top Ten Sales Tax Generators by Economic Segment

The chart below provides an overview of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about $13.8 million, with the top ten economic segments generating about $11.7 million. Sectors such as general retail and food products led the increases over a year ago.



Many of the major activities initiated in FY06-07 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

Major Activity 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 by several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities that are being planned by outside agencies include the design and construction of a County Health Center, parking garage and a 103-unit Senior Housing project restricted for low-income seniors.

Transit Sub-Area Land Use Plan – The City developed phase I of a Transit Sub-Area Land Use Plan which provides a development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. In FY 07-08, the City will complete phase II of the Plan which includes a general plan amendment, zoning changes, design guidelines, fiscal impact study and environmental report. 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, schools, retail and restaurants.

Residential Development – Residential development activities remained relatively strong. Milpitas represents one of the more affordable alternatives in Santa Clara County, with median home price at $629,000, lower than the County's median home price of $680,000. Residential development approvals in progress outside the Midtown area include California Project (181 condominium units), and Town Center (65 housing units). Spurred by the high density potential of the Midtown Plan, residential and mixed use development that are in the planning stage include Apton Plaza (98 condominium units and 3,000 square feet of retail space), and under construction include Centria (481 condominium units), and Paragon (141 condominium units). Other residential development under construction includes 683 condominium and townhouse units of the KB Homes project, of which 110 units will be deed restricted for affordable housing.

Non-residential Development – Non-residential development includes redevelopment of existing tenant spaces and buildings in the Town Center. A Super Safeway was added to the Town Center as a major anchor store. Construction was completed in April 2007. Other commercial development activities include the development of land adjacent to the KB Homes for three car dealerships. Piercey Toyota was approved to construct a 70,000 square foot showroom and a 52-bay service area at that site. It is anticipated that construction will complete in the fall of 2007.

Great Mall of the Bay Area – The Great Mall is the largest enclosed mall in Northern California, with approximately 1.1 million square foot of leasable space. The Simon Group, the new owner of the Great Mall, continued its efforts to attract new anchor tenants. A Neiman Marcus outlet was added in 2006. Other new tenants currently under negotiation will be added next year.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2006-2007, City staff initiated and implemented various programs and projects that will significantly improve 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 3,950 emergency incidents with an average response time of 4.18 minutes.
- Presented prevention information at nearly 65 public events.
- Conducted 1,400 plan reviews, issued 805 approvals/permits and performed 1,600 fire inspections.
- Certified 43 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 6.7%, to a 30-year low of 2.79 incidents per 1,000 residents.
- Reduced response times to emergency calls by 13% to 3.05 minutes, a six-year low.
- Established internet safety presentations to parents and children at various schools.
- Maintained 100% compliance with registration requirements of known sex offenders.

Engineering

- Completed 12 construction contracts which resulted in the addition of $8 million capital improvements.
- Completed the review and approval of land development projects including KB Homes, Piercey Toyota, and Town Center.
- Received several grants including $1.5 million grant from Valley Transportation Authority for the North Main Streetscape project.
- Acquired 1 million gallons per day of additional wastewater treatment capacity for the projected development needs in Midtown.

Public Works Maintenance

- Maintained infrastructure to preserve integrity with minimum disruption to the public.
- Investigated approximately 3,300 customer service requests within 45 minutes of receipt.
- Implemented a Clear & Safe Street program citywide.
- Handled all street light repairs within 24 hours.

Planning/Neighborhood Services

- Completed entitlements for 380 new housing units, primarily in the Midtown Area.
- Completed zoning ordinance amendments to facilitate Farmer's Market location to a new site.
- Resolved over 1,500 code violations to advance Neighborhood Beautification and to ensure public health and safety by reducing response time from 8 to 5 days.
- Completed the negotiation of five Owner Participation Agreements to provide 261 affordable housing units.

Parks and Recreation

- Increased daily average number of nutrition meals served from 73 to 80.
- Solicited grants, donations and sponsorships to help fund various programs and received $2,483 for Recreation Assistant Program and $1,000 for Arts Day.
- Established and implemented a Parks & Recreation inclusion policy to broaden the usage of parks and fields by various groups.
- Created a homework room at the Teen Center by adding 9 computers from the Rotary Club's donation.

Building Inspection

- Completed Phase 1 of the implementation of new permitting software to develop an "on-line" permit process allowing residents and commercial customers easier and faster access to permit information.
- Created handouts for residential and commercial customers to help them better understand submittal and construction requirements.
- Established "plan check by appointment" service for medium-sized projects.
- Participated in meetings with community members and industries to help them understand building and safety functions.

Administration

- Provided oversight on the development and design for the new library and the design of the new parking garage.
- Implemented financial and personnel strategies to control expenditure increases while maintaining the same level of City services.
- Reorganized City departments and divisions to increase efficiency, accountability and cost savings to the City.
- Submitted a balanced FY 07-08 budget for City Council's adoption.

Human Resources

- Developed and distributed a Total Compensation Report for employees as a means to provide additional salary and benefit information to staff.
- Obtained lower costs for the current dental program with no reduction in benefits to staff.
- Successfully developed, implemented, and trained all employees on the Injury & Illness Prevention Program.
- Continued to work with a third party administrator and City staff to reduce the number of active employee workers' compensation claims.

Information Services

- Completed a new Public-access TV production studio at the City Hall.
- Installed new-high-performance radio voice/data links to three City sites.
- Completed Phase 1 of the implementation of new permitting software to develop an "on-line" permit process allowing residents and commercial customers easier and faster access to permit information.
- Completed Citywide installation of EarthLink WiFi network.

Finance

- Received awards from the Government Finance Officer's Association and California Society of Municipal Finance Officers for Budget Presentation and Financial Reporting.
- Prepared an updated Cost Allocation Plan in house.
- Developed procedures to improve collectability of delinquent receivable accounts.
- Introduced a Cal-Card program and developed training and procedures for Cal-Card usage to purchase small items under $5,000.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

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

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net

assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

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

FINANCIAL ANALYSIS

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

CASH MANAGEMENT

The City has a formal investment policy, which is subject to annual review and approval by the City Council. Available cash for operations was invested in the State Treasurer's Local Agency Investment Fund, corporate notes, money market funds, commercial paper, and government securities. Restrictions on the maturity and percentage of the investments and categorization of credit risk are discussed in the Notes to the Basic Financial Statements. The City's portfolio was invested mainly in Federal Agency Issues, U.S. Treasury Coupons and Corporate Notes. The average annual yield was 3.78% on the City's month-end average investment balances. This compared with a return of 3.07% in the prior year. Investment income includes appreciation or depreciation in the fair value of investments. Increases or decreases in fair value during the current year do not necessarily represent trends that will continue nor considered an impact to available financial resource, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

CAPITAL IMPROVEMENTS

Capital improvement expenditures are accounted for in the capital projects. At the end of the fiscal year, the value of these projects is presented in the Statement of Net Assets as part of the Capital Assets.

City expenditures by project category for all capital improvements for fiscal year 2006-2007 were as follows:

Project Category	Amount
General Government Projects	$ 730,968
Park Projects	544,772
Street Projects	3,856,816
Water Projects	201,793
Sewer Projects	3,556,690
Redevelopment Agency Projects	21,165,803
Total	$30,056,842

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, 2006. 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 seventeen of the last nineteen years (fiscal years ended 1988-2006). The 1992-93 report was not submitted to GFOA due to timing delays.

Fiscal Year 2005-06 was the first year the City was not able to participate in the California Society Municipal Finance Officers (CSMFO) Award Program for Outstanding Financing Reporting. The CSMFO Board of Directors determined that beginning with fiscal year 2005-06 only agencies that did not participate in the GFOA award program were eligible to participate in the CSMFO program. Prior to this change in policy by the CSMFO, the City received the CSMFO Outstanding Financial Reporting award for the past eight consecutive years.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA for award recognition.

ACKNOWLEDGMENTS

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

Respectfully submitted,

Emma C. Karlen

Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2007

City Council

Mayor	Jose S Esteves
Vice-Mayor	Robert Livengood
Councilmember	Armando Gomez, Jr
Councilmember	Althea Polanski
Councilmember	Debra Giordano

City Manager
Thomas C Williams

Police Chief
Dennis Graham

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Clare Frank

City Clerk
Mary Lavelle

City Attorney
Myers, Nave, Riback, Wilson and Silver

Chief Information Officer
William Marion

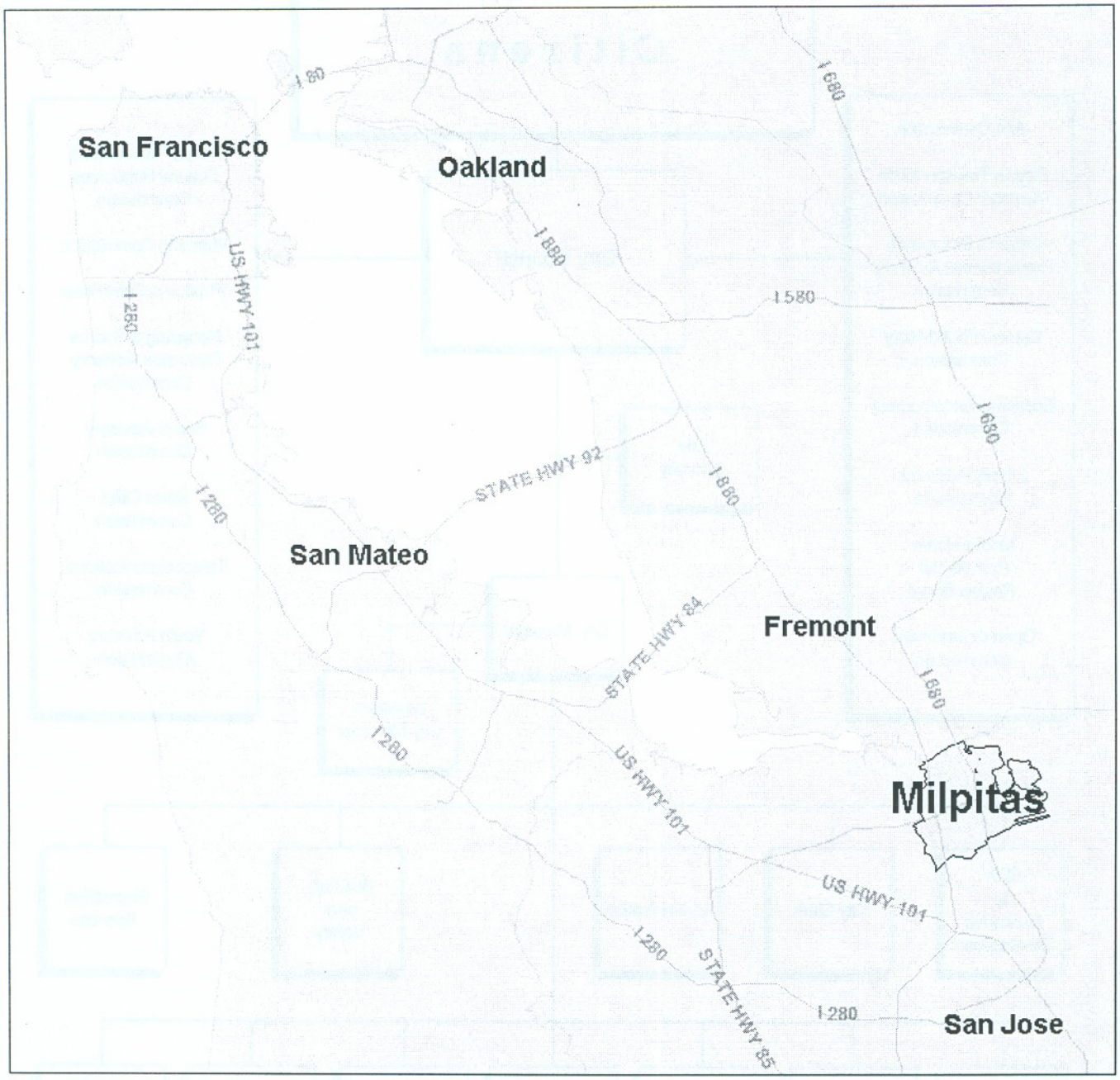
Human Resources Director
Carmen Valdez

Public Works Director/City Engineer
Greg Armendariz

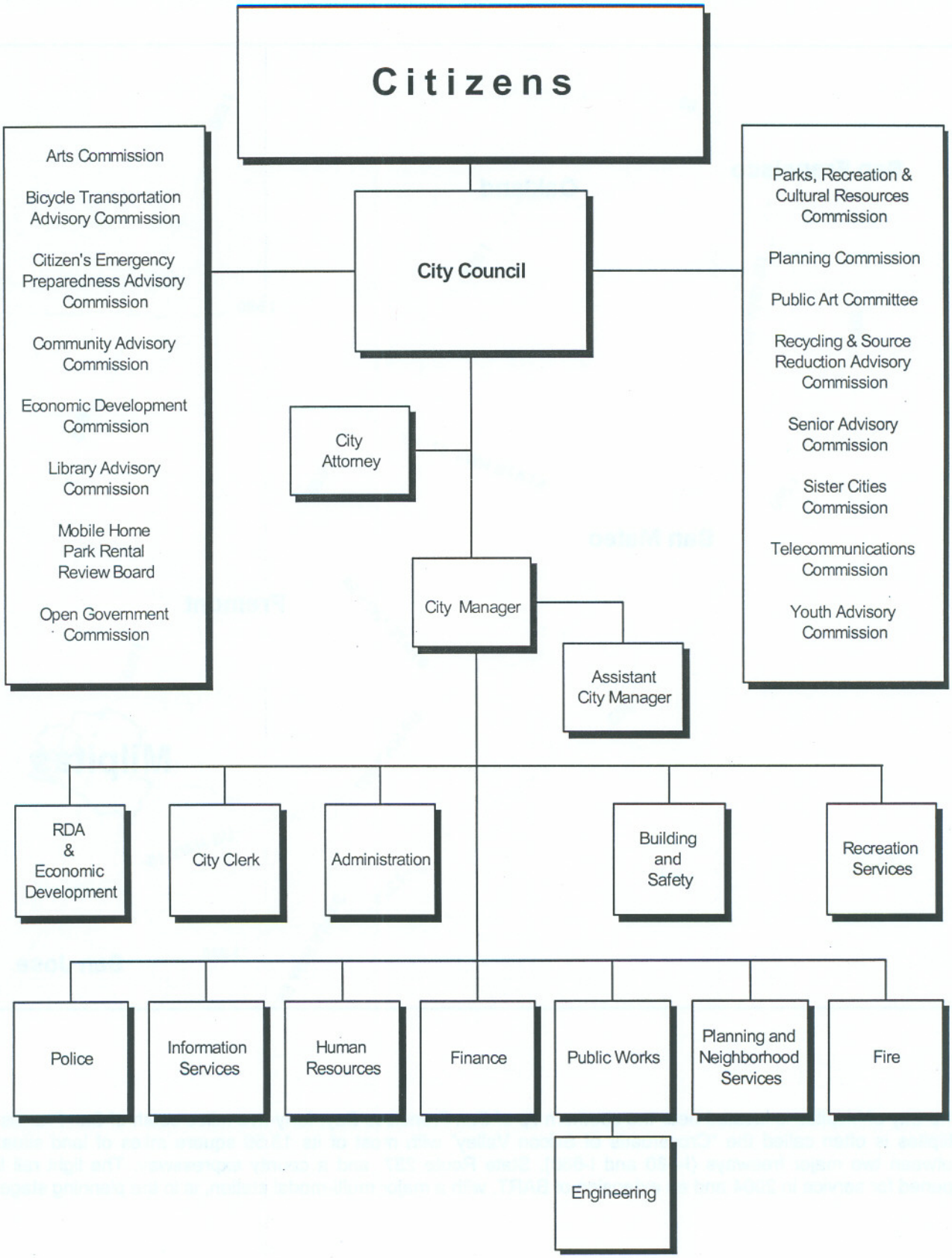
Planning & Neighborhood Svc Director
Vacant

Chief Building Officer
Keyvan Irannejad

Parks and Recreation Director
Bonnie Greiner



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.


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

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, 2006

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

President

Executive Director

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

MAZE & ASSOCIATES

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

INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2006, which represent 1.54%, 0.87%, and 2.39% of the assets, revenues, and capital assets of the reporting, respectively. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2007 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 21, 2007 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

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

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

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

Maze and Associates

September 21, 2007

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2007. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2007 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2007 continued to reflect a positive economic recovery in the business activities in the Silicon Valley. However, the recovery is still considered moderate as job growth and income growth were somewhat offset by the challenges of a faltering housing market, rising gas prices and higher mortgage rates. Compared to one year ago, local economy has gained strength and the Northern California technology industry outlook has continued to improve. The factors that contributed to economic growth are weak U.S. dollar and strong global demand for high tech products. The tech recovery has been instrumental in the turnaround in the region's labor market. As discussed below, economic growth translated primarily into increases in key revenues such as property taxes, sales taxes, and building permit fees. Fiscal 2007 financial highlights include the following:

City-wide:

- The City's total net assets were $391.3 million at June 30, 2007. Of this total, $263.2 million were Governmental assets and $128.1 million were Business-type assets.
- City-wide revenues include program revenues of $61.7 million and general revenues and transfers of $93.7 million, totaling $155.4 million, an increase of $28.1 million from the prior year's total of $127.3 million.
- Total City-wide expenses were $113.4 million, an increase of $2.3 million from the prior year's $111.1 million.

Fund Level:

- Governmental Fund balances were $181.4 million, a decrease of $28.4 million from fiscal 2006.
- Governmental Fund revenues increased to $107.9 million in fiscal 2007, up $10.9 million from the prior year's $97 million.
- Governmental Fund expenditures were $159.5 million in fiscal 2007, an increase of $53.7 million from fiscal 2006's level of $105.8 million.
- General Fund revenues of $58 million represented an increase of $1.7 million from fiscal 2006's revenues of $56.3 million.
- Total other financing sources of the General Fund was $31.9 million in fiscal 2007, $21.3 million more than fiscal 2006's $10.6 million.
- General Fund balance of $48.5 million at the fiscal 2007 year-end represented an increase of $19.3 million from fiscal 2006's fund balance of $29.2 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

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

The Basic Financial Statements

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

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

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

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

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

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

The City-wide Financial Statements

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

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

The City's governmental activities include the activities of two separate legal entities, the Milpitas Redevelopment Agency (RDA) 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 three Major Governmental Funds in fiscal 2007 in addition to the General Fund. These are the Housing Reserve Fund, the Redevelopment Project Fund and the Street Improvement Fund, each of which is discussed in detail below.

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

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

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

The analysis focuses on the net assets and changes in net assets of the City as a whole. Comparisons of the current year's net assets and activities with fiscal 2006 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

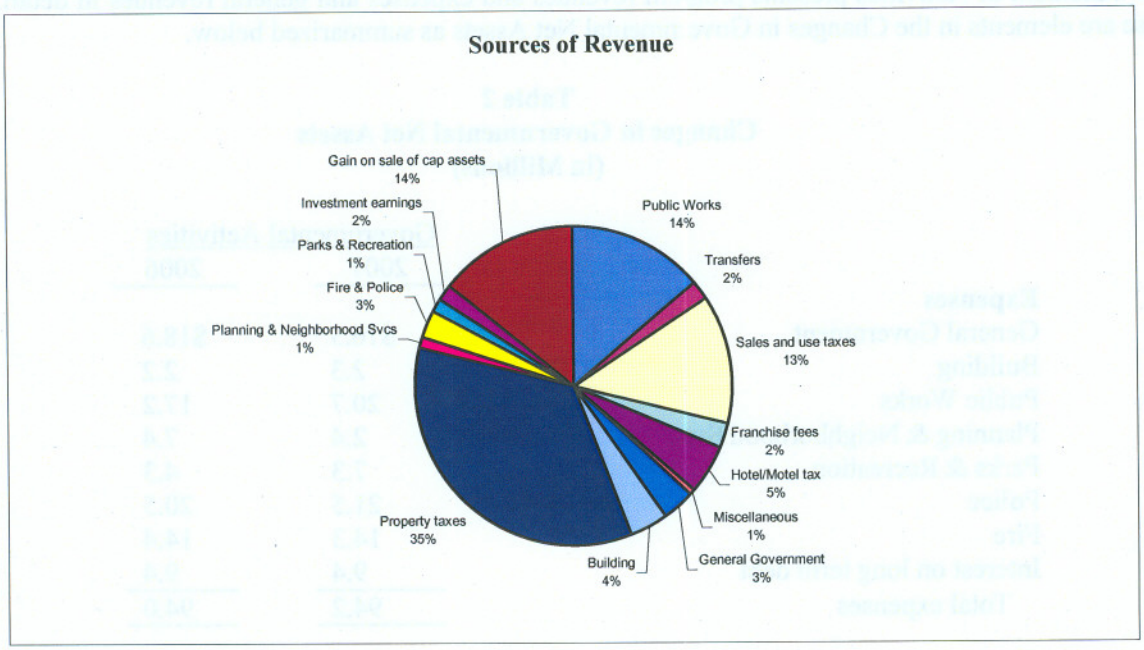
	Governmental Activities	
	2007	2006
Cash and investments	$201.5	$212.4
Other assets	36.8	25.7
Capital assets	299.2	270.0
Total assets	**537.5**	**508.1**
Long-term debt outstanding	227.8	236.3
Other liabilities	46.5	42.7
Total liabilities	**274.3**	**279.0**
Net assets:		
Invested in capital assets, net of related debt	232.8	224.2
Restricted	92.5	97.1
Unrestricted	(62.1)	(92.2)
Total net assets	**$263.2**	**$229.1**

The City's governmental net assets were $263.2 million at June 30, 2007, an increase of $34.1 million from 2006. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

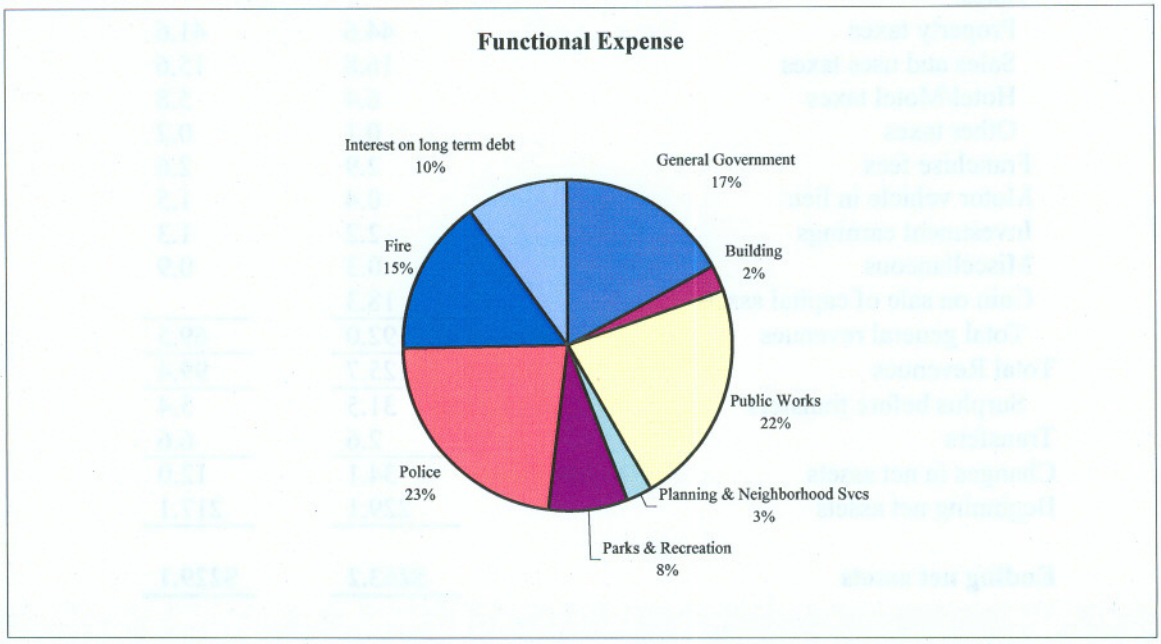
- Cash and investments decreased $10.9 million principally due to expenditure of bond proceeds for the Midtown Garage and Library capital improvement projects.
- Capital assets increased $29.2 million from last year, as a result of $44 million asset additions net of retirements in fiscal 2007, reduced by $14.8 million depreciation of the capital assets.
- Long-term liabilities decreased $8.5 million due to payments on outstanding bonds and Installment Purchase Agreement.
- Other liabilities increased $3.8 million due to increased accounts payable and reduced retiree medical benefits liability. In June 2007, the City committed to pre-fund retiree medical benefits by setting up an irrevocable trust with California Public Employees Retirement System (CalPERS). The accounts payable amount included approximately $9.5 million payment to CalPERS and the remaining increase was attributable to expenditure payments on the capital improvement projects.

- Net assets invested in capital assets net of related debt increased $8.6 million primarily due to increased capital assets partially offset by reduction of long-term debt.

Fiscal Year 2007 Government Activities



As the Sources of Revenue Chart above shows, $44.6 million or 35% of the City's fiscal 2007 governmental activities revenue came from property taxes, while $16.8 million or 13% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, investment earnings and gain from sale of capital assets from the City to the Redevelopment Agency.



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. In fiscal 2007, the City added $29.2 million in capital assets, net of depreciation. The composition of Fiscal 2007's additions is shown in detail at Table 7.

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

Table 2
Changes in Governmental Net Assets
(in Millions)

	Governmental Activities	
	2007	2006
Expenses		
General Government	$16.3	$18.6
Building	2.3	2.2
Public Works	20.7	17.2
Planning & Neighborhood Svcs	2.4	7.4
Parks & Recreation	7.3	4.3
Police	21.5	20.5
Fire	14.3	14.4
Interest on long term debt	9.4	9.4
Total expenses	94.2	94.0
Revenues		
Program revenues:		
Charges for services	13.1	12.8
Operating contributions and grants	4.6	4.1
Capital Grants	16.0	13.0
Total program revenues:	33.7	29.9
General revenues:		
Taxes:		
Property taxes	44.6	41.6
Sales and uses taxes	16.8	15.6
Hotel/Motel taxes	6.4	5.8
Other taxes	0.1	0.2
Franchise fees	2.9	2.6
Motor vehicle in lieu	0.4	1.5
Investment earnings	2.2	1.3
Miscellaneous	0.3	0.9
Gain on sale of capital assets	18.3	
Total general revenues	92.0	69.5
Total Revenues	125.7	99.4
Surplus before transfers	31.5	5.4
Transfers	2.6	6.6
Changes in net assets	34.1	12.0
Beginning net assets	229.1	217.1
Ending net assets	**$263.2**	**$229.1**

Table 2 compares fiscal 2007 expenses and revenues with those of fiscal 2006. Expenses increased $0.2 million in fiscal 2007 due to net employer's contribution to retirement benefits. In June 2007, the City committed $9.5 million to pre-fund the retiree medical benefits by setting up an irrevocable trust with CalPERS. As a result of this prefunding, the City removed the prior year liability for retiree medical benefits of $9 million, in anticipation of implementing GASB statement No. 45 in fiscal 2008. Other changes were explained by the re-organization of the City's function units. During fiscal 2007, Engineering and Public Works merged into one department, and Parks and Recreation were combined into another department. Previous year's data was not restated. However, other than the pre-funding of retiree medical benefits, overall expense were maintained at the same level as last year. Despite increased salaries and health insurance premium, consolidation of workforce and delayed hiring of vacant positions continued to save costs.

Table 2 shows that total government revenues increased $26.3 million in fiscal 2007. Program revenues increased $3.8 million while general revenues increased $22.5 million. The biggest contributor to the increase in program revenues was capital grants from developers. The biggest contributors to the increase of general revenues were property tax, sales tax and gain on sale of capital assets.

The increase of sales tax revenue by $1.2 million and hotel/motel tax revenue by $0.6 million reflect continued recovery of economic activity in Silicon Valley last year. Property tax revenue increased $3 million due to termination of State mandated requirement for local governments to contribute to the Education Revenue Augmentation Fund (ERAF). The voters in California approved Proposition 1A which prevents the State from reducing local government's share of property tax except in the case of fiscal emergency. Motor vehicle license in-lieu tax decreased $1.1 million due to repayment of money that was borrowed by the State from that revenue stream in fiscal 2006. The repayment was one time only. Interest earnings increased by $0.9 million due to higher reinvestment yield from and market value change of approximately $0.8 million from the investment portfolio. The gain on the sale of capital assets was primarily generated from the sale of properties from the City to the Redevelopment Agency for redevelopment purposes. The detail of that transaction is discussed in Note 4 to the financial statements.

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. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased $3.7 million due to increased capital grants received by Public Works from outside agencies for capital project funding. In addition, during fiscal 2007, Engineering and Public Works merged into one department, and Parks and Recreation were combined into another department. Previous year's data was not restated. This explained the fluctuation of the net expenses for Public Works, Planning & Neighborhood, and Parks & Recreation.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2007	2006
General Government	$(12.0)	$(12.2)
Building	2.7	3.6
Public Works	(2.8)	(15.1)
Planning & Neighborhood	(1.1)	3.3
Parks & Recreation	(5.6)	(2.7)
Police	(19.0)	(18.4)
Fire	(13.2)	(13.2)
Interest on long term debt	(9.4)	(9.4)
Totals	**$(60.4)**	**$(64.1)**

Business-type Activities

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

	Business-Type Activities	
	2007	2006
Cash and investments	$42.3	$26.0
Other assets	2.3	2.3
Capital assets	95.3	94.4
Total assets	**139.9**	**122.7**
Other liabilities	2.6	2.4
Long-term Debt	9.2	
Total liabilities	**11.8**	**2.4**
Net assets:		
Invested in capital assets	95.3	94.4
Restricted	16.2	12.9
Unrestricted	16.6	13.0
Total net assets	**$128.1**	**$120.3**

The net assets of business-type activities were $128.1 million in fiscal 2007, an increase of $7.8 million from fiscal 2006. Total assets and liabilities increased $17.2 million and $9.4 million respectively. The increase in net assets are explained by the $8.7 million net revenues from the Water, Sewer and Recycled Water Funds offset by the non-operating expenses of $0.9 million.

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

	Business-Type Activities	
	2007	2006
Expenses		
Water Utility	$10.7	$9.8
Recycled Water Utility	0.3	0.3
Sewer Utility	8.2	7.1
Total expenses	19.2	17.2
Revenues		
Program revenues:		
Charges for services	25.5	23.3
Capital Grants	2.4	3.8
Total program revenues:	27.9	27.1
General revenues:		
Investment earnings	1.7	0.9
Total general revenues	1.7	0.9
Total Revenues	29.6	28.0
Excess before transfers	10.4	10.8
Transfers	(2.6)	(6.6)
Changes in net assets	7.8	4.2
Beginning net assets	120.3	116.1
Ending net assets	**$128.1**	**$120.3**

Table 5 compares fiscal 2007 expenses and revenues with those of fiscal year 2006. Expenses increased $2 million in total in fiscal 2007 due to increased water purchase costs and increased operating expenses of the Wastewater Treatment Plant for which the City is responsible for its contractual share and increased depreciation expense for utility funds' capital assets. Total program revenue increased by $0.8 million due to a combination of utility rate increases, increased usage by customers and decreased capital contributions received from other agencies to for capital improvement project funding. Total general revenue shows an increase of $0.8 million from last year entirely due to investment earnings increase. The transfers represent reimbursements for administration costs incurred by the General Fund and the cost of capital assets construction by other funds.

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)

	2007	2006
Total assets	$257.5	$231.8
Total liabilities	76.1	21.9
Total fund balances	181.4	209.9
Total revenues	107.9	97.0
Total expenditures	159.5	105.8
Total other financing sources	23.1	6.4

At June 30, 2007, the City's governmental funds reported combined fund balances of $181.4 million, a decrease of $28.5 million from last year. However, the fund balances of the General Fund and Other Governmental Funds increased $19.2 million and $1.3 million respectively while the fund balances of the Housing Reserve Fund, Redevelopment Project Fund and Street Improvement Fund decreased $12.4 million, $35.6 million and $1 million respectively.

Revenues at the fund level totaled $107.9 million, an increase of $10.9 million. Revenues for the General Fund, Redevelopment Project Fund and Other Governmental Funds increased $1.6 million, $11.5 million, and $0.6 million while the Housing Reserve Fund, and Street Improvement Fund declined $1.5 million and $1.3 million respectively.

Expenditures increased $53.7 million this year to $159.5 million from last year's $105.8 million. The expenditures of General Fund, Housing Reserve Fund, Redevelopment Project Fund and Street Fund increased $5 million, $12.9 million, $34.8 million and $1.1 million respectively, but expenditures of Other Governmental Funds declined $0.1 million.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to $57.9 million this fiscal year, up $1.6 million from the prior fiscal year. Increases came from property tax, sales tax, interest, and charges for services categories. Property tax revenue increased $1.1 million due to termination of the State mandated requirement for local governments to contribute a portion of their property tax revenues to ERAF. Last year, the General Fund contributed approximately $1 million. Sales tax revenue increased $1.2 million due to improved economic activities in this region. Interest income was up $0.8 million due to increased investment yield as some of the lower yielding investment securities matured. However, approximately half of the increase was explained by market value gain. Charges for Services were up $0.5 million due to increased usage of recreation services and private developer planning review services. Intergovernmental revenue declined $1.4 million due to one-time repayment of motor vehicle in-lieu tax and SB90 mandated cost reimbursements by the State in fiscal 2006 that were non-recurrent in fiscal 2007. Licenses and permits declined $0.4 million from the peak experienced in 2006 but otherwise remained stable in fiscal 2007.

Other revenues decreased by approximately $0.7 million due to sale of a property in fiscal 2006 which was non-recurrent in fiscal 2007.

General Fund expenditures increased $5 million primarily due to pre-funding of retiree medical benefits of $9.5 million which was partially offset by elimination of compensated absences liability and uninsured claims payable of approximately $4.1 million. Otherwise, the overall departmental expenditures were maintained at approximately the same level as last year.

Net transfers primarily consist of reimbursements from other operating funds for administrative and overhead expenditures advanced by the General Fund. Net transfers amount was approximately $11.4 million, up $0.9 million from last year. However, last year's net transfers included a $3 million transfer out from the General Fund to provide funding for the Library Garage Capital Improvement Project. By excluding the one-time funding for comparison purposes, net transfers in fiscal 2007 actually decreased by $2.1 million. The decrease was explained by an updated Cost Allocation Plan which revised the overhead and administrative expense reimbursements from various operating funds.

The proceeds from the sale of properties were from the sale of eight City-owned properties to the Redevelopment Agency. The Agency entered into an amended agreement with the City to repay the purchase price of $20.4 million and accrued interest in 40 years. The outstanding balance was recorded as advances between funds on the governmental fund balance sheet.

Compared to the final budget, expenditures were under budget by $5.1 million. Other than cost savings, the variances were explained by the elimination of compensated absences liability and uninsured claims payable which reduced expenditures by about $4.1 million. The differences between the original budget and final budget were primarily due to pre-funding of retiree medical benefits approved in June 2007.

At June 30, 2007, the fund balance of the General Fund was $48.5 million, of which $1.3 million was reserved for encumbrances and other items; $20.5 million was reserved for advance from Redevelopment Project Fund related to the property purchase, $4.4 million was designated for the Library Project, $5.5 for stabilization of future PERS rate increases, $1.6 million for uninsured claims payable, and $15.2 million was undesignated.

Housing Reserve

This Fund accounts for Redevelopment Agency activities designed to increase the amount of low and moderate income housing available in the City. In fiscal 2007, the balances of loans to developers increased from $7.3 million to $20.5 million, due to new loans provided to first time homebuyers and non-profit developer for the development of a low-income senior housing project.

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

Revenues decreased to $1.1 million in fiscal 2007, from $2.6 million in fiscal 2006, due to receipt of one-time contributions by developers for affordable housing pursuant to their development agreements in fiscal 2006. The net transfers of $2.2 million comprised of $5.9 million tax increment revenue for the 20% set-aside housing reserve requirement, offset by reimbursement to the Redevelopment Project Fund

for the property purchase and the Housing Reserve Fund's share of the administrative costs and debt service payments.

The Fund's fiscal year end fund balance of $14.4 million is available only to fund future low and moderate-income program expenditures.

Redevelopment Project

This Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas. The Fund's revenues were $41.1 million in fiscal 2007, an increase of $11.5 million from fiscal 2006. Property tax increment revenues was to $28.4 million in fiscal 2007, a decrease of $0.2 million or 1% from fiscal 2006 due to successful appeals on the assessed valuation of several unsecured properties. Interest income increased by $0.8 million due to increased investment yield as some of the lower yielding investment securities matured. However, approximately $590,000 of the interest income increase was explained by market value gain. Other revenue increased $8.5 million from fiscal 2006. $3.9 million of the increase was from developer contributions for Midtown redevelopment projects and $4.5 million was from settlement of a lawsuit related to the City Hall construction.

Fund expenditures were $65.9 million in fiscal 2006, an increase of $34.8 million. Interest and principal payments totaling $22.5 million included $12.7 million debt service payments for the 2003 Tax Allocation Bonds, $4 million installment payment pursuant to a Purchase and Sale Agreement with the County of Santa Clara, and $5.8 million interest expenditure for the purchase of properties from the City. Fund expenditures also included capital improvement project expenditures of $41.4 million, an increase of $28.3 million over prior year. The increase was due to increased project expenditures on capital projects as the Library and Parking Garage entered into their construction phase. About $20.4 million of the capital outlay was form the purchase of eight properties from the City for redevelopment purposes.

The Fund's fiscal year end fund balance of $92 million may be used only for redevelopment purposes. Of this amount, $29.2 million was reserved for outstanding encumbrances and prepaids, $7.0 million was reserved for property held for resale or redevelopment, $39.8 million was designated for committed capital projects and $16 million was undesignated.

Street Improvement Capital Project

This Capital Project Fund accounts for majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were $2.8 million in fiscal 2007, a decrease of $1.3 million from fiscal 2006. The decrease was due to decreased developer contributions of $2.3 million. In fiscal 2006, the City received $2.5 million in developer contributions but only $0.2 million in fiscal 2007.

Fund expenditures were $4.4 million in fiscal 2007, an increase of $1.1 million from fiscal 2006 due to increased capital outlay.

The fund ended fiscal 2007 with $10.2 million in fund balance, of which $1.3 million was reserved for encumbrances outstanding, $8.1 million was designated for capital projects and $0.8 million was undesignated.

Other Governmental Funds

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

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased $2.3 million from last year, while operating expenses increased $1.8 million. Total revenues and total operating expenses were $25.6 million and $19 million respectively. Non-operating revenues of $1.6 million in fiscal 2007 were $0.6 million higher than the prior year primarily due to increased interest income of $0.8 million offset by $0.2 million interest expense. Capital contributions decreased by $1.5 million while net transfers out also decreased by $4 million.

Water Utility

Water fund revenues were $14.5 million in fiscal 2007, up $1.3 million from the prior year. The increase in revenues is primarily due to a rate increase implemented at the beginning of the fiscal year. Expenses were $10.7 million in fiscal 2007, up $0.9 million from the prior year primarily due to increased purchased water expense. Net assets of the Water Utility Fund increased $4.2 million in the current year to a total of $52.7 million. The increase comprised $3.8 million in operating income for the current year, $0.5 million in non-operating revenues, $0.9 million capital contributions from developer, offset by net transfers out of $1 million. Transfers in of $0.4 million represent reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the other enterprise funds. Transfers out of $1.4 million were for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Assets includes $40 million invested in capital assets, $6.3 million in restricted net assets, and $6.4 million in unrestricted net assets.

Recycled Water Utility

Recycled Water fund revenues were $1.2 million in fiscal 2007, up $0.1 million from the prior year. Expenses were $0.3 million in fiscal 2007, at the same level as last fiscal year. Net assets of the Fund increased $0.4 million in the current year to a total of $2.8 million. This increase included $0.8 million in operating income and $0.2 million in non-operating income, offset by transfers out totaling $0.6 million. Transfers out are primarily reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the Recycled Water Fund.

This Fund's Net Assets includes $0.3 million invested in capital assets, $0.1 million in restricted net assets, and $2.4 million in unrestricted net assets.

Sewer Utility

Sewer fund revenues were $9.8 million in fiscal 2007, up $0.7 million from the prior year due to a rate increase implemented at the beginning of the fiscal year. Expenses were $8 million in fiscal 2007, up $1 million from the prior year due to increased expenses in purchased sewer capacity, increased supplies and services and increased depreciation expense for the capacity rights. Non-operating revenues in fiscal year 2007 consists of $1.1 million interest income, $0.2 million interest expense and $0.1 million of subsidy from other agencies to fund their share of the construction cost of capital improvement projects. Net assets of the Sewer Utility Fund increased $3.2 million in the current year to a total of $72.6 million. This increase comprised of $1.8 million in operating income, $1 million in non-operating revenues, $1.4 million in capital contributions by developers, offset by net transfers out of $1 million. Transfers in of $0.3 million represent reimbursements for the cost of capital assets constructed by the Sewer Enterprise Fund for other funds. Transfers out of $1.3 million represent reimbursements for administration costs incurred by the General Fund.

$7.8 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, $55 million was invested in capital assets and $9.8 million was restricted as to use.

CAPITAL ASSETS

The City recorded the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2007, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7
Capital Assets at Year-end
(in Millions)

	2007	2006
Governmental Activities:		
Land	$55.1	$35.0
Construction in progress	55.0	34.8
Buildings and improvements	92.9	92.6
Other improvements	20.3	20.3
Machinery and equipment	19.3	19.4
Landscape system	29.6	29.6
Storm system	72.8	72.6
Street system	204.6	202.0
Traffic system	16.3	15.5
Less accumulated depreciation	(266.7)	(251.8)
Totals	**$299.2**	**$270.0**
Business-type Activities:		
Land	$1.1	$1.1
Construction in progress	9.7	8.6
Distribution facilities	67.3	67.3
Service lines	10.3	7.7
Sewer lines	57.9	57.9
Capacity rights	30.8	30.2
Less accumulated depreciation	(81.8)	(78.4)
Totals	**$95.3**	**$94.4**

The principal additions in fiscal 2007 were land and construction in progress. Most of the construction-in-progress were expenditures on Midtown infrastructure projects and Library related projects. Other additions included street system, and traffic systems. The land addition reflects the purchase of City-owned properties by the Redevelopment Agency. Further detail on capital assets, current year additions and construction in progress can be found in Note 8.

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

DEBT ADMINISTRATION

Substantially all of the City's debt was issued to finance redevelopment projects and technological capital outlays. These debt issues are secured by the property tax increment revenue of the Redevelopment Agency and lease payments of the General Fund and Sewer Fund. In fiscal 2007, the City issued $9.5 million Sewer Certificates of Participation to finance certain sewer facilities within the City. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2007 the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

Governmental Activity Debt:	Balance June 30, 2007	Balance June 30, 2006
Redevelopment Agency 2003 Tax Allocation Bonds 2% - 5.25%, due September 1, 2032	$187.0	$190.8
Technology Certificates of Participation, Series 2000 4% - 4.25%, due November 1, 2009	2.4	3.5
Installment Purchase Agreement with the County Of Santa Clara, due June 30, 2023	46.9	50.5
Total Governmental Activity Debt	$236.3	$244.8
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026.	$ 9.5	
Total Business-type Activity Debt	$ 9.5	

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2007, a total of $25.3 million in local improvement district debt was outstanding, issued by three local improvement districts. This debt is secured only by special assessments on the real property 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.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, 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 in fiscal 2007. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

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

HOUSING RESERVE FUND

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

REDEVELOPMENT PROJECT FUND

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

STREET IMPROVEMENT FUND

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

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments available for operations (Note 3)	$40,149,713	$14,143,030	$50,370,649	$10,873,025	$13,797,540	$129,333,957
Restricted investments (Note 3)			65,314,725		41,709	65,356,434
Receivables:						
Accounts	1,476,344	68,545	110,937	237,621	52,942	1,946,389
Due from other governments	1,525,145		49,846	359	144,589	1,719,939
Interest	547,482	187,963	1,187,596	129,958	154,352	2,207,351
Advance to other funds (Note 4)	26,243,161					26,243,161
Loans receivable (Note 5)		20,547,322			2,600,096	23,147,418
Prepaids, materials, supplies and deposits	529,862	20,671	71,585		5,421	627,539
Property held for resale (Note 6)			6,988,800			6,988,800
Total Assets	$70,471,707	$34,967,531	$124,094,138	$11,240,963	$16,796,649	$257,570,988
LIABILITIES						
Accounts payable	$12,679,529	$7,304	$5,593,741	$1,084,083	$340,365	$19,705,022
Accrued payroll	1,878,289	505	25,861	4,788	8,846	1,918,289
Refundable deposits	1,516,067				18,843	1,534,910
Deferred revenue	5,928,358	20,547,322	191,416		66,396	26,733,492
Advance from other funds (Note 4)			26,243,161			26,243,161
Total Liabilities	22,002,243	20,555,131	32,054,179	1,088,871	434,450	76,134,874
FUND BALANCES						
Fund balances (Note 10)						
Reserved for:						
Encumbrances	767,945	39,592	29,169,793	1,343,836	171,085	31,492,251
Loans					2,600,096	2,600,096
Advance	20,455,191					20,455,191
Prepaids, materials, supplies and deposits	529,862	20,671	71,585		5,421	627,539
Property held for resale			6,988,800			6,988,800
Low and moderate income housing		14,352,137				14,352,137
Unreserved, designated for:						
PERS stabilization	5,432,703					5,432,703
Library and performing arts programs	4,417,170					4,417,170
Uninsured claims payable	1,627,557					1,627,557
Projects, reported in Capital Projects Funds			39,798,630	8,054,743	3,945,808	51,799,181
Unreserved, undesignated						
Reported in:						
General Fund	15,239,036					15,239,036
Special Revenue Funds					4,025,237	4,025,237
Capital Projects Funds			16,011,151	753,513	5,614,552	22,379,216
TOTAL FUND BALANCES	48,469,464	14,412,400	92,039,959	10,152,092	16,362,199	181,436,114
Total Liabilities and Fund Balances	$70,471,707	$34,967,531	$124,094,138	$11,240,963	$16,796,649	

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

CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	299,217,178
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Assets.	6,794,691
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	26,536,955
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	(236,283,094)
Interest payable	(2,966,398)
Non-current portion of accrued vacation and sick leave	(8,901,531)
Non-current portion of uninsured claims payable	(2,585,511)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$263,248,404

See accompanying notes to financial statements

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$15,875,692		$28,413,636			$44,289,328
Sales taxes	17,382,981					17,382,981
Other taxes	10,028,323				$479,848	10,508,171
Licenses and fines	6,957,327				200	6,957,527
Interest and others	2,063,290	$1,055,095	4,155,180	$500,433	517,867	8,291,865
Intergovernmental	859,266			2,097,610	2,632,063	5,588,939
Charges for services	4,677,033				38,179	4,715,212
Developer contributions				197,858	1,019,571	1,217,429
Other	114,910	6,733	8,553,859	3,065	299,701	8,978,268
Total Revenues	57,958,822	1,061,828	41,122,675	2,798,966	4,987,429	107,929,720
EXPENDITURES						
Current:						
General Government	17,621,684	15,562,646	728,977	115,608	107,494	34,136,409
Building	2,232,335					2,232,335
Public Works	7,789,378		1,310,315	944,910	601,477	10,646,080
Planning and Neighborhood Services	1,672,663	89,550			567,191	2,329,404
Parks and Recreation	6,485,992					6,485,992
Police	19,920,112				160,443	20,080,555
Fire	13,716,924					13,716,924
Capital outlay			41,403,825	3,396,527	1,275,738	46,076,090
Debt service:						
Principal	1,130,000		7,378,118			8,508,118
Interest and fees	125,141		15,125,086			15,250,227
Total Expenditures	70,694,229	15,652,196	65,946,321	4,457,045	2,712,343	159,462,134
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,735,407)	(14,590,368)	(24,823,646)	(1,658,079)	2,275,086	(51,532,414)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of properties	20,455,191					20,455,191
Transfers in (Note 4)	11,468,737	5,886,749	2,686,953	1,682,494	836,777	22,561,710
Transfers (out) (Note 4)		(3,703,341)	(13,455,404)	(984,747)	(1,780,402)	(19,923,894)
Total Other Financing Sources (Uses)	31,923,928	2,183,408	(10,768,451)	697,747	(943,625)	23,093,007
NET CHANGE IN FUND BALANCES	19,188,521	(12,406,960)	(35,592,097)	(960,332)	1,331,461	(28,439,407)
Fund balances at beginning of period	29,280,943	26,819,360	127,632,056	11,112,424	15,030,738	209,875,521
FUND BALANCES AT END OF PERIOD	$48,469,464	$14,412,400	$92,039,959	$10,152,092	$16,362,199	$181,436,114

See accompanying notes to financial statements

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, 2007

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($28,439,407)
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 $440,832 have already been added to capital assets)	46,086,090
Retirements are deducted from fund balance	(2,000,000)
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $945,843 which has already been allocated to serviced funds.)	(14,365,683)
LONG TERM DEBT PAYMENTS	
Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of principal is added back to fund balance	8,508,118
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, sick leave and retiree medical benefits	7,383,004
Non-current portion of uninsured claims payable	(1,525,614)
Interest payable	42,870
Deferred revenue	18,093,422
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	381,314
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$34,164,114

See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance with Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
Revenues				
Property taxes	$15,731,500	$15,731,500	$15,875,692	$144,192
Sales taxes	16,207,152	16,207,152	17,382,981	1,175,829
Other taxes	9,009,750	9,009,750	10,028,323	1,018,573
Licenses and fines	5,090,000	5,218,975	6,957,327	1,738,352
Interest and other	1,318,000	1,318,000	2,063,290	745,290
Intergovernmental	559,000	611,467	859,266	247,799
Charges for services	3,412,000	3,545,892	4,677,033	1,131,141
Other	58,000	68,349	114,910	46,561
Total Revenues	51,385,402	51,711,085	57,958,822	6,247,737
Expenditures				
Current:				
City Manager	4,457,427	4,511,849	4,043,647	468,202
City Attorney	828,058	1,653,058	1,607,173	45,885
Finance	2,575,315	2,599,917	2,514,306	85,611
Public Works	7,950,567	7,942,475	7,933,094	9,381
Planning and Neighborhood Services	1,945,224	1,958,754	1,806,383	152,371
Parks and Recreation	6,945,966	6,992,221	6,514,830	477,391
Police	20,624,913	20,620,473	19,946,432	674,041
Fire	14,059,811	13,847,775	13,843,699	4,076
Information Services	2,407,766	2,463,850	2,437,127	26,723
Human Resources	1,284,749	1,171,419	954,822	216,597
Non-departmental	5,033,657	11,540,613	8,547,914	2,992,699
Debt service:				
Principal	1,130,000	1,130,000	1,130,000	
Interest and fees	126,000	126,000	125,141	859
Total Expenditures	69,369,453	76,558,404	71,404,568	5,153,836
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,984,051)	(24,847,319)	(13,445,746)	11,401,573
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of properties			20,455,191	20,455,191
Transfers in	18,115,582	16,566,375	11,468,737	(5,097,638)
Total Other Financing Sources (Uses)	18,115,582	16,566,375	31,923,928	15,357,553
Net change in fund balance	$131,531	($8,280,944)	18,478,182	$26,759,126
Adjustment to budgetary basis:				
Encumbrance expenditures			710,339	
Budgetary fund balance, July 1			29,280,943	
Budgetary fund balance, June 30			$48,469,464	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance with Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
Revenues				
Interest and others	$455,000	$640,000	$1,055,095	$415,095
Other	37,800	35,800	6,733	(29,067)
Total Revenues	492,800	675,800	1,061,828	386,028
Expenditures				
Current:				
City Manager	108,793	108,763	93,439	15,324
Planning and Neighborhood Services	54,000	131,215	89,550	41,665
Non-departmental	1,378,360	15,509,360	15,508,799	561
Total Expenditures	1,541,153	15,749,338	15,691,788	57,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,048,353)	(15,073,538)	(14,629,960)	443,578
OTHER FINANCING SOURCES (USES)				
Transfers in	5,471,000	5,886,749	5,886,749	
Transfers (out)	(1,057,130)	(3,703,341)	(3,703,341)	
Total Other Financing Sources (Uses)	4,413,870	2,183,408	2,183,408	
Net change in fund balance	$3,365,517	($12,890,130)	(12,446,552)	$443,578
Adjustment to budgetary basis:				
Encumbrance expenditures			39,592	
Budgetary fund balance, July 1			26,819,360	
Budgetary fund balance, June 30			$14,412,400	

See accompanying notes to financial statements

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

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* established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2007.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER UTILITY FUND

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

RECYCLED WATER UTILITY FUND

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

SEWER UTILITY FUND

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

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 on a cost reimbursement basis.

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
ASSETS					
Current Assets					
Cash and investments available for operations (Note 3)	$12,475,281	$2,465,722	$17,836,051	$32,777,054	$6,774,760
Restricted cash and investments (Note 3)			9,531,176	9,531,176	
Receivables:					
Accounts	1,006,786	53,499	617,042	1,677,327	24
Interest	132,174	31,798	207,330	371,302	80,517
Prepaids, materials, supplies and deposits	213,764	525	16,185	230,474	105,812
Total current assets	13,828,005	2,551,544	28,207,784	44,587,333	6,961,113
Noncurrent assets:					
Capital assets and capacity rights (Note 8):					
Land and construction in progress	3,446,004		7,431,782	10,877,786	
Depreciable capital assets, net	36,493,237	311,437	47,621,775	84,426,449	3,968,047
Total noncurrent assets	39,939,241	311,437	55,053,557	95,304,235	3,968,047
Total assets	53,767,246	2,862,981	83,261,341	139,891,568	10,929,160
LIABILITIES					
Current liabilities:					
Accounts payable	810,879	1,177	835,186	1,647,242	86,680
Accrued payroll	25,193	853	17,109	43,155	9,429
Interest payable			59,322	59,322	
Refundable deposits	80,500	65,066		145,566	169
Accrued vacation (Note 12)	19,968		19,968	39,936	12,281
Sick leave payable (Note 12)	23,022		23,022	46,044	5,675
Certificates of Participation (Note 9)			375,000	375,000	
Total current liabilities	959,562	67,096	1,329,607	2,356,265	114,234
Non-current liabilities:					
Accrued vacation (Note 12)	59,903		59,903	119,806	36,844
Sick leave payable (Note 12)	62,244		62,244	124,488	15,344
Certificates of Participation (Note 9)			9,160,000	9,160,000	
Total non-current liabilities	122,147		9,282,147	9,404,294	52,188
Total liabilities	1,081,709	67,096	10,611,754	11,760,559	166,422
NET ASSETS					
Invested in capital assets and capacity rights, net of related debt	39,939,241	311,437	55,049,733	95,300,411	3,968,047
Restricted for capital projects	6,356,009	60,618	9,761,675	16,178,302	
Unrestricted	6,390,287	2,423,830	7,838,179	16,652,296	6,794,691
Total net assets	$52,685,537	$2,795,885	$72,649,587	$128,131,009	$10,762,738

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
OPERATING REVENUES					
Charges for services	$14,371,181	$1,193,678	$9,765,774	$25,330,633	$2,780,172
Other operating revenue	152,092	9,307	66,794	228,193	
Total Operating Revenues	14,523,273	1,202,985	9,832,568	25,558,826	2,780,172
OPERATING EXPENSES					
Purchased water	6,407,394	190,800		6,598,194	
Purchased sewer capacity			3,621,486	3,621,486	
Personnel services	1,845,424	56,982	1,088,060	2,990,466	695,893
Services and supplies	920,891	68,767	1,192,536	2,182,194	900,993
Depreciation	1,343,303	20,217	2,052,059	3,415,579	945,843
Repairs and maintenance	156,398		58,027	214,425	238,337
Total Operating Expenses	10,673,410	336,766	8,012,168	19,022,344	2,781,066
Operating Income (Loss)	3,849,863	866,219	1,820,400	6,536,482	(894)
NONOPERATING REVENUES					
Interest income	498,299	125,532	1,089,944	1,713,775	306,833
Interest expense			(198,207)	(198,207)	
Subventions and grants		42,145	49,725	91,870	
Gain on sale of assets					19,064
Total Nonoperating Revenues	498,299	167,677	941,462	1,607,438	325,897
Income (Loss) Before Contributions and Transfers	4,348,162	1,033,896	2,761,862	8,143,920	325,003
Capital contributions					56,311
Capital contributions - connection fees	901,065		1,424,789	2,325,854	
Transfers in (Note 4)	440,000		307,599	747,599	
Transfers (out) (Note 4)	(1,460,232)	(633,929)	(1,291,254)	(3,385,415)	
Change in net assets	4,228,995	399,967	3,202,996	7,831,958	381,314
Total net assets-beginning	48,456,542	2,395,918	69,446,591	120,299,051	10,381,424
Total net assets-ending	$52,685,537	$2,795,885	$72,649,587	$128,131,009	$10,762,738

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$14,512,821	$1,203,974	$9,859,914	$25,576,709	$2,780,148
Payments to suppliers	(7,537,356)	(261,179)	(4,410,227)	(12,208,762)	(1,351,100)
Payments to employees	(1,841,715)	(56,129)	(956,177)	(2,854,021)	(647,127)
Net cash provided by operating activities	5,133,750	886,666	4,493,510	10,513,926	781,921
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Due to other funds	(74,282)			(74,282)	
Due from other funds			74,282	74,282	
Transfers in	440,000		307,599	747,599	
Transfers (out)	(1,460,232)	(633,929)	(1,291,254)	(3,385,415)	
Cash Flows from Noncapital Financing Activities	(1,094,514)	(633,929)	(909,373)	(2,637,816)	
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Proceeds from issuance of debt			9,535,000	9,535,000	
Interest paid			(138,885)	(138,885)	
Proceeds from sale of capital assets					19,064
Acquisition of capital assets	(186,694)		(4,066,174)	(4,252,868)	(384,521)
Capital contributions - connection fees	901,065		1,328,209	2,229,274	
Subventions and grants		42,145	49,725	91,870	
Advances from other governments			(729,309)	(729,309)	
Cash Flows from Capital and Related Financing Activities	714,371	42,145	5,978,566	6,735,082	(365,457)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	462,414	118,724	1,122,716	1,703,854	298,767
Cash Flows from Investing Activities	462,414	118,724	1,122,716	1,703,854	298,767
Net increase (decrease) in cash and cash equivalents	5,216,021	413,606	10,685,419	16,315,046	715,231
Cash and investments at beginning of period	7,259,260	2,052,116	16,681,808	25,993,184	6,059,529
Cash and investments at end of period	$12,475,281	$2,465,722	$27,367,227	$42,308,230	$6,774,760
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$3,849,863	$866,219	$1,820,400	$6,536,482	($894)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,343,303	20,217	2,052,059	3,415,579	945,843
Change in assets and liabilities:					
Receivables, net	(32,452)	(10,866)	27,346	(15,972)	(24)
Materials, supplies and deposits	39,562	(202)	(7,840)	31,520	2,490
Accrued payroll	25,193	853	17,109	43,155	
Accounts and other payables	(91,719)	10,445	584,436	503,162	(165,494)
Net cash provided by operating activities	$5,133,750	$886,666	$4,493,510	$10,513,926	$781,921
NONCASH TRANSACTIONS:					
Contributions and transfers of capital assets, net					$56,311

See accompanying notes to financial statements

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

FIDUCIARY FUNDS

FIDUCIARY FUNDS

Agency 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 City-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Agency Funds
ASSETS	
Cash and investments (Note 3)	$7,124,702
Interest receivable	25,735
Total Assets	$7,150,437
LIABILITIES	
Refundable deposits	$989,945
Due to Local Improvement Districts	6,160,492
Total Liabilities	$7,150,437

See accompanying notes to financial statements

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

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

Financial statements for the Milpitas Redevelopment Agency may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035. Separate financial statements are not issued for the Public Financing Authority.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2006 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Assets and the Statement of Activities.

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

B. Basis of Presentation

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. *Major Funds*

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

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

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

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

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

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

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

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

Sewer Utility Fund – Accounts for the provision of sewer services to residents 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 on a cost reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds – Agency 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 City-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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

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

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

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

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

E. Materials and Supplies

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 and are expensed as consumed. Inventories of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expenditure in the funds at the time individual inventory items are consumed. Reported governmental fund inventories are equally offset by fund balance reserves which indicate that they do not constitute available spendable resources even though they are a component of net current assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Tax

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

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

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

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

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

H. Closed Fund

The LID #19 Agency Fund was closed as of June 30, 2007.

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. 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.

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.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

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 in Park Improvement, General Government Project and Storm Drain Development Capital Projects Funds 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.

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

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

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

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

Cash and investments available for operations	$168,885,771
Restricted investments	74,887,610
Total Primary Government cash and investments	243,773,381
Cash and investments available for operations	42,139
Restricted investments	946,708
Total Component Unit cash and investments	988,847
Cash and investments in Fiduciary Funds (separate statement)	7,124,702
Total cash and investments	$251,886,930

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

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	$40,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	$5 million or 10%
Commercial Paper	270 Days	A1/P1	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		No Limit	No Limit

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Investments Authorized by Debt Agreements*

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	$40,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

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

E. *Investments Authorized for Terrace Gardens Inc.*

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
City:					
U.S. Government Agency Issues	$51,544,296	$27,844,063	$22,866,563	$85,195	$102,340,117
Corporate Notes	9,883,900	6,938,624	10,851,860		27,674,384
U.S. Treasury Notes	7,987,500	4,980,313	2,976,563		15,944,376
California Local Agency Investment Fund	29,128,450				29,128,450
Mutual Funds (U.S. Securities)	11,986,842				11,986,842
Investment Repurchase Agreement	60,416,149				60,416,149
Terrace Gardens, Inc.:					
Certificates of Deposit	756,437				756,437
Total Investments	$171,703,574	$39,763,000	$36,694,986	$85,195	248,246,755
Demand Deposits - City of Milpitas					3,407,765
Demand Deposits - Terrace Gardens					232,410
Total Cash and Investments					$251,886,930

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, 2007 these investments matured in an average of 176 days.

Mutual funds are available for withdrawal on demand and at June 30, 2007 matured in an average of 4 days.

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. *Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2007 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA+/AA/AA-	Total
U.S. Government Agency Issues	$102,340,117		$102,340,117
Corporate Notes	7,910,193	$19,764,191	27,674,384
Mutual Funds (U.S. Securities)	11,986,842		11,986,842
Investment Repurchase Agreement	60,416,149		60,416,149
Totals	$182,653,301	$19,764,191	202,417,492
Not rated:			
California Local Agency Investment Fund			29,128,450
Exempt from credit rate disclosure:			
U.S. Treasury Notes			15,944,376
Total Investments			$247,490,318

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2007, all of Terrace Gardens' Time Certificate of Deposits were fully insured by Federal Deposit Insurance.

H. *Significant Investments*

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2007:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal agency securities	$44,639,375
Federal Farm Credit Bank	Federal agency securities	31,875,938
Citigroup Global Markets Inc.	Investment repurchase agreement	60,416,149

Investments in the securities of any individual issuers that represent 5% or more of total investments by individual funds were as follows at June 30, 2007:

Fund	Issuer	Investment Type	Amount
Major Fund:			
Redevelopment Project Fund	Citigroup Global Markets Inc.	Investment repurchase agreement	$60,416,149
Fiduciary Funds	Federal Home Loan Bank	Federal agency securities	3,310,950

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, 2007 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Housing Reserve Special Revenue Fund	$1,340,957	(A)
	Redevelopment Project Capital Projects Fund	6,166,913	(A)
	Street Improvement Capital Projects Fund	844,178	(A)
	Water Utility Enterprise Fund	1,455,232	(A)
	Recycled Water Utility Enterprise Fund	193,929	(A)
	Sewer Utility Enterprise Fund	1,286,254	(A)
	Solid Waste Reduction Services Special Revenue Fund	148,912	(A)
	General Government Project Capital Projects Fund	2,362	(A)
	General Government Project Capital Projects Fund	30,000	(B)
Special Revenue Funds:			
Housing Reserve	Redevelopment Project Capital Projects Fund	5,886,749	(C)
Public Art	Redevelopment Project Capital Projects Fund	236,777	(D)
Capital Projects Funds:			
Redevelopment Project	Housing Reserve Special Revenue Fund	2,362,384	(A)
Redevelopment Project	Street Improvement Capital Projects Fund	136,986	(E)
Redevelopment Project	Street Improvement Capital Projects Fund	3,583	(B)
Redevelopment Project	Water Utility Enterprise Fund	5,000	(E)
Redevelopment Project	Sewer Utility Enterprise Fund	5,000	(E)
Redevelopment Project	Park Improvement Capital Projects Fund	85,000	(B)
Redevelopment Project	General Government Project Capital Projects Fund	89,000	(E)
Street Improvement	Redevelopment Project Capital Projects Fund	238,805	(E)
Street Improvement	Redevelopment Project Capital Projects Fund	18,561	(B)
Street Improvement	Gas Tax Special Revenue Fund	1,405,526	(E)
Street Improvement	General Government Project Capital Projects Fund	19,602	(B)
Park Improvement	Redevelopment Project Capital Projects Fund	600,000	(B)
Enterprise Funds:			
Water Utility	Recycled Water Utility Enterprise Fund	440,000	(E)
Sewer Utility	Redevelopment Project Capital Projects Fund	307,599	(E)
Total Interfund Transfers		$23,309,309	

The reasons for these transfers are set forth below:

(A) Reimbursement of costs incurred
(B) Return of unused capital projects funds
(C) State-required set-aside of Low and Moderate Income Housing portion of property tax increment
(D) Transfer to fund public art project
(E) Transfer of capital projects amounts

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advance

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. Pursuant to the terms of the Amendment the advance has been included in the fiscal 2007 financial statements.

Under the terms of the Amended Agreement, the purchase price of the parcels is $20,455,191. The advance is due in September 7, 2044 and bears simple interest of 10% annually. At June 30, 2007 the balance of the advance including principal and accrued interest was $26,243,161.

NOTE 5 - LOANS RECEIVABLE

The City and Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing.

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. Federal funds received by the City are deposited with a commercial bank. Upon approval of loans, the bank disburses the funds and arranges for and collects repayments.

At June 30, 2007 the City had outstanding rehabilitation loans of $2,600,096 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2007, the City received $446,454 from all participants, and made new loans totaling $467,351.

B. Milpitas Housing Associates Loan

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, $3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the fiscal year, the City received a payment of $100,712 and as of June 30, 2007, principal and accrued interest totaled $4,114,763.

C. Parc Metropolitan Housing Development Loans

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the fiscal year, the Agency received principal payments of $6,723 and as of June 30, 2007, there were $493,277 in loans outstanding.

NOTE 5 - LOANS RECEIVABLE (Continued)

D. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, $1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; interest of $35,807 was accrued and paid in fiscal 2007. 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. As of June 30, 2007, the outstanding balance totaled $1,193,580.

E. Parc North Associates LLC Loan

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of $1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. As of June 30, 2007, there were $1,974,000 of such loans outstanding.

F. Mid-Peninsula Milpitas Affordable Housing Associates.

In December 2005, the Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of $1 million to the Developer and will provide a development loan up to $14.6 million to the Developer. No interest is accrued on the first $5 million of loan proceeds. The remaining $9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by second deed of trust on the property. Construction began in fiscal year 2006 and the Developer drew down $12,706,267 of the loan during fiscal year 2007. As of June 30, 2007, principal and accrued interest totaled $12,771,702.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000 the Redevelopment 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.

NOTE 7 - DEVELOPMENT AGREEMENTS

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

A. The Crossing at Montague

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

B. Shapell Industries

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of $800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. At June 30, 2007, the Agency had not expended any funds on the silent second loans.

C. Apton Properties LLC

In September 2004, the Agency entered into an Owner Participation Agreement with Apton Properties, LLC for the development of a mixed-use project that will include commercial retail and a 93-unit condominium complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of $852,560 for permits, fees and infrastructure, and a $378,000 developer loan upon completion of the nineteen affordable housing units. As of June 30, 2007, the Agency had not expended any funds on the grant or on the developer loan.

D. Fairfield Development LLC

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project, of which 93 units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of $369,560 for permits, fees, and infrastructure. The Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. As of June 30, 2007, the Agency had not expended any funds on the grant or silent-second loans.

E. Installment Purchase Agreement

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

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

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

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

F. KB Home South Bay Inc.

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D) mentioned in Note 7F above. In addition, the Agency will provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, and approximately $8,750,000 of subsidies or silent-second mortgages to twenty-five moderate income households on Parcel D, respectively, along with subsidies to low and moderate income households in Parcel D. As of June 30, 2007, the Agency had provided subsidies totaling $873,122, but had not yet provided any loans.

G. Western Pacific Housing, Inc.

In September 2006, the Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project 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. As of June 30, 2007, the Agency had not expended any funds on the silent-second loans.

H. 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 will sell 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 will construct certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements. The County will reimburse the Agency for the construction costs incurred in connection with a common driveway area between the health center and the MP Milpitas Affordable Housing Associates senior housing project. The property was sold to the County in fiscal 2008.

I. MIL Aspen Associates, Ltd.

In April 2007, the Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. The Agency will provide a $2,300,000 loan to the Developer. As of June 30, 2007, the Agency had not expended any funds on the loan.

NOTE 8 - CAPITAL ASSETS

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

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

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

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

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

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

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

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2006	Additions	Retirements	Transfers	Balance at June 30, 2007
Capital assets not being depreciated:					
Land	$35,041,141	$20,238,024	($2,000,000)	$1,812,870	$55,092,035
Construction in progress	34,816,224	22,274,474		(2,111,574)	54,979,124
Total capital assets not being depreciated	69,857,365	42,512,498	(2,000,000)	(298,704)	110,071,159
Capital assets being depreciated:					
Buildings and improvements	92,621,934	167,066		96,792	92,885,792
Other improvements	20,345,690				20,345,690
Machinery and equipment	19,363,647	450,832	(476,956)		19,337,523
Landscape system	29,633,961				29,633,961
Storm system	72,594,692	3,488		189,033	72,787,213
Street system	201,941,346	2,641,799			204,583,145
Traffic system	15,505,474	751,239		12,879	16,269,592
Total capital assets being depreciated	452,006,744	4,014,424	(476,956)	298,704	455,842,916
Less accumulated depreciation for:					
Buildings and improvements	(21,810,926)	(3,561,011)			(25,371,937)
Other improvements	(10,468,302)	(920,119)			(11,388,421)
Machinery and equipment	(12,123,983)	(1,623,648)	476,956		(13,270,675)
Landscape system	(7,559,326)	(593,775)			(8,153,101)
Storm system	(63,795,408)	(944,296)			(64,739,704)
Street system	(129,192,194)	(7,028,237)			(136,220,431)
Traffic system	(6,912,188)	(640,440)			(7,552,628)
Total accumulated depreciation	(251,862,327)	(15,311,526)	476,956		(266,696,897)
Net capital assets being depreciated	200,144,417	(11,297,102)		$298,704	189,146,019
Governmental activity capital assets, net	$270,001,782	$31,215,396	($2,000,000)		$299,217,178

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2007:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Public Works Yard Parking Lot Expansion	$250,000	$214,766	$35,234
Community Center Renovations	460,000	331,558	128,442
Storm Water Pump Station Improvement	135,000	100,501	34,499
New Finance System	3,096,093	3,054,384	41,709
Department Hardware	2,575,617	2,534,052	41,565
Computer Aided Draft	2,985,000	2,983,643	1,357
Radio Replacement Plan	1,083,245	997,562	85,683
Information Management System	700,000	609,787	90,213
Miscellaneous City Building Improvement Projects	876,866	585,557	291,309
Berryessa Pump Station Engine	1,800,000	1,220,702	579,298
Oakcreek Pump Station Engine	337,000	240,873	96,127
Milpitas Library Offsite Utility Improvements	6,024,910	5,586,088	438,822
Land Acquisition, Abatement & Site Preparation for Midtown Parking Garage East	4,500,000	2,033,806	2,466,194
Calaveras/Abel Dual Left Turn Lanes	373,500	128,083	245,417
Abel Street Midtown Improvements	1,493,120	1,371,558	121,562
Evidence Freezer	135,000	120,739	14,261
Sports Center Large Gym Improvement	1,400,000	61,088	1,338,912
Midtown Parking Garage East	12,500,000	10,665,963	1,834,037
Library Project	39,000,000	9,340,657	29,659,343
Sports Center Underwater Pool Lighting	105,000	103,335	1,665
Bart Extension Coordination & Plan	250,000	180,943	69,057
Main Street Midtown Improvement	8,000,000	1,472,193	6,527,807
Main/Great Mall Dr Sewer Replacement	20,000	1,491	18,509
Curtis Avenue Improvements	490,000	7,374	482,626
N Main Street EIR Mitigation	700,000	561,538	138,462
Public Works Security	100,000	263	99,737
Range Lead Containment	210,000	136,374	73,626
Senior Center	2,300,000	398,205	1,901,795
Transit Area Specific	1,372,697	527,210	845,487
Sports Center Swimming Pool	252,000	251,844	156
Singley Area Phase 4 Rehabilitation	150,000	130,480	19,520
Park Renovation Plan	808,873	795,434	13,439
Hetch-Hetchy Right of Way Landscape Renovation	348,600	342,811	5,789
Alviso Adobe Renovation	2,403,272	608,622	1,794,650
Hall Park Improvement	441,612	429,999	11,613
Ball Park Fence Field	375,000	209,264	165,736
Athletic Court Rehabilitation	917,160	895,543	21,617
Bobby Sox Field Improvement	75,000	5,498	69,502
Berryessa Creek Trail	1,015,000	992,468	22,532
Penitencia Creek Trail	40,000	235	39,765
Berryessa Creek Trail	25,000	1,988	23,012
Park Renovation Plan	24,500	18,439	6,061
Park Master Plan	175,000	10,008	164,992
Miscellaneous Minor Storm Drain Projects	455,000	427,512	27,488
Public Safety Technology	3,456,014	3,422,564	33,450
Abbot Pump Replacement	55,000	2,269	52,731
Public Education Government Access Support	390,000	381,496	8,504
On-line Development System	500,000	482,357	17,643
Total construction in progress	$105,180,079	$54,979,124	$50,200,955

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2006	Additions	Retirements	Transfers	Balance at June 30, 2007
Capital assets not being depreciated:					
Land	$1,133,079				$1,133,079
Construction in progress	8,631,976	$3,706,437	($609)	($2,593,097)	9,744,707
Total capital assets not being depreciated	9,765,055	3,706,437	(609)	(2,593,097)	10,877,786
Capital assets being depreciated:					
Distribution facilities	67,261,796				67,261,796
Service lines	7,702,145	6,140		2,593,097	10,301,382
Sewer lines	57,930,598				57,930,598
Capacity rights	30,225,196	540,900			30,766,096
Total capital assets being depreciated	163,119,735	547,040		2,593,097	166,259,872
Less accumulated depreciation for:					
Distribution facilities	(35,729,080)	(1,170,702)			(36,899,782)
Service lines	(3,665,903)	(192,818)			(3,858,721)
Sewer lines	(32,455,034)	(1,124,836)			(33,579,870)
Capacity rights	(6,567,827)	(927,223)			(7,495,050)
Total accumulated depreciation	(78,417,844)	(3,415,579)			(81,833,423)
Net capital assets being depreciated	84,701,891	(2,868,539)		$2,593,097	84,426,449
Business-type activity capital assets, net	$94,466,946	$837,898	($609)		$95,304,235

Business-type activities construction in progress comprised the following at June 30, 2007:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Sewer Miscellaneous Minor Projects	$428,000	$380,114	$47,886
Sewer I/I Structure	2,772,027	2,415,251	356,776
Main SPS Site Improvements	2,750,000	1,988,998	761,002
Venus Pump Station	52,000	6,034	45,966
Main Sewer Pump Station	13,243,025	2,639,885	10,603,140
Water Miscellaneous Minor Projects	180,000	105,463	74,537
Pressure Reducing Valve	120,000	35,595	84,405
Well Upgrade Program	3,045,000	1,153,703	1,891,297
Los Coches Water Valve Replacement	84,100	3,229	80,871
City Reservoir Evaluation/Study	510,000	469,957	40,043
S Milpitas Water Line Replacement	440,000	297,831	142,169
Gilbraltar Reservoir & Pump	925,000	244,479	680,521
Ayer Reservior & Pump	100,000	4,168	95,832
Total construction in progress	$24,649,152	$9,744,707	$14,904,445

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, 2007:

	Balance December 31, 2005	Additions	Balance December 31, 2006
Capital assets not being depreciated:			
Land	$1,565,277		$1,565,277
Capital assets being depreciated:			
Buildings	11,594,278	$224,946	11,819,224
Furniture	217,149		217,149
Office equipment	60,710		60,710
Improvements	200,423		200,423
Total capital assets being depreciated	12,072,560	224,946	12,297,506
Less accumulated depreciation	(4,184,199)	(255,450)	(4,439,649)
Net capital assets being depreciated	7,888,361	(30,504)	7,857,857
Total capital assets, net	$9,453,638	($30,504)	$9,423,134

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	$2,702,658
Public Works	10,057,666
Parks and Recreation	743,136
Police	507,165
Fire	355,058
Internal Service Fund	945,843
Total Governmental Activities	$15,311,526
Business-Type Activities	
Water Utility	$1,343,303
Recycled Water Utility	20,217
Sewer Utility	2,052,059
Total Business-Type Activities	$3,415,579
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	$255,450

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 13.5 million gallons per day or about 8.1% of the total plant capacity. At June 30, 2007 the City had capitalized its share in the amount of $16,147,535. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2007 the City's operation and maintenance share was approximately 6% of the total cost.

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 has been completed and the City capitalized its' share of the Program in the amount of $14,618,561.

NOTE 9 - LONG TERM DEBT

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

A. Current Year Transactions and Balances

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

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
Governmental Activity Debt:					
2003 Redevelopment Agency Tax Allocation Bonds					
2%-5.25%, due September 1, 2032	$190,780,000		$3,750,000	$187,030,000	$3,855,000
Technology Certificates of Participation, Series 2000					
4% - 4.25%, due November 1, 2008	3,540,000		1,130,000	2,410,000	1,180,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	50,471,212		3,628,118	46,843,094	3,455,350
Total Governmental Activity Debt	$244,791,212		$8,508,118	$236,283,094	$8,490,350
Business-type Activity Debt:					
Sewer Certificates of Participation, 2006 Series A					
3.4% - 4.20%, due November 1, 2026		$9,535,000		$9,535,000	$375,000
Total Business-type Activity Debt		$9,535,000		$9,535,000	$375,000

NOTE 9 - LONG TERM DEBT (Continued)

B. 2003 Redevelopment Agency Tax Allocation Bonds

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of $200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. In lieu of a reserve fund, the 2003 Bonds 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.

C. Technology Certificates of Participation, Series 2000

On November 30, 2000, the City issued Technology Financing, Phase I, Certificates of Participation (Technology COPs), in the original principal amount of $8,610,000 to provide funds for the acquisition, installation and equipping of certain technology improvements. The Technology COPs are collateralized by revenue from the Fire Station No. 1 (Main Fire Station) lease agreement. In lieu of a reserve fund, the COPs are secured by an $861,000 surety bond issued by the Municipal Bond Investors Assurance Corporation. Principal is payable annually and interest is payable semi-annually through 2009.

D. 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 7E above. As discussed in Note 7E, under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of $46,843,094, at June 30, 2007, representing the present value of future payments due under this Agreement.

E. 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. In lieu of a reserve fund, the COPs are secured by a $695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

NOTE 9 - LONG TERM DEBT (Continued)

F. *Debt Service Requirements*

Annual debt service requirements are shown below:

	Governmental Activities		Business-Type Activities	
Year Ending June 30	Total Principal	Total Interest	Total Principal	Total Interest
2008	$8,490,350	$9,482,371	$375,000	$355,933
2009	8,480,810	9,463,786	345,000	343,693
2010	8,169,105	9,414,453	355,000	331,793
2011	8,224,862	9,377,846	370,000	319,468
2012	8,252,725	9,340,158	380,000	306,528
2013-2017	45,417,551	46,266,539	2,105,000	1,318,999
2018-2022	53,219,567	43,187,632	2,530,000	889,984
2023-2027	52,708,124	20,502,845	3,075,000	330,770
2028-2032	38,755,000	5,246,960		
2033	4,565,000	112,984		
	$236,283,094	$162,395,574	$9,535,000	$4,197,168

G. *Defeased Bonds*

As of June 30, 2007, outstanding balances for defeased debt were $30,280,000 for the Redevelopment Agency 1997 Tax Allocation Bonds, $10,535,000 for the Redevelopment Agency 2000 Tax Allocation Bonds, and $5,715,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET ASSETS AND FUND BALANCES

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

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

A. *Net Assets*

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

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

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

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

B. Reservations of Governmental Fund Balances

Reserve for encumbrances represents the portion of fund balance set aside for open purchase orders.

Reserves for loans, advance, prepaids, materials, supplies and deposits are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserved for property held for resale is the carrying value of property held by the Redevelopment Agency, which is reserved since it is not an available spendable resource.

Reserved for low and moderate income housing is legally restricted to expenditure for low and moderate income housing under the California Health and Safety Code.

C. Designations of Governmental Fund Balances

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for PERS stabilization is the portion of the fund balance to be used to mitigate unpredictable PERS rate increases.

Designated for library and performing arts programs is the portion of the fund balance to be used for the construction and operation of a new library and for supporting performing and visual arts programs as approved by Measure H.

Designated for uninsured claims payable is the portion of fund balance to be used for the repayment of the long term portion of uninsured claims payable.

Designated for projects is the portion of fund balance to be used for projects approved by Council as part of the Capital Improvement Program budget.

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, 2007, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payment	monthly for life	monthly for life
Retirement Age	50	50
Monthly benefits, as a % of annual salary	3%	2.0%-2.7%
Required employee contribution rates	9%	8%
Required employer contribution rates	22.698%	14.408%
Actuarially required contribution	$4,571,054	$3,461,180

CALPERS determines contribution requirements using a modification of the Entry Age Normal 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 does not have a net pension obligation since it pays these actuarially required contributions annually.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. 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 six percent of the net balance is amortized annually.

NOTE 11 - PERS PENSION PLAN (Continued)

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	$102,624,141	$122,040,990	$19,416,849	84.1%	$17,862,170	108.704%
2004	111,436,817	137,105,190	25,668,373	81.3%	18,296,030	140.295%
2005	122,027,882	148,258,606	26,230,724	82.3%	18,123,752	144.731%

Miscellaneous Plan:

Actuarial Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	$68,311,915	$78,939,997	$10,628,082	86.5%	$20,868,463	50.929%
2004	74,706,971	88,221,388	13,514,417	84.7%	21,824,238	61.924%
2005	82,237,103	99,488,857	17,251,754	82.7%	22,898,895	75.339%

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.

CALPERS has reported that the value of the net assets in the Plan held for pension benefits changed during the year ended June 30, 2005 (the most recent available) as follows:

	Safety	Miscellaneous
Beginning Balance 6/30/04	$111,436,817	$74,706,971
Contributions received	6,655,684	4,474,697
Benefits and Refunds Paid	(5,012,682)	(3,044,103)
Miscellaneous Adjustments	(23,358)	75,044
Expected Investment Earnings Credited	8,697,943	5,847,045
Expected Actuarial Value of Assets 6/30/05	$121,754,404	$82,059,654
Market Value of Assets 6/30/05	$125,856,577	$84,721,385
Actuarial Value of Assets 6/30/05	$122,027,882	$82,237,103

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2007, 2006, and 2005 were $8,032,234, $8,638,190 and $7,159,293 respectively. The City made these contributions as required.

NOTE 11 - PERS PENSION PLAN (Continued)

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 $17,522 and the employee's required contributions of $70,083 were made during the fiscal year ending June 30, 2007.

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. The City pays up to 100% of the medical premiums for eligible retirees on a pay-as-you-go basis. During the fiscal year ended June 30, 2007 the City expended $746,244 on benefits for 142 retirees.

In anticipation of implementing the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB) in fiscal year 2008, the City hired an actuary to prepare a study to determine the unfunded liability of these benefits for both active employees and retirees. The study indicates that as of July 1, 2007, the unfunded actuarial liability was estimated to be $36,371,140. As of June 30, 2007, the City joined the California Employers' Retiree Benefit Trust (CERBT), administered by CALPERS. City Council authorized a deposit of $9,496,160 with CERBT on June 5, 2007 to begin funding its OPEB liability and this amount has been recorded as a liability in the General Fund. In prior years, the City had included an estimate of its future liability for these benefits amounting to $8,995,393 in the Statement of Net Assets. However, this liability was removed as of year end as a result of the deposit with CERBT.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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, 2007, sick leave benefits payable decreased $90,495 and vacation benefits payable decreased $305,040. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Assets.

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, 2006	$4,315,160	$129,657	$5,086,376	$166,291
Additions	3,431,791	140,073	2,059,490	84,101
Payments and adjustments	(3,766,916)	(109,988)	(2,154,226)	(79,860)
Balance as of June 30, 2007	$3,980,035	$159,742	$4,991,640	$170,532
General Government	$394,873		$184,288	
Building	148,025		89,736	
Public Works	380,086		230,531	
Engineering and Planning	315,264		238,976	
Recreation	104,853		87,982	
Police	1,854,140		1,595,400	
Fire	733,668		2,543,707	
Water Utility		$79,871		$85,266
Sewer Utility		79,871		85,266
Internal Service	49,126		21,020	
Total	3,980,035	159,742	4,991,640	170,532
Long-Term Portion:				
Governmental activities	3,453,848		4,703,919	
Business-type activities		119,806		124,488
Current Portion	$526,187	$39,936	$287,721	$46,044

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

NOTE 13 - RISK MANAGEMENT

A. *Risk Pool*

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides $5,000,000 of self-funded general liability and auto coverage and $15,000,000 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. ABAG Plan provides coverage for property damage based on its appraised values of the properties. The City retains a self-insured amount of $5,000 for each property and $10,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2007 the City contributed $394,353 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 including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's contributions to ABAG Plan equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. 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 $5,000,000. 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 up to a maximum $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, 2007 the city paid $343,277 in dental claims.

D. *Liability for Uninsured Claims*

The City provides for the uninsured portion of claims and judgments in the General Fund and the Sewer Enterprise Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

NOTE 13 - RISK MANAGEMENT (Continued)

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:

	2007			
	Worker's Compensation	General Liability	Total	2006
Beginning balance	$3,970,712	$112,402	$4,083,114	$4,107,632
Liability for current fiscal year claims	708,441	155,289	863,730	315,921
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	427,695	102,038	529,733	293,225
Claims paid	(1,116,523)	(146,986)	(1,263,509)	(633,664)
Ending balance	$3,990,325	$222,743	$4,213,068	$4,083,114

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

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.

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

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from $240 million to $502 million. The limitation was subsequently increased to $2.4 billion in 2003. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During fiscal 2007, the Agency made pass-thru payments in the amount of $712,273.

Construction commitments are discussed in Notes 7 and 8.

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, 2007 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2007
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	$205,000-365,000	2008-2017	$2,765,000
LID #18	1999	5.35-5.85%	155,000-290,000	2008-2019	2,600,000
LID #18 Refunding	1998	5.40-5.65%	510,000-750,000	2008-2015	4,990,000
LID #20	1999	5.35-5.70%	745,000-1,365,000	2008-2019	12,325,000
LID #9R and 12R	1999	5.20-5.625%	375,000-495,000	2008-2013	2,575,000
Total					$25,255,000

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

SUPPLEMENTARY INFORMATION

The supplementary information provides budget comparisons for major governmental funds which are not general fund or major special revenue funds. GASB 34 requires this information for any major governmental fund that has adopted budget.

CITY OF MILPITAS
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	$28,214,500	$28,413,636	$199,136
Interest and others	2,848,000	4,155,180	1,307,180
Intergovernmental	1,670,106		(1,670,106)
Other	2,110,906	8,553,859	6,442,953
Total Revenues	34,843,512	41,122,675	6,279,163
Expenditures			
Current:			
City Manager	364,947	328,822	36,125
Finance	9,990		9,990
Public works	1,313,137	1,310,315	2,822
Non-departmental	571,655	481,735	89,920
Debt service:			
Principal	7,378,118	7,378,118	
Interest and fiscal charges	15,129,852	15,125,086	4,766
Total Expenditures	24,767,699	24,624,076	143,623
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,075,813	16,498,599	6,422,786
OTHER FINANCING SOURCES (USES)			
Transfers in	2,687,953	2,686,953	(1,000)
Transfers (out)	(13,455,404)	(13,455,404)	
Total Other Financing Sources (Uses)	(10,767,451)	(10,768,451)	(1,000)
Net change in fund balance	($691,638)	5,730,148	$6,421,786
Adjustment to budgetary basis:			
Capital outlay		(70,492,038)	
Encumbrance adjustments		29,169,793	
Budgetary fund balance, July 1		127,632,056	
Budgetary fund balance, June 30		$92,039,959	

CITY OF MILPITAS
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Interest and others	$305,000	$500,433	$195,433
Intergovernmental	2,097,610	2,097,610	
Developer contributions	49,070	197,858	148,788
Other		3,065	3,065
Total Revenues	2,451,680	2,798,966	347,286
Expenditures			
Current:			
Public Works	944,910	944,910	
Non-departmental	153,082	118,119	34,963
Total Expenditures	1,097,992	1,063,029	34,963
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,353,688	1,735,937	382,249
OTHER FINANCING SOURCES (USES)			
Transfers in	1,776,969	1,682,494	(94,475)
Transfers (out)	(984,747)	(984,747)	
Total Other Financing Sources (Uses)	792,222	697,747	(94,475)
Net change in fund balance	$2,145,910	2,433,684	$287,774
Adjustment to budgetary basis:			
Capital outlay		(4,737,852)	
Encumbrance adjustments		1,343,836	
Budgetary fund balance, July 1		11,112,424	
Budgetary fund balance, June 30		$10,152,092	

NON-MAJOR GOVERNMENTAL FUNDS

GAS TAX FUND

Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided by the City's share of state gasoline taxes.

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, COPS in School 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.

ABANDONED VEHICLE ABATEMENT FUND

Established to account for the funds spent on the removal of abandoned vehicles in the City. The Santa Clara County's Abandoned Vehicle Abatement Service Authority is responsible for the reimbursements to the City.

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.

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.

NON-MAJOR GOVERNMENTAL FUNDS

GAS TAX FUND

Established to account for the construction and maintenance of the street system in Milpitas. Funding is provided by the City's share of state gasoline taxes.

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and operations.

LAW ENFORCEMENT SERVICES FUND

Established to account for the proceeds from Federal and State asset seizure. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, COPS in School grant and sequestration. 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 diversion percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste programs.

LIGHTING AND LANDSCAPE ASSESSMENT DISTRICT FUND

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

ABANDONED VEHICLE ABATEMENT FUND

Established to account for the funds upon the removal of abandoned vehicles in the City. The Santa Clara County's Abandoned Vehicle Abatement Service Authority is a joint effort for the regionalization in the City.

PETROLEUM STORAGE LEAK FUND

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

PUBLIC ART FUND

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

PARK IMPROVEMENT FUND

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

CULTURAL CONTRIBUTION FUND

Established to account for the construction and improvement of private and non-profit projects. Funding provided by the Cultural Fund.

TOXIC INFO DEVELOPMENT FUND

Established to account for the construction and maintenance of toxic data projects. A special assessment fee is imposed on developments to provide funding.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2007

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District	Abandoned Vehicle Abatement
ASSETS						
Cash and investments available for operations		$310,991	$380,061	$1,210,529	$262,464	$27,414
Restricted investments						
Receivables:						
Accounts				52,940		
Due from other governments	$113,592	20,410				10,587
Interest		4,472	4,876	15,170	1,551	
Loans receivable		2,600,096				
Prepaids, materials, supplies and deposits		916		1,421	110	840
Total Assets	$113,592	$2,936,885	$384,937	$1,280,060	$264,125	$38,841
LIABILITIES						
Accounts payable		$124,090	$8,291	$45,283	$25,500	
Accrued payroll		3,672		2,398	402	$1,720
Deferred revenue			66,396			
Refundable deposits				18,843		
Total Liabilities		127,762	74,687	66,524	25,902	1,720
FUND BALANCE						
Fund Balances:						
Reserved for:						
Encumbrances				23,975	39,003	
Loans		2,600,096				
Prepaids, materials, supplies and deposits		916		1,421	110	$840
Unreserved, Designated for:						
Projects						
Unreserved, Undesignated	$113,592	208,111	310,250	1,188,140	199,110	36,281
Total Fund Balances	113,592	2,809,123	310,250	1,213,536	238,223	37,121
Total Liabilities and Fund Balances	$113,592	$2,936,885	$384,937	$1,280,060	$264,125	$38,841

		CAPITAL PROJECTS FUNDS			
Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$1,553,299	$405,040	$8,093,622	$785,985	$768,135	$13,797,540
			41,709		41,709
			2		52,942
					144,589
6,515	4,899	97,276	10,325	9,268	154,352
					2,600,096
2,134					5,421
$1,561,948	$409,939	$8,190,898	$838,021	$777,403	$16,796,649
		$17,026	$120,175		$340,365
		654			8,846
					66,396
					18,843
		17,680	120,175		434,450
		82,356	25,751		171,085
					2,600,096
$2,134					5,421
		2,900,225	268,180	$777,403	3,945,808
1,559,814	$409,939	5,190,637	423,915		9,639,789
1,561,948	409,939	8,173,218	717,846	777,403	16,362,199
$1,561,948	$409,939	$8,190,898	$838,021	$777,403	$16,796,649

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE FUNDS					
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction Services	Lighting & Landscape Maintenance District	Abandoned Vehicle Abatement
REVENUES:						
Sales taxes						
Other taxes				$479,848		
Licenses and fees						
Interest and others	$5,877	$3,606	$14,419	46,498	$8,033	$3
Intergovernmental	1,195,094	597,375	265,001	178,532		52,978
Charges for services				38,179		
Developer contributions						
Other				3,554	296,147	
TOTAL REVENUES	1,200,971	600,981	279,420	746,611	304,180	52,981
EXPENDITURES:						
Current:						
General Government		82,522				
Public Works				374,325	227,152	
Engineering and Planning		515,805				51,386
Police			111,579			48,864
Capital outlay						
TOTAL EXPENDITURES		598,327	111,579	374,325	227,152	100,250
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,200,971	2,654	167,841	372,286	77,028	(47,269)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,405,526)			(148,912)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,405,526)			(148,912)		
NET CHANGE IN FUND BALANCES	(204,555)	2,654	167,841	223,374	77,028	(47,269)
FUND BALANCES AT BEGINNING OF YEAR	318,147	2,806,469	142,409	990,162	161,195	84,390
FUND BALANCES AT END OF YEAR	$113,592	$2,809,123	$310,250	$1,213,536	$238,223	$37,121

CAPITAL PROJECTS FUNDS					
Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
					$479,848
				$200	200
$56,497	$11,455	$302,518	$42,501	26,460	517,867
		343,083			2,632,063
					38,179
		243,510	50,000	726,061	1,019,571
					299,701
56,497	11,455	889,111	92,501	752,721	4,987,429
24,972					107,494
					601,477
					567,191
					160,443
		544,771	730,967		1,275,738
24,972		544,771	730,967		2,712,343
31,525	11,455	344,340	(638,466)	752,721	2,275,086
	236,777	600,000			836,777
		(85,000)	(140,964)		(1,780,402)
	236,777	515,000	(140,964)		(943,625)
31,525	248,232	859,340	(779,430)	752,721	1,331,461
1,530,423	161,707	7,313,878	1,497,276	24,682	15,030,738
$1,561,948	$409,939	$8,173,218	$717,846	$777,403	$16,362,199

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 FISCAL YEAR ENDED JUNE 30, 2007

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others		$5,877	$5,877	$7,000	$3,606	($3,394)
Intergovernmental	$1,200,000	1,195,094	(4,906)	631,000	597,375	(33,625)
Charges for services						
Other						
Total Revenues	1,200,000	1,200,971	971	638,000	600,981	(37,019)
EXPENDITURES						
Current:						
City Manager				61,697	54,935	6,762
Finance				22,600	22,517	83
Public Works						
Planning and Neighborhood Services				1,026,088	983,156	42,932
Parks and Recreation						
Police						
Non-departmental				11,927	5,070	6,857
Total Expenditures				1,122,312	1,065,678	56,634
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,200,000	1,200,971	971	(484,312)	(464,697)	19,615
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,500,000)	(1,405,526)	94,474			
Total Other Financing Sources (Uses)	(1,500,000)	(1,405,526)	94,474			
NET CHANGE IN FUND BALANCES	($300,000)	(204,555)	$95,445	($484,312)	(464,697)	$19,615
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					467,351	
Encumbrance adjustments						
Fund balances at beginning of year		318,147			2,806,469	
Fund balances at end of year		$113,592			$2,809,123	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			$440,000	$479,848	$39,848			
$6,000	$14,419	$8,419	28,000	46,498	18,498	$3,000	$8,033	$5,033
146,715	265,001	118,286	117,441	178,532	61,091			
			42,000	38,179	(3,821)			
				3,554	3,554	294,000	296,147	2,147
152,715	279,420	126,705	627,441	746,611	119,170	297,000	304,180	7,180
			492,914	398,300	94,614	321,433	266,155	55,278
196,715	111,579	85,136						
196,715	111,579	85,136	492,914	398,300	94,614	321,433	266,155	55,278
(44,000)	167,841	211,841	134,527	348,311	213,784	(24,433)	38,025	62,458
			(148,912)	(148,912)				
			(148,912)	(148,912)				
($44,000)	167,841	$211,841	($14,385)	199,399	$213,784	($24,433)	38,025	$62,458
				23,975			39,003	
	142,409			990,162			161,195	
	$310,250			$1,213,536			$238,223	

(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 FISCAL YEAR ENDED JUNE 30, 2007

	ABANDONED VEHICLE ABATEMENT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others	$3,000	$3	($2,997)	$52,000	$56,497	$4,497
Intergovernmental	75,000	52,978	(22,022)			
Charges for services						
Other						
Total Revenues	78,000	52,981	(25,019)	52,000	56,497	4,497
EXPENDITURES						
Current:						
City Manager						
Finance						
Public Works						
Planning and Neighborhood Services	53,144	51,386	1,758			
Parks and Recreation						
Police	49,500	48,864	636			
Non-departmental				26,000	24,972	1,028
Total Expenditures	102,644	100,250	2,394	26,000	24,972	1,028
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,644)	(47,269)	(22,625)	26,000	31,525	5,525
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	($24,644)	(47,269)	($22,625)	$26,000	31,525	$5,525
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Encumbrance adjustments						
Fund balances at beginning of year		84,390			1,530,423	
Fund balances at end of year		$37,121			$1,561,948	

PUBLIC ART			TOTALS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			$440,000	$479,848	$39,848
$5,000	$11,455	$6,455	104,000	146,388	42,388
			2,170,156	2,288,980	118,824
			42,000	38,179	(3,821)
			294,000	299,701	5,701
5,000	11,455	6,455	3,050,156	3,253,096	202,940
			61,697	54,935	6,762
			22,600	22,517	83
			814,347	664,455	149,892
			1,079,232	1,034,542	44,690
			246,215	160,443	85,772
			37,927	30,042	7,885
			2,262,018	1,966,934	295,084
5,000	11,455	6,455	788,138	1,286,162	498,024
236,777	236,777		236,777	236,777	
			(1,648,912)	(1,554,438)	94,474
236,777	236,777		(1,412,135)	(1,317,661)	94,474
$241,777	248,232	$6,455	(623,997)	(31,499)	592,498
				467,351	
				62,978	
	161,707			6,194,902	
	$409,939			$6,693,732	

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

AGENCY FUNDS

GASB Statement 34 requires that Agency Funds, the only Fiduciary funds the City has, 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 FISCAL YEAR ENDED JUNE 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Employee Benefit				
Assets				
Cash and investments available for operations	$652,515	$747,028	$425,139	$974,404
Receivables:				
Accounts	3,319	24,136	27,455	
Interest	8,059	11,579	8,095	11,543
Total Assets	$663,893	$782,743	$460,689	$985,947
Liabilities				
Refundable deposits	$663,893	$782,743	$460,689	$985,947
Total Liabilities	$663,893	$782,743	$460,689	$985,947
Senior Advisory Commission				
Assets				
Cash and investments available for operations	$6,238	$1,382	$3,667	$3,953
Receivables:				
Interest	77	45	77	45
Total Assets	$6,315	$1,427	$3,744	$3,998
Liabilities				
Refundable deposits	$6,315	$1,427	$3,744	$3,998
Total Liabilities	$6,315	$1,427	$3,744	$3,998
LID #18 - Reassessment and Refunding				
Assets				
Cash and investments available for operations	$1,287,593	$1,544,988	$1,481,729	$1,350,852
Cash and investments held by trustees	1,131,910	88,062	31,362	1,188,610
Receivable:				
Interest	7,218	7,333	7,239	7,312
Total Assets	$2,426,721	$1,640,383	$1,520,330	$2,546,774
Liabilities				
Due to Local Improvement Districts	$2,426,721	$1,640,383	$1,520,330	$2,546,774
Total Liabilities	$2,426,721	$1,640,383	$1,520,330	$2,546,774

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
LID #19				
Assets				
Cash and investments available for operations	$384,401	$661,451	$1,045,852	
Cash and investments held by trustees	320,572	14,701	335,273	
Receivable:				
Interest	2,744	36	2,780	
Total Assets	$707,717	$676,188	$1,383,905	
Liabilities				
Due to Local Improvement Districts	$707,717	$676,188	$1,383,905	
Total Liabilities	$707,717	$676,188	$1,383,905	
LID #20				
Assets				
Cash and investments available for operations	$1,136,069	$1,487,780	$1,443,226	$1,180,623
Cash and investments held by trustees	1,099,146	84,437	29,384	1,154,199
Receivables:				
Interest	4,968	5,472	4,983	5,457
Total Assets	$2,240,183	$1,577,689	$1,477,593	$2,340,279
Liabilities				
Due to Local Improvement Districts	$2,240,183	$1,577,689	$1,477,593	$2,340,279
Total Liabilities	$2,240,183	$1,577,689	$1,477,593	$2,340,279
LID #9R and #12R				
Assets				
Cash and investments available for operations	$934,318	$581,425	$1,208,807	$306,936
Cash and investments held by trustees	1,011,389	563,833	610,097	965,125
Receivables:				
Due from other governments	32,797		32,797	
Interest	5,699	1,395	5,716	1,378
Total Assets	$1,984,203	$1,146,653	$1,857,417	$1,273,439
Liabilities				
Due to Local Improvement Districts	$1,984,203	$1,146,653	$1,857,417	$1,273,439
Total Liabilities	$1,984,203	$1,146,653	$1,857,417	$1,273,439

(Continued)

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL AGENCY FUNDS	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Assets				
Cash and investments available for operations	$4,401,134	$5,024,054	$5,608,420	$3,816,768
Cash and investments held by trustees	3,563,017	751,033	1,006,116	3,307,934
Receivables:				
Accounts	3,319	24,136	27,455	
Due from other governments	32,797		32,797	
Interest	28,765	25,860	28,890	25,735
Total Assets	$8,029,032	$5,825,083	$6,703,678	$7,150,437
Liabilities				
Refundable deposits	$670,208	$784,170	$464,433	$989,945
Due to Local Improvement Districts	7,358,824	5,040,913	6,239,245	6,160,492
Total Liabilities	$8,029,032	$5,825,083	$6,703,678	$7,150,437

CITY OF MILPITAS
CALIFORNIA
INCORPORATED
JANUARY 26, 1954

STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

Installment Payment Coverage, Sewer Certificates of Participation – Schedule 13
Bimonthly Sewer Rates by Customer Class – Schedule 14
Demographic and Economic Statistics – Schedule 15
Principal Employers – Schedule 16
Taxable Sales by Category – Schedule 17
Direct and Overlapping Sales Tax Rates – Schedule18
Principal Sales Tax Payers – Schedule 19

Operating Information

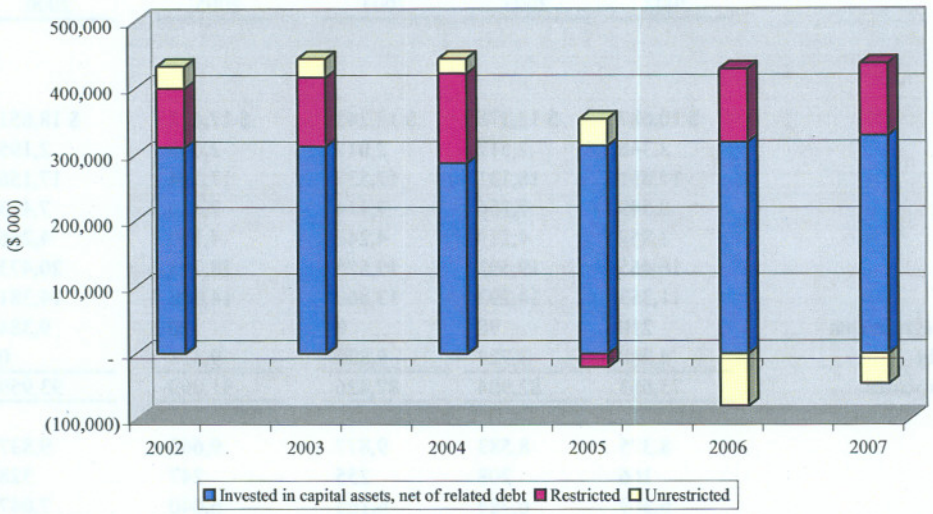
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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. The City implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

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



	Fiscal Year Ended June 30					
	2002	2003	2004	2005	2006	2007
Governmental activities						
Invested in capital assets, net of related debt	$219,305	$221,431	$192,380	$225,140	$224,223	$232,841
Restricted	84,043	100,007	130,126	(26,974)	97,069	92,504
Unrestricted	11,755	(963)	(798)	18,969	(92,209)	(62,097)
Total governmental activities net assets	$315,103	$320,475	$321,708	$217,135	$229,083	$263,248
Business-type activities						
Invested in capital assets, net of related debt	$92,182	$91,151	$94,693	$88,191	$94,467	$95,300 (a)
Restricted	4,358	4,020	4,974	6,774	12,852	16,179
Unrestricted	21,596	28,824	23,102	21,125	12,980	16,652
Total business-type activities net assets	$118,136	$123,995	$122,769	$116,090	$120,299	$128,131
Primary government						
Invested in capital assets, net of related debt	$311,487	$312,582	$287,073	$313,331	$318,690	$328,141
Restricted	88,401	104,027	135,100	(20,200)	109,921	108,683
Unrestricted	33,351	27,861	22,304	40,094	(79,229)	(45,445)
Total primary government net assets	$433,239	$444,470	$444,477	$333,225	$349,382	$391,379

The City of Milpitas implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

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

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

	Fiscal Year Ended June 30					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental activities						
General Government	$ 10,687	$ 13,178	$ 13,243	$ 17,412	$ 18,651	$ 16,297
Building	2,348	2,512	2,017	2,048	2,195	2,334
Public Works	17,851	18,131	17,537	17,794	17,156	20,647
Engineering and Planning	8,549	7,156	7,114	7,116	7,453	2,396
Recreation	3,852	4,219	4,246	4,170	4,266	7,301
Police	16,465	19,593	19,575	18,773	20,473	21,452
Fire	11,353	14,293	13,865	14,448	14,381	14,329
Payment under developer agreements	210	98	0	0	9,384	
Interest on Long Term Debt	4,288	3,724	9,829	9,338	0	9,419
Total governmental activities expenses	75,603	82,904	87,426	91,099	93,959	94,175
Business-type activities						
Water Utility	8,375	8,583	9,877	9,668	9,837	10,673
Recycled Water Utility	166	208	255	247	328	337
Sewer Utility	6,369	6,784	6,165	6,040	7,047	8,210
Total business-type activities expenses	14,910	15,575	16,297	15,955	17,212	19,220
Total primary government expenses	$ 90,513	$ 98,479	$ 103,723	$ 107,054	$ 111,171	$ 113,395
Program Revenues						
Governmental activities:						
Charges for services:						
General Government	$ 465	$ 437	$ 860	$ 906	$ 580	$ 662
Building	1,951	1,305	1,488	2,899	5,800	5,029
Public Works	285	320	307	311	344	2,817
Engineering and Planning	913	901	1,185	1,678	2,412	436
Recreation	1,226	1,382	1,391	1,482	1,496	1,599
Police	1,083	1,190	1,273	1,693	1,132	1,406
Fire	524	490	766	305	1,070	1,109
Operating grants and contributions	6,098	3,697	4,197	3,780	4,089	4,600
Capital grants and contributions	8,521	8,124	13,770	12,012	12,971	16,056
Total government activities program revenues	21,066	17,846	25,237	25,066	29,894	33,714
Business-type activities						
Charges for services:						
Water Utility	10,148	10,779	12,265	12,430	13,224	14,523
Recycled Water Utility	680	747	878	1,017	1,086	1,203
Sewer Utility	7,826	6,547	7,472	8,253	8,966	9,833
Operating grants and contributions	857	0	0	0	0	0
Capital grants and contributions	3,400	8,937	1,602	604	3,854	2,418
Total business-type activities program revenue	22,911	27,010	22,217	22,304	27,130	27,977
Total primary government program revenues	$ 43,977	$ 44,856	$ 47,454	$ 47,370	$ 57,024	$ 61,691
Net (Expense)/Revenue						
Governmental activities	($ 54,537)	($ 65,058)	($ 62,189)	($ 66,033)	($ 64,065)	($ 60,461)
Business-type activities	8,001	11,435	5,920	6,349	9,918	8,757
Total primary government net expense	($ 46,536)	($ 53,623)	($ 56,269)	($ 59,684)	($ 54,147)	($ 51,704)

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

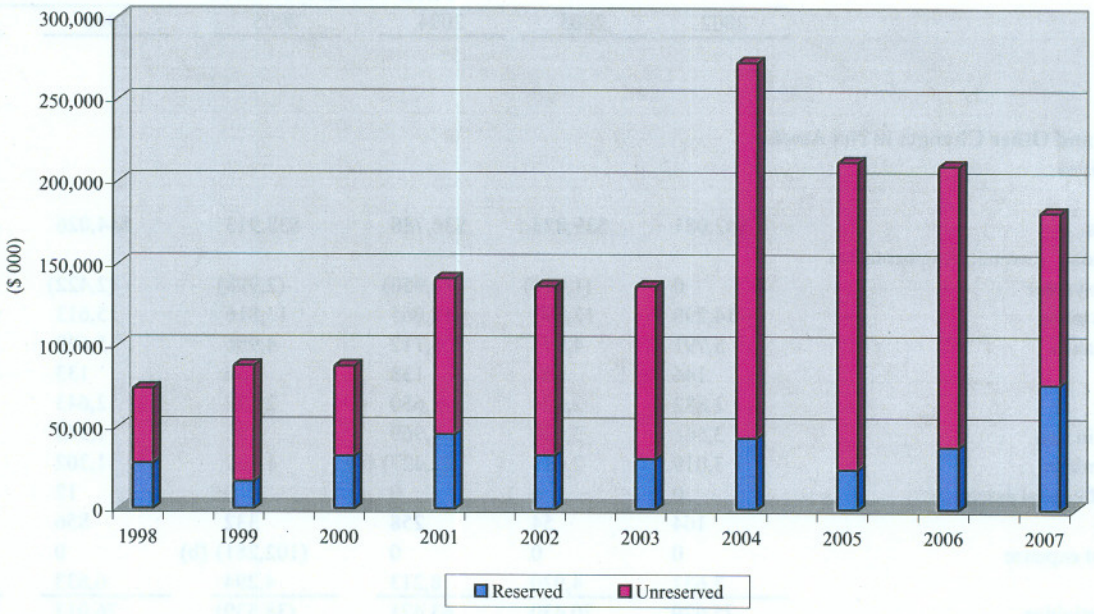
	Fiscal Year Ended June 30					
	2002	2003	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets						
Governmental activities						
Taxes:						
Property taxes	$42,081	$39,823	$36,788	$38,913	$44,026	$44,565
Less: Educational Revenue Augmentation Fund payment	0	(1,010)	(1,950)	(2,993)	(2,422)	0
Sales and use taxes	14,298	12,573	12,065	13,816	15,613	16,765
Hotel/Motel taxes	5,791	4,953	4,717	4,986	5,669	6,427
Other taxes	146	152	138	132	133	125
Franchise fees	2,882	2,674	2,650	2,772	2,643	2,912
Motor vehicle in lieu	3,561	3,680	2,969	421	1,548	357
Investment earnings	3,019	2,611	(2,427) (a)	1,069	1,302	2,225
Gain on sale of capital assets	0	0	0	0	12	18,257
Miscellaneous	164	54	258	332	856	355
Redevelopment expense	0	0	0	(102,281) (b)	0	0
Transfers	3,687	4,920	8,213	4,294	6,633	2,638
Total government activities	75,629	70,430	63,421	(38,539)	76,013	94,626
Business-type activities						
Investment earnings	1,807	1,417	1,068 (a)	627	924	1,714
Loss on adjustment of capital assets valuation		(2,073)	0	0	0	0
Transfers	(3,687)	(4,920)	(8,213)	(4,294)	(6,633)	(2,638)
Total business-type activities	(1,880)	(5,576)	(7,145)	(3,667)	(5,709)	(924)
Total primary government	$ 73,749	$ 64,854	$ 56,276	($ 42,206)	$ 70,304	$ 93,702
Change in net assets						
Governmental activities	$ 21,092	$ 5,372	$ 1,232	($ 104,572)	$ 11,948	$ 34,165
Business-type activities	6,121	5,859	(1,225)	2,682	4,209	7,833
Total primary government	$ 27,213	$ 11,231	$ 7	($ 101,890)	$ 16,157	$ 41,998

The City of Milpitas implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

(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.

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



	Fiscal Year Ended June 30,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	$ 2,589	$ 3,472	$ 2,086	$ 3,075	$ 3,458	$ 1,434	$ 2,366	$ 1,344	$ 1,315	$ 21,753
Unreserved	9,621	11,589	18,969	32,998	36,588	37,529	30,636	26,699	27,966	26,716
Total General Fund	$ 12,210	$ 15,061	$ 21,055	$ 36,073	$ 40,046	$ 38,963	$ 33,002	$ 28,043	$ 29,281	$ 48,469
All Other Governmental Funds										
Reserved	$25,191	$13,240	$30,310	$42,427	$29,489	$29,351	$41,131	$23,049	$36,812	$54,763
Unreserved, reported in:										
Special revenue funds	(5,893)	(6,851)	(6,744)	(2,315)	3,454	8,113	19,493	23,745	3,524	4,025
Capital project funds	41,920	66,182	42,775	64,996	63,454	59,127	179,291	137,415	140,259	74,178
Debt service funds	3	0	0	0	185	966	0	0	0	0
Total all other governmental funds	$61,221	$72,571	$66,341	$105,108	$96,582	$97,557	$239,915	$184,209	$180,595	$132,966

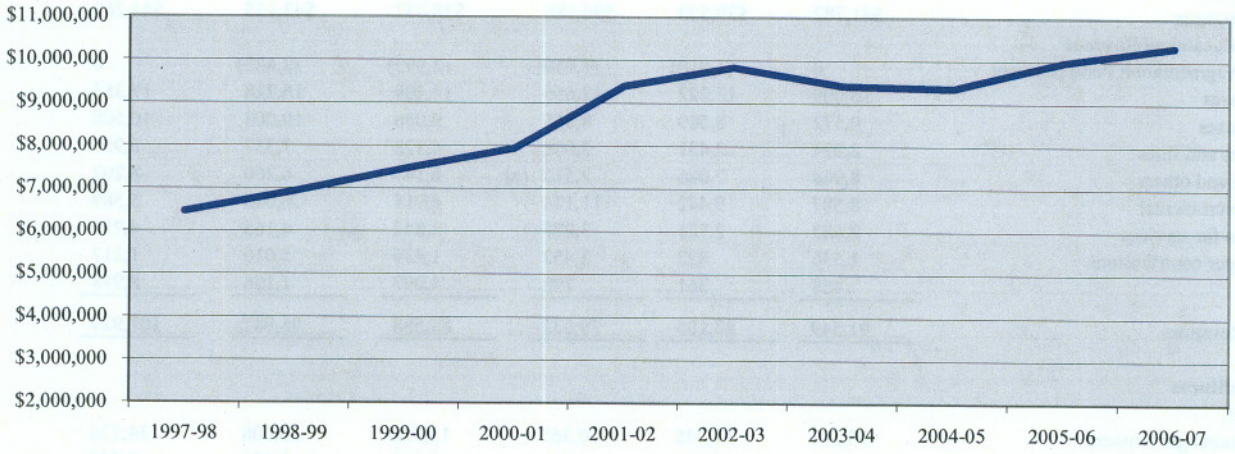
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30					
	2002	2003	2004	2005	2006	2007
Revenues						
Property taxes	$41,782	$39,520	$36,186	$38,337	$43,155	$44,289
Less: Educational Revenue Augmentation Fund payment	0	(1,010)	(1,950)	(2,993)	(2,422)	0
Sales taxes	15,009	13,222	12,655	14,409	16,228	17,383
Other taxes	9,572	8,509	8,555	9,066	10,003	10,508
Licenses and fines	2,974	2,431	3,020	4,328	7,357	6,958
Interest and others	8,948	7,086	2,515 (a)	6,149	6,260	8,292
Intergovernmental	8,587	9,442	11,124	4,914	6,045	5,589
Charges for services	2,683	2,721	3,277	3,842	4,165	4,715
Developer contributions	1,536	823	3,452	1,439	5,010	1,217
Other	458	361	798	4,097	1,186	8,978
Total Revenues	91,549	83,105	79,632	83,588	96,987	107,929
Expenditures						
Current:						
General government	10,391	11,245	10,365	13,026	15,608	34,136
Building	2,368	2,389	1,978	2,075	2,226	2,232
Public works	7,171	7,085	7,130	7,736	7,789	10,646 (d)
Engineering and planning	8,381	6,262	5,983	6,444	6,581	2,329 (d)
Recreation	3,532	3,806	3,860	4,199	4,284	
Parks and Recreation						6,486 (d)
Police	15,740	17,197	18,384	19,723	20,167	20,081
Fire	11,218	11,957	12,864	15,363	14,312	13,717
Capital outlay	30,227	17,431	11,169	15,998	16,861	46,076
Payments under developer agreements	210	98	127	0	0	0
Debt service:						
Principal	6,260	6,470	8,860	6,605	8,559	8,508
Interest and fees	4,198	4,194	9,686	9,379	9,424	15,250
Total Expenditures	99,696	88,134	90,406	100,548	105,811	159,461
Excess (deficiency) of revenues over (under) expenditures	(8,147)	(5,029)	(10,774)	(16,960)	(8,824)	(51,532)
Other Financing Sources (Uses)						
Proceeds from debt issuance	0	0	200,000	0	0	20,455
Bond issuance premium	0	0	5,372	0	0	0
Payments to refunded debt escrow agent	0	0	(67,164)	0	0	0
Transfers in	47,363	42,620	124,899	23,095	28,523	22,561
Transfers (out)	(43,681)	(37,700)	(115,936)	(18,801)	(22,075)	(19,924)
Total other financing sources (uses)	3,682	4,920	147,171	4,294	6,448	23,092
Special Item						
Redevelopment expense	0	0	0	(48,000) (b)	0	0
Net Change in fund balances	($4,465)	($109)	$136,397	($60,666)	($2,376)	($28,440)
Debt service as a percentage of noncapital expenditures	17.8%	17.8%	30.6%	23.3%	25.3%	26.5%

The City of Milpitas has elected to show only six years of data for this schedule (c).

(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 categories of expenditures in governmental funds were presented differently after fiscal year 2002 due to the implementation of GASB Statement 34. Data prior to 2002 was omitted due to comparability of the statements.
(d) The City departments were reorganized in fiscal 2007.

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				
1997-98	N/A	N/A	N/A	N/A	N/A	N/A	$6,452,227	1%
1998-99	N/A	N/A	N/A	N/A	N/A	N/A	6,919,759	1%
1999-00	N/A	N/A	N/A	N/A	N/A	N/A	7,455,656	1%
2000-01	$3,413,377	$790,469	$1,791,693	$536,246	$1,482,114	($81,540)	7,932,359	1%
2001-02	3,417,125	779,136	2,166,036	1,274,151	1,825,539	(85,563)	9,376,424	1%
2002-03	3,746,467	835,889	2,502,123	1,016,922	1,833,384	(111,940)	9,822,845	1%
2003-04	4,377,568	964,438	2,340,453	227,739	1,595,224	107,860	9,397,563	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%

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

Note:

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

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

	City Direct Rates		Overlapping Rates (a)		
Fiscal Year	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
1997-98	$ 1.00	$ 1.00	$ 0.0412	$ 0.0266	$ 0.0098
1998-99	1.00	1.00	0.0405	0.0464	0.0082
1999-00	1.00	1.00	0.0343	0.0601	0.0085
2000-01	1.00	1.00	0.0380	0.0615	0.0075
2001-02	1.00	1.00	0.0388	0.0496	0.0062
2002-03	1.00	1.00	0.0412	0.0567	0.0072
2003-04	1.00	1.00	0.0412	0.0582	0.0075
2004-05	1.00	1.00	0.0412	0.0624	0.0086
2005-06	1.00	1.00	0.0412	0.0881	0.0078
2006-07	1.00	1.00	0.0412	0.1007	0.0072

Source: County of Santa Clara, Tax Rates & Information

Notes:

(a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.

(b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2006-07 and 1997-98
(Dollars in thousands)

	2006-07			1997-98		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Milpitas Mills Limited Partnership	$ 287,215	1	2.75%			
KLA Tencor Corporation	175,283	2	1.68%			
Silicon Valley California LLC	145,034	3	1.39%			
Cisco Technology Inc.	141,200	4	1.35%			
Headway Technologies Inc.	129,847	5	1.24%			
Linear Technology Corporation	91,971	6	0.88%			
Seagate Technologies LLC	91,664	7	0.88%	$ 90,059	8	1.38%
Cisco System, Inc.	90,147	8	0.86%			
Lifescan, Inc.	89,967	9	0.86%	87,233	9	1.34%
Trinet Milpitas Associates LLC	84,877	10	0.81%			
Quantum Corporation				197,635	1	3.04%
Octel Communication Corp.				168,491	2	2.59%
Great Mall of the Bay Area				165,853	3	2.55%
Komag Inc.				148,040	4	2.27%
Richard T. Peery Trustee & Et. Al.				145,730	5	2.24%
Solectron Corporation				131,421	6	2.02%
Sun-Microsystems Federal Inc.				96,691	7	1.49%
LSI Logic Corporation				85,612	10	1.32%
Subtotal	$ 1,327,204		12.70%	$ 1,316,765		20.23%

Fiscal Year 2006-2007 Total Net Assessed Valuation $ 10,448,520
Fiscal Year 1997-1998 Total Net Assessed Valuation $ 6,507,850

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2006/07 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
1997-98	$ 25,431	$ 25,431	100.00%	$ 0	$ 25,431	100.00%
1998-99	28,464	28,464	100.00%	0	28,464	100.00%
1999-00	31,831	31,831	100.00%	0	31,831	100.00%
2000-01	34,592	34,592	100.00%	0	34,592	100.00%
2001-02	41,782	41,782	100.00%	0	41,782	100.00%
2002-03	39,520	39,520	100.00%	0	39,520	100.00%
2003-04	36,186	36,186	100.00%	0	36,186	100.00%
2004-05	38,337	38,337	100.00%	0	38,337	100.00%
2005-06	43,155	43,155	100.00%	0	43,155	100.00%
2006-07	44,289	44,289	100.00%	0	44,289	100.00%

(a) The City selected 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.

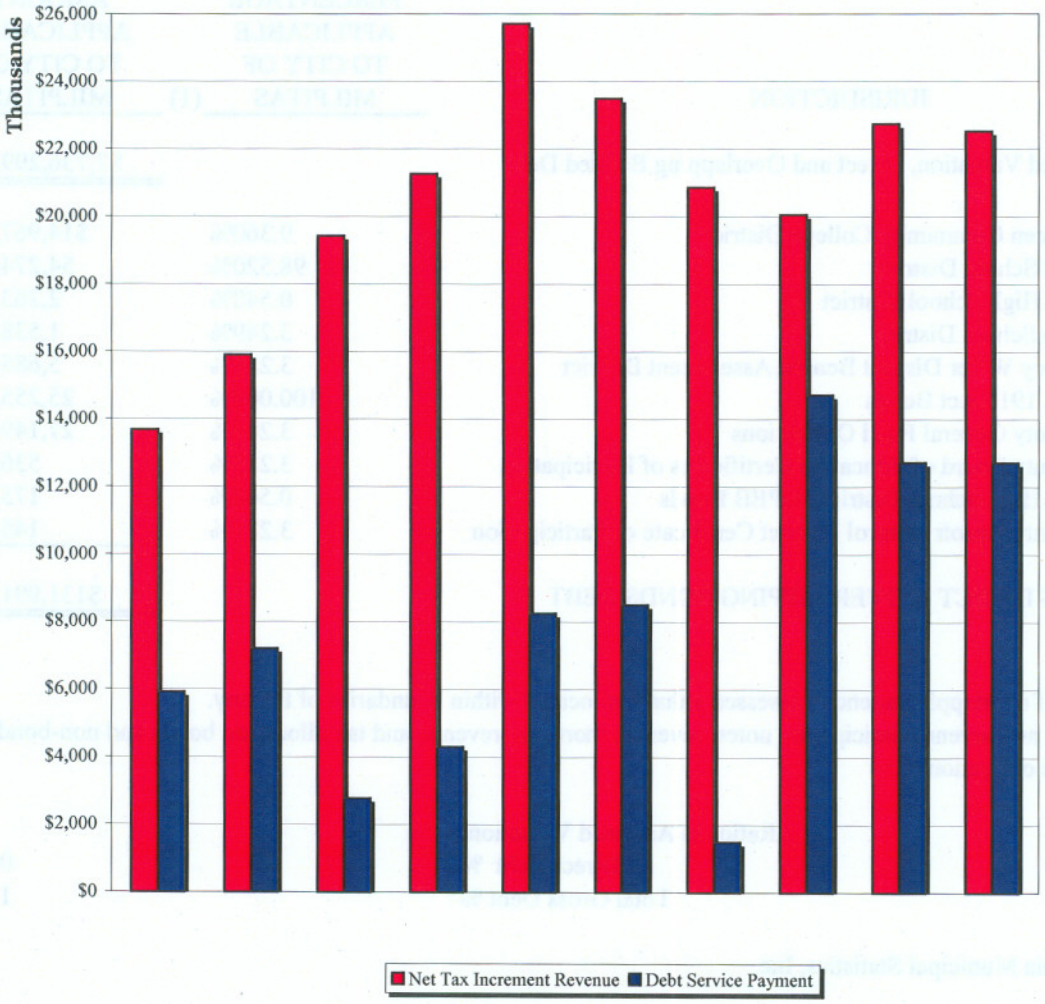
Source: City of Milpitas Comprehensive Financial Annual Report

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

Fiscal Year	Sales Tax Revenue Bonds	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1997-98	0	0	$42,805	0	$42,805	1.85%	$684
1998-99	0	0	37,810	0	37,810	1.51%	588
1999-00	0	0	46,205	0	46,205	1.61%	708
2000-01	$8,795	$8,610	73,155	0	90,560	2.65%	1,429
2001-02	8,335	7,640	68,325	0	84,300	2.70%	1,322
2002-03	7,855	6,680	63,295	0	77,830	2.60%	1,196
2003-04	0	5,675	200,000	0	205,675	6.92%	3,182
2004-05	0	4,630	194,440	$54,281	253,351	7.95%	3,898
2005-06	0	3,540	190,780	50,471	244,791	7.50%	3,750
2006-07	0	2,410	187,030	46,843	236,283	(b)	3,549

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(a) See Schedule 15 for personal income and population data.
(b) Data for fiscal year 2006-07 not available until May of 2008.

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



Fiscal Year	Redevelopment Agency Property Tax Increments	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1998	$17,791,347	$4,105,854	$13,685,493	$4,785,000	$1,130,450	$5,915,450	2.31
1999	20,221,790	4,311,212	15,910,578	4,995,000	2,200,066	7,195,066	2.21
2000	24,282,112	4,865,649	19,416,463	810,000	1,967,521	2,777,521	6.99
2001	26,579,328	5,315,867	21,263,461	1,845,000	2,464,912	4,309,912	4.93
2002	32,387,027	6,667,458	25,719,569	4,830,000	3,426,503	8,256,503	3.12
2003	29,511,358	6,023,817	23,487,541	5,030,000	3,482,488	8,512,488	2.76
2004	26,171,147	5,315,246	20,855,901	0 (a)	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

(a) 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.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2007

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2006-07 Assessed Valuation, Direct and Overlapping Bonded Debt		$7,736,299,943
San Jose-Evergreen Community College District	9.360%	$14,967,780
Milpitas Unified School District	98.520%	54,274,668
East Side Union High School District	0.548%	2,263,402
Berryessa Union School District	3.249%	1,538,013
Santa Clara Valley Water District Benefit Assessment District	3.285%	5,685,350
City of Milpitas, 1915 Act Bonds	100.000%	25,255,000
Santa Clara County General Fund Obligations	3.285%	27,149,868
Santa Clara County Board of Education Certificates of Participation	3.285%	536,276
East Side Union High School District , OPEB Bonds	0.548%	175,634
Santa Clara County Vecotr Control District Certificate of Participation	3.285%	145,197
TOTAL GROSS DIRECT & OVERLAPPING BONDS DEBT		$131,991,188 (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:	
Direct Debt %	0.03%
Total Gross Debt %	1.74%

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 2006-07

Assessed value (net) - June 30, 2007		$10,319,333
Debt limit: 3.75% of assessed value (a)		$386,975
Debt applicable to limit		
Total Bonded Debt	$189,440	
Less: Tax Allocation Bonds and Certificates of Participation, not subject to limit	189,440	
Amount of Debt subject to limit		0
Legal debt margin		$386,975

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
1997-98	$241,959	$0	$241,959	0.0%
1998-99	259,491	0	259,491	0.0%
1999-00	279,587	0	279,587	0.0%
2000-01	297,492	0	297,492	0.0%
2001-02	351,616	0	351,616	0.0%
2002-03	368,356	0	368,356	0.0%
2003-04	352,408	0	352,408	0.0%
2004-05	350,211	0	350,211	0.0%
2005-06	373,520	0	373,520	0.0%
2006-07	386,975	0	386,975	0.0%

(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
JUNE 30, 2007

Fiscal Year	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2006-07	$9,832,568	$5,960,109	$3,872,459	$0	$198,207	$198,207	20

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

(1) Operating Revenues include sewer service charges and other operating revenues.
(2) Operating Expenses include purchased sewer capacity, personnel services, services and supplies, and repairs and maintenance expenses.
Operating expenses exclude depreciation and amortization expenses.

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

	Residential			Commercial	
Fiscal Year	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
1997-98	39.60	27.35	16.68	7.14	0.01 - 2.85
1998-99	42.29	28.17	16.68	7.14	0.02 - 2.94
1999-00	42.29	30.27	17.93	7.14	0.02 - 3.08
2000-01	42.29	30.19	18.69	7.14	0.01 - 3.75
2001-02	42.29	30.19	18.69	7.14	0.01 - 3.37
2002-03	42.29	30.19	18.69	7.14	0.01 - 3.37
2003-04	46.10	33.82	21.27	7.78	0.01 - 5.12
2004-05	50.25	36.48	22.76	8.48	0.01 - 4.89
2005-06	54.77	39.49	24.57	9.24	0.02 - 3.50
2006-07	59.70	43.14	26.88	10.08	0.02 - 3.93

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)

Fiscal Year	Population	Population Density (Sq. Mile)	Per Capita Personal Income (a)	School Enrollment	Unemployment Rate (%) (a)	Land Area (Sq. Mile)
1997-98	62,588	4,582	$37	9,946	3.20%	13.66
1998-99	64,325	4,709	39	9,917	3.40%	13.66
1999-00	65,254	4,777	44	9,925	3.50%	13.66
2000-01	63,395	4,641	54	9,702	5.00%	13.66
2001-02	63,768	4,668	49	9,424	8.70%	13.66
2002-03	65,049	4,762	46	9,516	9.30%	13.66
2003-04	64,629	4,731	46	9,528	6.90%	13.66
2004-05	64,998	3,823	49	9,602	5.60%	17.00
2005-06	65,276	3,840	50	9,748	4.40%	17.00
2006-07	66,568	3,916	(b)	9,682	4.70%	17.00

(a) For Santa Clara County.
(b) Data for fiscal year 2006-07 is not available until May of 2008.

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

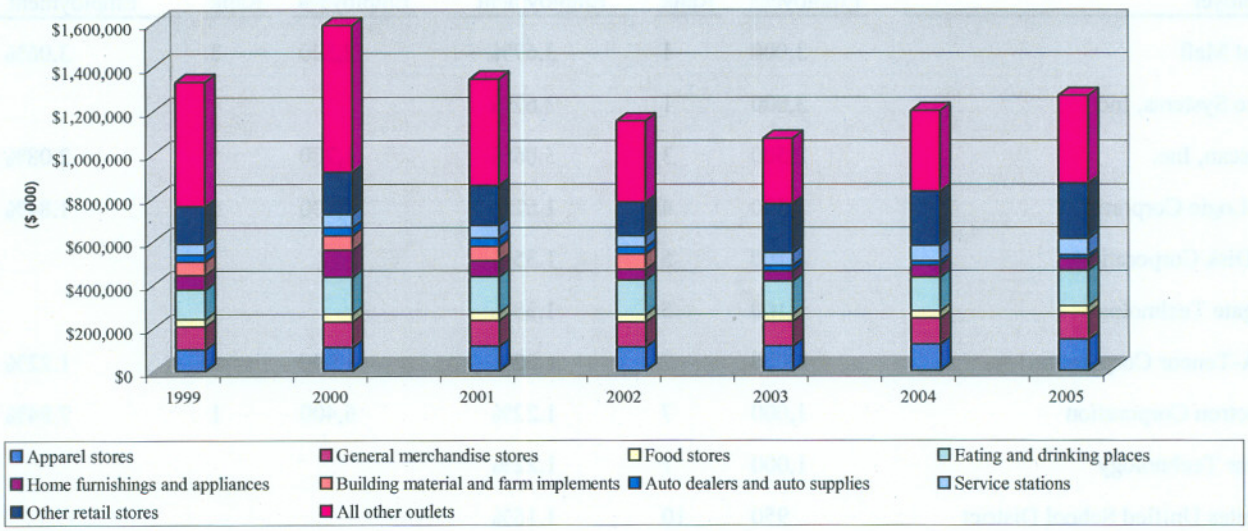
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2005-06 and 1997-98

	2005-06 (a)			1997-98		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Great Mall	3,000	1	3.67%	2,500	3	3.06%
Cisco Systems, Inc.	3,000	1	3.67%			
Lifescan, Inc.	2,500	3	3.06%	1,700	5	2.08%
LSI Logic Corporation	1,320	4	1.62%	1,500	6	1.84%
SanDisk Corporation	1,100	5	1.35%			
Seagate Technology	1,100	5	1.35%			
KLA-Tencor Corporation	1,000	7	1.22%	1,000	9	1.22%
Solectron Corporation	1,000	7	1.22%	6,400	1	7.84%
Linear Technology	1,000	7	1.22%			
Milpitas Unified School District	950	10	1.16%			
Quantum				2,700	2	3.31%
Sun Microsystems				2,200	4	2.69%
Read Rite				1,500	6	1.84%
Adaptec, Inc.				1,200	8	1.47%
Lucent Technologies				1,000	9	1.22%
Subtotal	15,970		20%	21,700		27%
Estimated City Day Population, Census 2000			81,646			

(a) Data for fiscal year 2006-07 is not available until December 2007.

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

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



	CALENDAR YEARS						
	1999	2000	2001	2002	2003	2004	2005
Apparel stores	$99,089	$109,258	$113,729	$109,078	$114,599	$123,583	$145,317
General merchandise stores	106,071	117,006	118,362	115,336	113,574	119,471	120,297
Food stores	34,461	37,075	37,302	35,830	33,765	32,950	33,592
Eating and drinking places	136,510	170,825	166,174	159,420	152,736	156,318	164,694
Home furnishings and appliances	66,492	123,801	72,493	48,513	45,497	54,460	54,906
Building material and farm implements	61,846	66,251	66,570	70,600	(a)	(a)	(a)
Auto dealers and auto supplies	33,388	38,105	38,684	32,433	25,558	19,990	15,132
Service stations	49,424	61,244	58,395	52,369	58,491	71,231	76,455
Other retail stores	174,803	194,086	184,594	156,196	227,373	251,599	255,805
All other outlets	571,419	673,677	489,438	373,179	301,404	370,253	405,111
Total	$1,333,503	$1,591,328	$1,345,741	$1,152,954	$1,072,997	$1,199,855	$1,271,309
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	0.75

(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
1997-98	1.00		1.25
1998-99	1.00		1.25
1999-00	1.00		1.25
2000-01	1.00		1.25
2001-02	1.00		1.25
2002-03	1.00		1.25
2003-04	1.00		1.25
2004-05	1.00		1.25
2005-06	0.75	(a)	1.25
2006-07	0.75	(a)	1.25

Source: California State Board of Equalization

(a) Effective July 1, 2004, the general purpose sale and use tax rate for local governments decreased from 1% to 0.75%. Property tax revenues are provided to offset the reduction in sales and use tax revenues.

CITY OF MILPITAS
PRINCIPAL SALES TAX PAYERS
FISCAL YEAR 2006-07 and 1999-2000
IN ALPHABETICAL ORDER

2006-07	1999-2000(a)
Best Buy Stores	Acropolis Systems
Burlington Coat Factory	ADAC Laboratories
Chevron Service Stations	Adaptec
Contract Office Group	Arcom Electronics Inc.
Credence Systems Corp	Best Buy Stores
Dave & Busters	Billings Chevrolet
Hanson Concrete Products	Burlington Coat Factory
HD Supply Solutions	Contract Office Group
Headway Technologies	Divicom
Home Depot	Dynamic Circuits
KLA Tencor Corporation	GAP Stores
KOHL's Department Store	Hanson Concrete Products
Life Scan	Home Depot
Marshall's Stores	KLA-Tencor Corporation
Mervyn's Department Store	Life Scan Inc
Milpitas Materials Company	Lindsay_Ferrari, Inc.
McDonald's Restaurants	Marshall Industries
One Workplace L Ferrari	Marshall's Store
Orchard Supply Hardware	Mervyn's Department Stores
Rackable Systems	Milpitas Materials Company
Saks Fifth Avenue	Octel Communications
Shell Service Stations I	Orchard Supply Hardware
Shell Service Stations II	Saks Fifth Avenue
Sportmart	Sun Microsystems
Wal-Mart Stores	Wal-Mart Stores

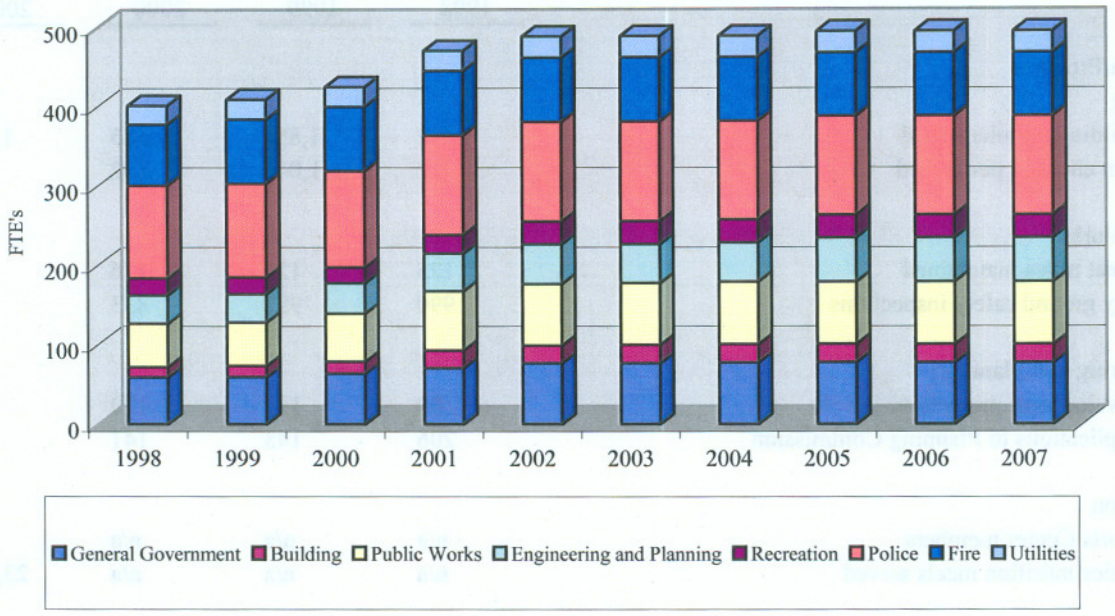
(a) The City started tracking principal sales tax payers in 1999-2000.

Source: MBIA MuniServices Company

CITY OF MILPITAS

AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS



	Adopted for Fiscal Year Ended June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Function										
General Government	58.3	58.8	63.3	70.3	76.3	76.3	77.0	77.3	77.0	77.0
Building	13.0	14.0	15.0	22.0	22.0	23.0	23.0	23.0	23.0	23.0
Public Works	55.0	55.0	61.0	75.0	78.0	78.0	79.0	78.8	79.0	79.0
Engineering and Planning	36.0	36.0	38.0	47.5	50.5	49.5	49.5	55.5	55.5	55.5
Recreation	21.0	21.0	20.0	23.5	28.5	29.0	29.0	29.0	29.0	29.0
Police:										
Sworn Police	86.0	86.5	89.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0
Civilians	31.0	31.5	32.5	31.5	31.5	31.5	30.5	30.5	30.5	30.5
Fire:										
Firefighters and Safety Officers	67.0	71.0	71.0	71.0	71.0	71.0	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	24.0	25.0	25.0	26.0	27.0	27.0	27.0	27.0	27.0	27.0
Total	401.3	408.8	424.8	470.8	488.8	489.3	489.0	495.0	495.0	495.0

Source: City of Milpitas, final budget

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

	Fiscal Year				
	1998	1999	2000	2001	2002
Function/Program					
Building					
Building permits issued	1,742	1,850	1,585	1,690	1,735
Plan checked performed	412	1,040	432	410	340
Public Works					
Street miles maintained	125	126	126	136	137
Play ground safety inspections	990	990	833	521	852
Engineering and Planning					
Development projects reviewed	200	170	170	160	150
Applications to Planning Commission	206	143	141	101	110
Recreation					
Sports Center members	n/a	n/a	n/a	n/a	2,741
Senior nutrition meals served	n/a	n/a	n/a	23,727	23,886
Police					
Avg response time to emergency calls (minutes)	n/a	n/a	n/a	n/a	n/a
Number of anti-terrorist patrol checks	n/a	n/a	n/a	n/a	n/a
Crime prevention presentations	n/a	n/a	n/a	191	191
Number of vehicle citations issued	n/a	n/a	n/a	16,003	12,804
DARE presentations: schools/students	11/852	14/1,178	14/1,528	14/1,795	14/1468
Fire					
Emergency calls for service	2,469	2,710	3,802	3,250	3,550
Public education events	90	90	110	120	140
Permits Inspections	3,202	3,680	3,742	3,500	3,750
Plan Review	1,145	1,170	950	1,070	1,420
Utility					
Clean sewer lines (feet)	458,962	559,440	687,724	800,000	552,000
Repair, replace or set water meters	539	738	569	700	678
Average daily consumption (thousands of gallons)	11,015	10,047	11,095	11,587	10,290

Source: City of Milpitas, final budget

Fiscal Year				
2003	2004	2005	2006	2007
1,777	1,650	3,156	3,788	3,500
536	590	650	1,181	1,000
137	137	138	139	139
1,508	784	1,062	1,304	1,264
115	n/a	n/a	293	190
93	100	120	150	165
4,398	5,800	6,500	7,508	7,885
23,886	16,139	16,932	19,421	20,667
n/a	3:35	3:44	3:12	3:06
2,924	7,649	10,664	12,813	12,300
175	201	180	179	190
15,312	15,041	14,453	14,161	10,624
14/1,456	13/1,610	14/1579	13/1538	14/1572
3,850	4,100	4,200	4,250	4,000
75	73	73	70	65
2,160	1,909	2,514	4,231	4,300
660	786	845	1,005	1,000
347,670	358,610	500,000	500,000	500,000
399	341	422	425	600
11,120	11,222	10,090	9,162	9,693

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

	Fiscal Year				
	1998	1999	2000	2001	2002
Function/Program					
Public Works					
Miles of streets	125	126	127	137	137
Street lights	4,753	4,976	4,976	n/a	4,262
Square feet of buildings maintained (in thousands)	215	215	215	215	252
City vehicles	437	475	483	490	657
Signs	6,300	6,300	6,300	6,300	6,900
Signal lights	59	64	64	64	64
City Parks	28	28	28	28	24
Acres of Parkland	178	178	178	178	178
Playgrounds	26	26	26	26	26
Recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	4	4	4	4	3
Tennis courts	24	24	24	24	24
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	10	10	10	10	10
Basketball courts	5	5	5	5	5
Volleyball courts	6	7	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	1	1	1	2	2
Police patrol vehicles	25	26	27	28	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	9	10	10	10	10
Fire hydrants	1,598	1,614	1,650	1,656	1,661
Utility					
Miles of water mains	194	195	197	198	198
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	15.64
Miles of sanitary sewers	163	164	166	166	167
Miles of storm drain	94	96	98	100	98
Miles of recycled water main	7.5	7.5	7.5	7.5	7.5

Source: City of Milpitas, final budget

Fiscal Year				
2003	2004	2005	2006	2007
137	137	137	139	139
4,281	4,324	4,346	4,354	4,354
299	344	350	350	350
618	626	631	635	635
7,050	7,150	7,250	7,167	7,400
66	68	68	68	68
26	24	26	26	29
161	171	172	172	171.5
26	26	32	32	30
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	4
24	24	22	22	22
1	1	1	1	1
21	21	21	21	21
10	13	13	13	13
5	5	5	5	5
7	7	7	7	7
4	4	4	4	4
2	2	2	2	2
30	30	30	30	28
4	4	4	4	4
11	15	13	14	16
1,670	1,739	1,755	1,756	1,756
199	202	203	204	204
15.64	15.64	15.64	15.64	15.64
168	168	173	173	173
99	99	99	105	105
7.5	7.5	11.0	11.0	11

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954