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CITY OF MILPITAS
AGREED UPON PROCEDURES REPORT ON COMPLIANCE WITH THE PROPOSITION 111 2008-2007 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, 2008. 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. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. 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 2007-2008 Appropriations Limit amounting to $60,096,261 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 2007-2008 Current Appropriations Limit by multiplying the 2006-2007 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 & Associates

September 24, 2008

CITY OF MILPITAS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

CITY OF MILPITAS
SINGLE AUDIT REPORT
For The Year Ended June 30, 2008

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CITY OF MILPITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2008

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?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Qualified			
Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	Yes		None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	X	Yes		No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
14.218	U.S. Department of Housing and Urban Development – Community Development Block Grant
97.008	U.S. Department of Homeland Security - Urban Area Security Initiative

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, our audit did disclose a significant deficiency. We communicated this significant deficiency and other matters to the City Council in our separate Memorandum on Internal Controls dated September 24, 2008, which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year Findings and Questioned Costs

Finding 08-01: Grant Accounting and Compliance

Program Affected: U.S. Department of Homeland Security - Urban Area Security Initiative, CFDA #97.008

The City's Fire Department received a fully equipped urban search and rescue trailer from the Santa Clara County Fire Department in April 2005 which was funded by the Urban Area Security Initiative grant. As documented on the Grant Property Transfer forms, the value of the equipment transferred was $107,457 at that date, however, the City's Fire Department staff did not inform the Finance Department of the equipment until fiscal year 2008. Upon receipt of the information in fiscal year 2008, the City's Finance Department requested a copy of the grant agreement with the County, but the City's Fire Department was not able to locate the grant agreement with the County of Santa Clara that stipulated the grant requirements. Therefore, we were unable to determine whether the City was in compliance with the requirements of the grant.

In addition, when accepting the equipment from Santa Clara County, the City's Fire Department staff did not verify the mathematical accuracy of the grant property transfer forms and many lines on the forms did not contain the exact quantity transferred or a unit price. The forms as provided by the County totaled $107,457, however we recalculated the forms as provided and it appears that they total $103,456, a difference of $4,001. However, as noted, some lines listed descriptions for items that did not include quantities and some items did contain quantities but no unit prices. Therefore, we were unable to determine whether the value of the trailer and associated equipment was overstated or understated. City staff should perform a full inventory of the Trailer, comparing it to the grant property transfer form to ensure that all items are accounted for.

In the future, City staff should ensure that all federal grant documentation is maintained to ensure compliance with all grant requirements. And, all documentation for grant equipment received should be checked for mathematical accuracy and to ensure that all items received are documented.

Finally, all City departments should be informed that for all federally funded transactions, whether they be grants received in cash or via equipment, the Finance Department must be informed of the grant transaction so it can be properly reported on the Schedule of Federal Expenditures and help to ensure that all grant compliance and reporting requirements are met.

Management's Response:

The Fire Chief and the Assistant Fire Chief both left the Department in April/May of 2005, leaving a reporting gap when the rescue trailer was delivered to the Milpitas Fire Department. The trailer was purchased under another agency's grant application, which included several rescue trailer's to be housed strategically at various fire departments throughout the County. Milpitas was one of the chosen locations. The Milpitas Fire Department keeps the trailer and its contents at the Fire Department training compound. In 2006, the Fire Chief established an inventory program for the rescue trailer that documents the inventory of the trailer quarterly and after each use. The trailer has been used during various regional training drills and the inventory has changed since its arrival. The fire department has not performed a mathematical accounting for the equipment, but can verify the contents.

All grants and grant-related equipment received since the arrival of the successor Fire Chief have been reported to the City's Finance Department and are part of the Department's inventory accounting program.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Prepared by Management

Financial Statement Prior Year Findings

- There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

- There were no prior year Federal Award Findings and Questioned Costs reported.

CITY OF MILPITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Housing and Urban Development	B 06-MC-06-0055		
Community Development Block Grant	B 07-MC-06-0055	14.218	
Loan Expenditures			$574,718
Program Expenditures			275,085
Subgrants			265,289
Total Community Development Block Grants			1,115,092
U.S. Department of Justice			
(Passed through Santa Clara County)			
Edward Byrne Memorial Justice Assistance Grant	2006 DJ BX 1720	16.738	1,314
Edward Byrne Memorial Justice Assistance Grant	2007 DJ BX 1720	16.738	2,679
			3,993
U.S. Department of Transportation			
State and Community Highway Safety			
(Passed through County of Santa Clara Office of the Sheriff)			
Avoid the 13th July 4th Holiday Program for Local Law Enforcement Agencies		20.600	765
Avoid the 13th Labor Day Holiday Program for Local Law Enforcement Agencies		20.600	1,346
(Passed through U.C. Berkeley Traffic Safety Center)			
Sobriety Checkpoint Program for Local Law Enforcement Agencies	AMO5145	20.600	6,034
Click It or Ticket Program for Local Law Enforcement Agencies		20.600	5,809
(Passed through County of Santa Clara Public Health Department)			
Speed and Red Light for Local Law Enforcement Agencies		20.600	2,680
			16,634
U.S. Department of Homeland Security			
Assistance to Firefighters Grant Program	EMW 2006 FG 17373	97.004	9,872
2006 Emergency Management Performance Grant (EMPG)	EMW 2006 FG 17373	97.004	8,993
			18,865
U.S. Department of Homeland Security			
(Passed through State of California Office of Emergency Services)			
Santa Clara County Office of Emergency Services	2005-15	97.067	5,000
Urban Area Security Initiative			
(Passed through County of Santa Clara County Office of Emergency Services)			
Fiscal Year 2003 PII Grant	#085-68000	97.008	107,457
Fiscal Year 2004 Grant	ID #5	97.008	996
Fiscal Year 2004 Grant	ID #6	97.008	2,484
			110,937
U.S. Department of Health and Human Services			
(Passed through State of California Depart of Education/Child Development Division)			
Federal Child Care and Development Fund	FCCAADP 2007	93.575	5,000
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	72,517
Total Federal Assistance			$1,348,038

See Notes to Schedule of Expenditures of Federal Awards

CITY OF MILPITAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2008

NOTE 1-REPORTING ENTITY

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

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.

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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
of the City of Milpitas, California

We have audited the financial statements of the City of Milpitas as of and for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. 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, 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 City'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 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. We did identify deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above. We communicated these deficiencies to City Council in our separate Memorandum on Internal Controls dated September 24, 2008, which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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. 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 and other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of City Council, the audit committee, management, 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.

Mauze & Associates

September 24, 2008

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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
of the City of Milpitas, California

Compliance

We have audited the compliance of the City of Milpitas with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in Section I - Summary of Auditor's Results included in 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'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.

As described in item 08-01 in Section III – Federal Award Findings and Questioned Costs, we were unable to determine whether the City complied with the requirements regarding reporting and equipment management that are applicable to its U.S. Department of Homeland Security Urban Area Security Initiative program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2008.

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 a City'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 City'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 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance 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 material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. Our audit was performed for the purpose of forming opinions on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of City Council, the audit committee, management, 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.

Mayer & Associates

October 13, 2008

CITY OF MILPITAS

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2008

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CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2008

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MEMORANDUM ON INTERNAL CONTROL STRUCTURE

September 24, 2008

To the City Council of
the 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, 2008, 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. However, we noted no matters that we consider to be material weaknesses. We noted other deficiencies that we consider to be significant deficiencies that are included on the Schedule of Significant Deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions 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 & Associates

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SCHEDULE OF SIGNIFICANT DEFICIENCIES

2008-01 Building Permit Fee Calculation Errors

We selected a sample of 25 building permit fees to recalculate the rates charged in accordance with the City Council-approved rate schedule. We found that three permits were calculated incorrectly based on a formula-driven fee in the permits system.

Certain fees, including plan check, inspection, Title 24 and the permit automation, for commercial property greater than 50,000 square feet are calculated using the "valuation" method, rather than a flat-fee. Based on the valuation method approved by Council, for the first $500,000 of "value", a fixed amount of $8,900 is charged and $12.80 is added for each additional $1,000 of value or fraction thereof. However, the master rate in the permitting system was erroneously set with a base threshold of $50,000 instead of $500,000. We were told that the rate schedule from the City's old permitting system was migrated to the new system in March 2007.

Since the fee schedule was approved by Council in September 2004 and revised in July 2006, the building permit fees for properties over 50,000 sq. ft. after this period could have been mischarged based on the incorrect parameter, resulting in possible overbillings of permits fees by the City.

Based on the results of our findings, City staff recalculated all permits from February 2005 for projects that meet the above criteria and found that the overbillings for that period totaled $136,753. Although this total is not significant, the potential for overbilling customers was significant.

Any time fee schedules or fee systems are revised, calculations should be manually checked to ensure that revised fee schedules or the automated systems are functioning properly.

Management's Response:

The Building and Safety Department has corrected the building permit fee schedule for large projects with the construction valuation over $500,000 and over 50,000 square feet of the area of construction. All large projects currently submitted to the City will no longer be overcharged based on previous erroneous fee formula in permitting software.

The Building and Safety Department provided an internal audit of the fees charged for all the permit applications for large projects submitted to the City after September 2004. It was determined that a total of 23 permits were issued with incorrect amount of permit fees charged.

The Building and Safety Department prepared notification letters to the permit applicants stating that they qualify for the refund of the overcharged fees. Such letters are now in process of being mailed out. Currently, four letters were mailed on July 28, 2008.

SCHEDULE OF OTHER MATTERS

2008-02 Timely Bank Reconciliations

Bank reconciliations are one of the most important internal controls a City can have. The January 2008 Bank reconciliation was not completed until April 2008. We understand that the City monitors the activity in its bank accounts on daily basis. However the reconciliation to the general ledger does not take place on a monthly basis. To be an effective control, bank reconciliations must be completed in their entirety as soon as reasonably possible after each month-end, usually within 30 days. Errors and unreconciled differences must be researched, understood and corrected immediately, or they will cause additional errors. Differences which result from program or procedural errors, such as misposted journal entries, are especially important because their underlying cause must be corrected to prevent more of the same error.

In addition, the UCC regulations require timely bank reconciliations and notification in order for banks to indemnify the City for losses due to fraudulent disbursements due to check fraud. We recommend that the City perform its bank reconciliations in a timely manner.

Management's Response:
The City is enforcing the completion of its bank reconciliation within 30 days of month end.

2008-03 Payroll Personnel Pay Review

Timesheets are entered into the payroll system by each department, and then the payroll staff reviews and approves the timesheets in the system. As an added measure, the timesheets/pay checks of key finance personnel, including the Accounting Manager and the Senior Accountant, are reviewed to ensure that they do not include inappropriate amounts. However, no one reviews the payroll personnel's timesheets or pay checks to insure that their timesheets have not been altered during the review and approval process. The City should have someone other than the payroll staff to review payroll staff's timesheet and pay checks to ensure they include only appropriate and authorized amounts.

Management's Response:
We have implemented a procedure for the Senior Accountant to review the payroll staff's timesheet and pay checks to ensure they are correct.

2008-04 Capital Assets Disposals and Auction Proceeds

During our inquiry regarding the procedures in place for the accounting for disposition of capital assets, we selected two dispositions for testing. We found that the two motor vehicles were sent to auction in October 2007, however the proceeds from the sale of the assets had not yet been received as of June 2008. The City should establish a procedure to ensure the timely follow up and determination of the cause of the delay in the receipt of auction proceeds.

Please provide us with the status of the auction proceeds when we return for the final phase of the audit.

Management's Response:
The City has sent two demand letters to the auction company and will proceed with a law suit, if necessary. The City is in the process of developing a contract with another auction company, which would provide for an auctioneer's bond. Procedures have been developed to ensure timely follow up.

SCHEDULE OF OTHER MATTERS

2008-05 Information Technology Best Practices Recommendations

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

Currently, there are no Information Technology standards to which local governments are required to conform. Indeed there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) are the most appropriate for local government. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. We understand the U.S. Department of Justice recommends these for local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

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

- *External Scan Results* -- Our external scan found two vulnerabilities in the City's externally facing systems (systems connected directly to the Internet) which may be used to gain control of those systems. Externally facing systems should have the greatest level of security. Our results indicate a weakness in the information systems control processes. We then extended our testing by scanning the Financial Application server and one workstation from the Finance department. We did not find any vulnerabilities on the Financial Application server or workstation. In addition, the City should establish a means to monitor the effectiveness of their information systems control procedures, including periodic vulnerability scans.

SCHEDULE OF OTHER MATTERS

2008-05 **Information Technology Best Practices Recommendations (Continued)**

- *Payment Card Industry Compliance* – The City outsources its credit card processing. Any organization that processes credit cards is required to comply with the Payment Card Industry Data Security Standard (PCI-DSS), even if the processing is outsourced. The standard was developed to minimize the risk of loss due to security breaches in processing credit card transactions. Merchants which conform to the Standard pay lower transaction fees and minimize their liabilities which may result from security breaches than those that do not comply. The Standard requires varying levels of controls depending on transaction levels. In general, merchants must:

  1. Fill out a self-assessment questionnaire (SAQ).
  2. Submit the SAQ to acquiring banks.
  3. Perform quarterly external network scans and submit the results to acquiring banks.
  4. Have a full independent PCI audit performed by a Qualified Security Assessor (QSA) and submit it to acquiring banks. (Required for level 1 merchants only).

  We believe the City qualifies as a Level 3 or 4 merchant due to activity levels of less than 1 million transactions and currently it need only complete and maintain the SAQ in-house. However, we understand SAQ submissions will become mandatory for Level 3 and 4 merchants within the near future. Staff have not completed the SAQ, but should do so and prepare for the submission requirement.

- *Audit/Event Logging* - . We believe this is one of the more important standards of NIST. The City does not appear to have audit logs documenting any change, addition or deletion of user accounts within the financial information system. The City should have audit/event logs of any addition, deletion or change in financial information system user accounts and the logs should be monitored by someone without the rights to effect such changes to ensure only authorized appropriate changes are made. In addition, any administrative access such as upgrades or application modifications by IT personnel, outside consultants or vendors should also be logged and reviewed.

  Management's Response:

  External Scan - The vulnerabilities found were related to an online calendar application for elected officials, which was only used during development and is no longer needed. The software has been removed. The City will also implement a procedure to run a network security vulnerability test annually. The results will then be reviewed and corrective actions taken.

  PCI Compliance - The City has requested for the SAQ and will complete the questionnaire in anticipation of the upcoming requirement.

  Audit/Event Logging - Currently, there is an IS form to request an addition of new user accounts within the Financial system. The City will develop a procedure that will log and review any change or deletion of user accounts. In addition, the City will create a procedure to log and review any administrative access such as upgrades or application modification by IT personnel, outside consultants or vendors.

SCHEDULE OF OTHER MATTERS

2008-06 GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* (Effective for fiscal 09/10) - Retroactive Application Required

Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. Easements, are referred to in the GASB 34 description of capital assets which has raised questions about whether and when intangible assets should be considered capital assets for financial reporting purposes.

The absence of specific authoritative guidance has resulted in inconsistencies in the recognition, initial measurement, and amortization of intangible assets among governments. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability.

A summary of the statement:

- Intangible assets should be classified, accounted for and reported as capital assets, unless excluded from the scope. Guidance in this statement is in addition to existing capital asset guidance.

- GASB 51 specifically addresses the nature of intangible assets.
  - *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
  - *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
  - *Initial useful life greater than one year.*

- GASB 51 excludes:
  - Assets acquired or created primarily for the purpose of directly obtaining income or profit.
  - Assets resulting from capital lease transactions reported by lessees.
  - Goodwill created through the combination of a government and another entity.

- Recognition of an intangible asset occurs only if it is considered identifiable. That is when either of the following apply:
  - The asset is separable from the government. That is it can be sold, transferred, licensed, rented, or exchanged.
  - The asset arises from contractual or other legal rights, regardless of whether transferable or separable.

SCHEDULE OF OTHER MATTERS

2008-06 GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* (Effective for fiscal 09/10) - Retroactive Application Required (Continued)

- Specific conditions must present to recognize internally generated intangibles. Capitalization of costs begins after all of the following criteria are met:
  - Determination of specific objectives of the project and the nature of the service capacity expected upon the completion.
  - Demonstration of the feasibility that the completed project will provide its expected service capacity
  - Demonstration of the current intention, ability, and effort to complete or continue development of the intangible asset.
  - Internally generated computer software is used as an example in applying the specific conditions approach.

- Amortization lives are addressed:
  - Limited by contractual or legal provisions.
    - Renewal periods for rights may be considered if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal. Such evidence should consider the required consent of a third party and the satisfaction of any conditions required to achieve renewal.
  - An indefinite life (no amortization) is permitted so long as there are:
    - No limiting legal, contractual, regulatory, technological, or other factors, and
    - No subsequent change in circumstances.
    - A permanent right-of-way easement is an example.

Retroactive Application -- For GASB 34 Phase I & II governments, retroactive reporting is ***required*** for intangible assets acquired in fiscal years ending after June 30, 1980. Retroactive reporting is not required for intangible assets with indefinite useful lives as of the effective date of this Statement nor for internally generated intangibles.

Retroactive reporting for Phase III governments is not required.

Management's Response:
The City will develop procedures to address the new GASB.

SCHEDULE OF OTHER MATTERS

2008-07 GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* (Effective for fiscal 09/10)

This Statement is intended to improve how state and local governments report information about derivative instruments in their financial statements. Specifically, GASB 53 requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting (proprietary and entity-wide financial statements). Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. In addition, this standard addresses hedge accounting requirements.

Management's Response:
The City's investment policy prohibits investment in derivative investments. The City's debt policy does not specifically disallow issuance of variable rate debt, but the City will implement the provisions of GASB 53, if applicable in fiscal year 2010.

STATUS OF PRIOR YEAR 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.

Current Status:
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.

STATUS OF PRIOR YEAR 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.

Current Status:
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 at Carrying Value*
- *Disclosures of Revenue Pledged for Repayment of Debt*
- *Financing Authorities – recognizing revenue when the pledging government is obligated to make payments*

Other Topics:

- *Exchanges of Specific Receivables/Revenues for Cash*
- *Residual Interests and Recourse Provisions*

Current Status:
The City implement the applicable provisions of the Statement in fiscal year 2008 with respect to disclosures of revenue pledged for the repayment of debt.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

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 certain recognition triggers occur.

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.

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

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REQUIRED COMMUNICATIONS

September 24, 2008

To the City Council of
the City of Milpitas, California

We have audited the financial statements of the City of Milpitas as of and for the year ended June 30, 2008 and have issued our report thereon dated September 24, 2008. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008. As described in notes to the financial statements, during the year, the City implemented the following new standards:

GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

GASB 45 uses Pension Accounting (GASB 27) to change the accounting for Other Post Employment Benefits (OPEB) to full accrual at the Entity-wide and proprietary funds financial statement levels. Under the concepts in GASB 45 an actuarial study or simplified measurement method calculation is performed to determine an Annual Required Contribution (ARC). So long as employers contribute this amount every year, no accrual adjustment is needed in the financial statements. A summary of the impacts of this statement are presented below.

As discussed in Note 12 to the financial statements, during the year ended June 30, 2008, the City contributed the ARC for fiscal 2007-08 by paying retiree health care premiums and additional contributions to into a separate irrevocable trust established for the sole purpose of funding OPEB. This Trust is governed by a separate board, which is not appointed or controlled by the City Council or management and it has therefore been excluded from the City's financial statements.

There was no cumulative effect of the accounting change as of the beginning of the year.

GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

This Statement establishes financial reporting of several categories of transactions. There was no cumulative effect on prior year financial statements from this change. A summary of the financial statement impact follows:

- Intra-Entity Transfers of Assets at 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.

  This principal had no impact on the City during the year.

GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (Continued)

- Disclosures of Revenue Pledged for Repayment of Debt: Though this GASB does not impact the recording of debt with pledged revenues, it expands disclosure requirements. See Note 9 to the financial statements. We have italicized what *changed* from prior year disclosures as follows:

    1. Identification of the specific revenue pledged and *the approximate amount of the pledge* [e.g. remaining debt service].
    2. Identification of, and general purpose for, the debt secured by the pledged revenue.
    3. The *term of the commitment* [e.g. remaining term of the debt].
    4. *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.
    5. *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.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are depreciation and compensated absences.

Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 8 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Accrued compensated absences which are comprised of accrued vacation and sick leave is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

CITY OF MILPITAS

REQUIRED COMMUNICATIONS

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the City's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the City, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Council.

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

Maze & Associates

MILPITAS REDEVELOPMENT AGENCY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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MILPITAS REDEVELOPMENT AGENCY
Component Unit Financial Statements
For the Fiscal Year Ended June 30, 2008

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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, 2008, 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, 2008 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.

As described in Note 9, the Agency implemented the provisions of GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic 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 & Associates

September 24, 2008

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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, 2008. 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 2008 FINANCIAL HIGHLIGHTS

The Agency's revenues in fiscal 2008 reflected an increase of property tax revenue by $3.8 million. The increase was primarily due to enrollment of new residential properties on the fiscal 2008 tax roll. In addition, several commercial buildings in the Redevelopment Area that were previously vacant were occupied by a major high-tech company. The appeals on the assessed valuation of the unsecured properties appeared stabilized. The assessed valuation of the secured properties which made up approximately 87% of the total assessed valuation increased by 13%. Fiscal 2008 financial highlights include the following:

Agency-wide:

- The Agency's net assets totaled $62.7 million at June 30, 2008, all of which were Governmental assets.
- Agency-wide revenues include program revenues of $6.7 million and general revenues of $39.1 million for a total of $45.8 million, an increase of $2.9 million from the prior year's total of $42.9 million.
- Total Agency-wide expenses were $30.1 million, a decrease of $4.8 million from the prior year's $34.9 million.

Fund Level:

- Governmental Fund balances were $112.3 million in fiscal 2008, a decrease of $20.4 million from $132.7 million in fiscal 2007.
- Governmental Fund revenues decreased to $39.7 million in fiscal 20078, down $2.5 million from the prior year's $42.2 million.
- Governmental Fund expenditures were $55.5 million in fiscal 2008, up $0.2 million from fiscal 2007's level of $55.3 million.
- Redevelopment Project Fund revenues of $37.3 million represented a decrease of $3.8 million from fiscal 2007's revenues of $41.1 million.
- Net transfers out and other financing uses of the Redevelopment Project Fund were $9.9 million in fiscal 2008, compared with net transfers out and other financing sources of $10.8 million in fiscal 2007.
- Redevelopment Project Fund balance of $94.5 million at the fiscal 2008 year end was $23.8 million less than fiscal 2007's fund balance of $118.3 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 the Agency's activities.

The Agency has two Major Funds in 2008. 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 2008 net assets and activities with fiscal 2007 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	
	2008	2007
Cash and investments	$107.6	$129.8
Other assets	31.2	29.3
Capital assets	183.2	156.6
Total assets	**322.0**	**315.7**
Long-term liabilities	245.5	252.8
Other liabilities	13.8	15.9
Total liabilities	**259.3**	**268.7**
Net assets:		
Invested in capital assets, net of debt	62.9	66.3
Restricted	40.6	35.2
Unrestricted	(40.8)	(54.5)
Total net assets	**$62.7**	**$47.0**

The Agency's net assets were $62.7 million in fiscal 2008, increased by $15.7 million from $47 million in fiscal 2007. 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 $22.2 million, principally due to spending of bond proceeds for capital improvement projects and funding of grants and loans for affordable housing.
- Other assets increased $1.9 million due to a combination of increased loans receivable and decreased interest receivable. The Agency funded to $2.4 million loans in fiscal 2008 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 $31.2 million due to additions of construction-in-progress for several major public improvement projects such as Library construction, Main Street Midtown improvement and infrastructure improvements on Abel Street. Capital assets additions were partially offset by depreciation of approximately $4.6 million.
- Long-term liabilities decreased $7.3 million due to principal payments on the various long-term debts. The details for these debt issues are discussed in Note 9 of the financial report.
- Other liabilities decreased $2.1 million primarily due to decreased accounts payable for capital project expenditures at year end.

Fiscal Year 2008 Government Activities

Table 2
Changes in Governmental Net Assets
(in Millions)

	Governmental Activities	
	2008	2007
Expenses		
General Government	$6.8	$8.5
Public Works	2.7	1.5
Planning & Neighborhood Services	0.9	0.1
Police	0.5	0.5
Fire	0.3	0.3
Interest on long term debt	11.4	15.1
Transfer to the City of Milpitas	7.5	8.9
Total expenses	30.1	34.9
Revenues		
Program revenues:		
Operating grants and contributions	0.4	1.3
Capital grants and contributions	6.3	4.2
Total program revenues	6.7	5.5
General revenues		
Taxes:		
Property taxes	32.2	28.4
Investment earnings	5.8	4.2
Miscellaneous	0.1	4.5
Transfer from the City of Milpitas	1.0	0.3
Total general revenues and transfers	39.1	37.4
Changes in net assets	15.7	8.0
Beginning net assets	47.0	39.0
Ending net assets	**$62.7**	**$47.0**

Of the Agency's fiscal 2008 revenues, $32.2 million came from incremental property taxes. This amount increased $3.8 million in fiscal 2008 primarily due to enrollment of new residential developments on the tax roll and the occupancy of several vacant commercial buildings by a major high-tech company.

Investment earnings accounted for $5.8 million of the Agency revenues. Interest income increased by $1.6 million due to increased investment yield as some the lower yielding investment securities matured. However, approximately $754,000 of the interest income increase was due to market value gains. Transfers from the City of Milpitas increased $0.7 million from fiscal 2007's level of $0.3 million, due to increased contributions received from the City for various Redevelopment capital projects in fiscal 2008. Miscellaneous revenue decreased due to the $4.5 million settlement of a lawsuit relating to the City Hall construction in fiscal 2007 that did not recur in fiscal 2008.

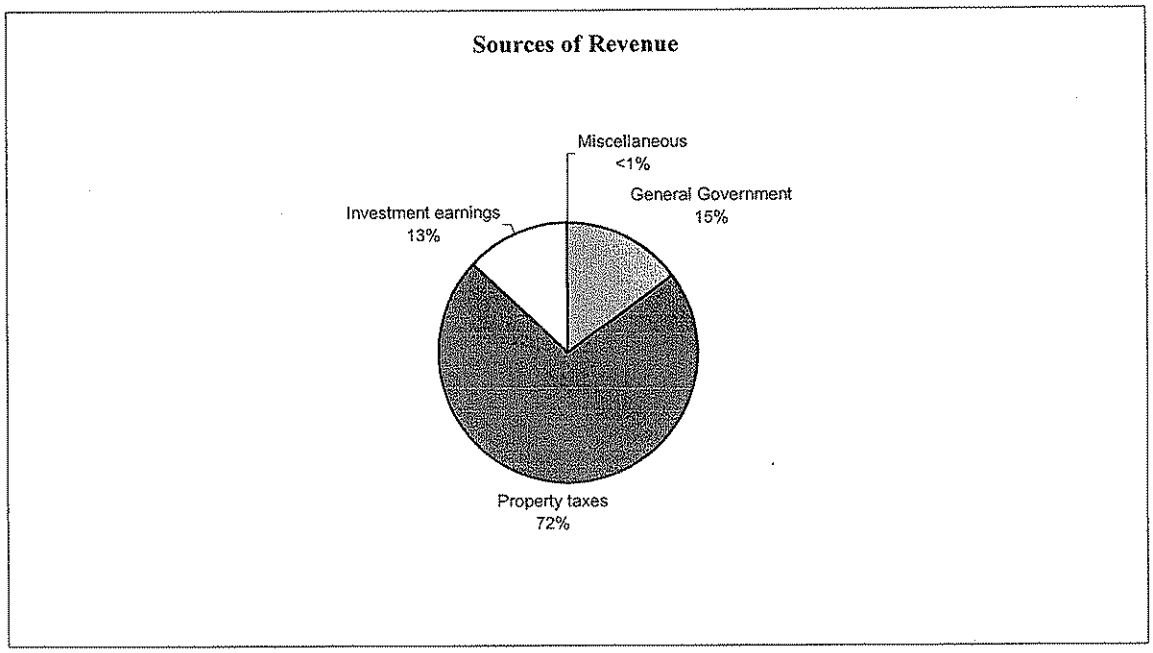
The functional expenses shown in Table 2 include only current year expenses. These expenses do not include capital outlays, which are added to the Agency's capital assets. In fiscal 2008, the Agency added $26.6 million in capital assets, net of depreciation. The composition of fiscal 2008's capital asset additions is shown in detail at Table 5. Transfers to the City of Milpitas decreased $1.4 million, directly related to the level of funding contributions to the City for infrastructure construction projects that benefit the project areas and reduced legal costs related to the City Hall construction litigation.

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.

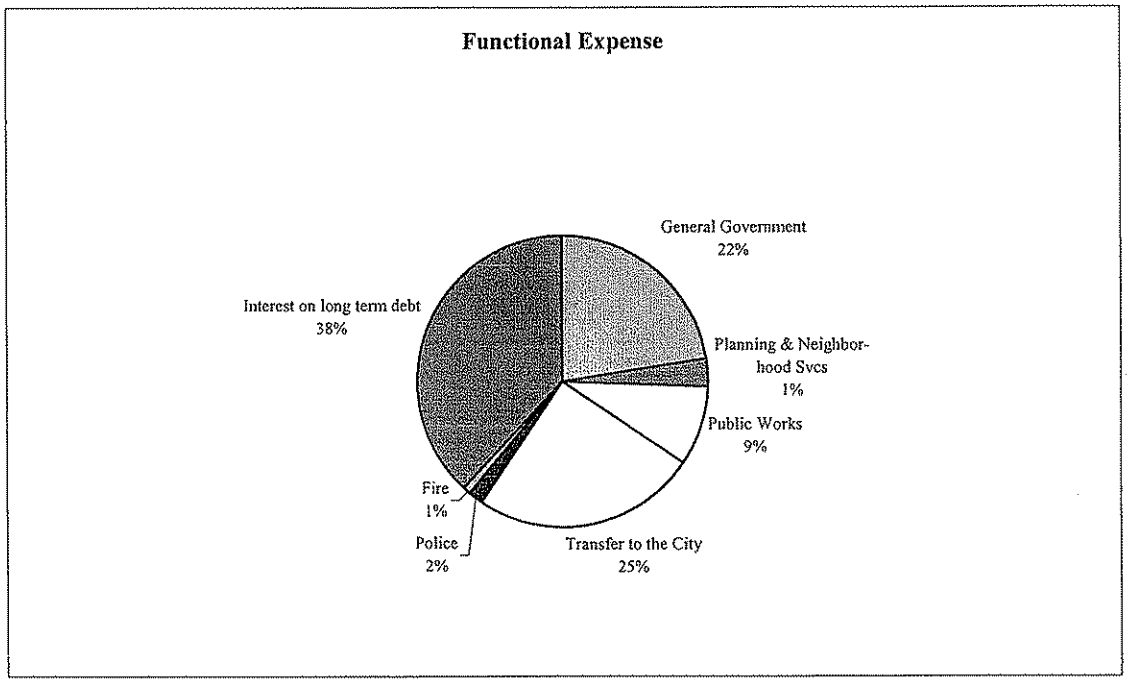
Table 3
Governmental Activities
(in Millions)

	Net (Expense) Revenue From Services	
	2008	2007
General Government	($0.1)	($3.3)
Public Works	(2.7)	(1.5)
Planning & Neighborhood Services	(0.9)	0.1
Police	(0.5)	(0.5)
Fire	(0.3)	(0.3)
Interest on long term debt	(11.4)	(15.1)
Transfers to the City of Milpitas	(7.5)	(8.9)
Totals	**$(23.4)**	**$(29.5)**

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, $32.2 million or 72% of the Agency's fiscal 2008 governmental activities revenue came from property taxes, while investment earnings contribute $5.8 million or 13%. 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 2008 the Agency added $26.6 million in capital assets. The composition of Fiscal 2008'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)

	2008	2007
Total assets	$138.8	$159.1
Total liabilities	26.5	26.4
Total fund balances	112.3	132.7
Total revenues	39.7	42.2
Total expenditures	55.5	55.3
Total other financing sources (uses)	(4.6)	(8.6)

At June 30, 2008, the Agency's funds reported combined fund balances of $112.3 million, a decrease of $20.4 million from fiscal 2007's fund balances of $132.7 million. The Redevelopment Projects Fund decreased by $23.7 million while the Housing Reserve Fund increased by $3.3 million.

Revenues at the fund level decreased $2.5 million this year to a new total of $39.7 million. Revenues of the Redevelopment Projects Fund were $37.3 million and Housing Reserve Fund revenues were $2.4 million.

Expenditures increased $0.2 million this year to a new total of $55.5 million. Expenditures of the Redevelopment Projects Fund were $51.2 million and Housing Reserve Fund expenditures were $4.3 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 $37.3 million in fiscal 2008, a decrease of $3.8 million. Property tax increment revenue was $32.2 million in fiscal 2008, an increase of $3.8 million or 13% from fiscal 2007. This increase was due to enrollment of new residential developments on the tax roll and occupancy of several vacant commercial buildings by major high-tech company. Other revenues included $4.8 million interest income and $0.2 million grants from outside agencies for capital improvement projects.

Fund expenditures were $51.2 million in fiscal 2008, a net increase of $11.5 million, reflecting increase in capital outlay expenditure and debt service payment. In addition to payments on all the outstanding debt issues and obligations, the Redevelopment Agency made a $2.1 million loan payment to the City in fiscal 2008. The loan was created when the Redevelopment Agency purchased several properties from the City. The details of the loan is further discussed in Note 9 to the Basic Financial Statements. Increases in capital outlay expenditures are primarily due to construction-in-progress for all the Midtown capital improvements in fiscal 2008.

Transfers in from the City of $1 million 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 $5.2 million and $1.2 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 $94.5 million may be used only for redevelopment purposes. Of this amount, $11 million was reserved for outstanding encumbrances and prepaids, $7.0 million was reserved for property held for resale or redevelopment, $0.7 million was designated for market value change on investments, $35.2 million was designated for committed capital projects, and $40.6 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 2008, the balances of loans under the above programs increased from $20.5 million to $22.9 million, due to additional loans provided for low and moderate income first time home buyers and a non-profit developer for a 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 $1.0 million and developer contributions of $1.3 million in fiscal 2008.

The Fund's fiscal year end fund balance of $17.7 million is available only to fund future low and moderate-income housing expenditures.

CAPITAL ASSETS

At the end of fiscal 2008, 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)

	2008	2007
Governmental Activities:		
Land	$41.1	$39.1
Construction in progress	74.6	46.0
Buildings and improvements	88.3	87.8
Other improvements	8.8	8.8
Machinery and equipment	5.7	5.6
Less accumulated depreciation	(35.3)	(30.7)
Totals	**$183.2**	**$156.6**

The principal addition in fiscal 2008 was construction in progress of $28.6 million primarily related to mid-town construction projects such as the parking garage, Main Street Midtown improvement 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, 2008 the Agency's bonded indebtedness totaled $183.2 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 $43.4 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, 2008.

As part of the State's strategies to balance their budget for FY 08-09, all the redevelopment agencies in the state are required to contribute to the Education Augmentation Revenue Fund. Milpitas Redevelopment Agency's share of the contribution is approximately $2.43 million.

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.

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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, 2008

	Governmental Activities
ASSETS	
Cash and investments available for operations (Note 3)	$64,875,119
Restricted cash and investments (Note 3)	42,742,567
Receivables:	
Accounts	68,932
Due from other governments	145,235
Interest	981,377
Loans receivable (Note 5)	22,921,935
Prepaids, materials, supplies and deposits	102,975
Property held for resale (Note 8)	6,988,800
Capital assets (Note 7):	
Land and construction in progress	115,647,769
Depreciable capital assets, net	67,562,799
Total assets	322,037,508
LIABILITIES	
Accounts payable	3,601,784
Accrued payroll	47,493
Interest payable	2,909,486
Long term debt (Note 9):	
Due within one year	7,250,810
Due in more than one year	245,500,614
Total liabilities	259,310,187
NET ASSETS (Note 10)	
Invested in capital assets, net of related debt	62,874,721
Restricted for:	
Housing and community development projects	40,651,701
Unrestricted	(40,799,101)
Total net assets	$62,727,321

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenue		Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:				
General Government	$6,756,850	$406,699	$6,258,264	($91,887)
Public Works	2,669,337			(2,669,337)
Planning and Neighborhood Services	935,597			(935,597)
Police	505,151			(505,151)
Fire	312,753			(312,753)
Interest on long term debt	11,406,765			(11,406,765)
Transfer to the City of Milpitas (Note 4B)	7,477,558			(7,477,558)
Total Governmental Activities	$30,064,011	$406,699	$6,258,264	(23,399,048)
General revenues:				
Taxes:				
Property				32,259,656
Investment earnings				5,836,749
Miscellaneous				43,901
Transfer from the City of Milpitas (Note 4B)				1,016,902
Total general revenues and transfers				39,157,208
Change in Net Assets				15,758,160
Net Assets-Beginning				46,969,161
Net assets-Ending				$62,727,321

See accompanying notes to financial statements

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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, 2008

	Redevelopment Project	Housing Reserve	Total Governmental Funds
ASSETS			
Cash and investments available for operations (Note 3)	$47,314,519	$17,560,600	$64,875,119
Restricted investments (Note 3)	42,742,567		42,742,567
Receivables:			
Accounts	387	68,545	68,932
Due from other governments	145,235		145,235
Interest	867,045	114,332	981,377
Loans receivable (Note 5)		22,921,935	22,921,935
Prepaids and deposits	100,877	2,098	102,975
Property held for resale (Note 8)	6,988,800		6,988,800
Total Assets	$98,159,430	$40,667,510	$138,826,940
LIABILITIES			
Accounts payable	$3,591,149	$10,635	$3,601,784
Accrued payroll	42,319	5,174	47,493
Deferred revenue		22,921,935	22,921,935
Total Liabilities	3,633,468	22,937,744	26,571,212
FUND BALANCES			
Fund balances (Note 10)			
Reserved for:			
Encumbrances	10,968,206	118,824	11,087,030
Prepaids and deposits	100,877	2,098	102,975
Property held for resale	6,988,800		6,988,800
Low and moderate income housing		17,608,844	17,608,844
Unreserved, designated for:			
Projects	35,156,402		35,156,402
Change in investment market values	754,526		754,526
Unreserved, undesignated reported in:			
Capital Projects Fund	40,557,151		40,557,151
Total Fund Balances	94,525,962	17,729,766	112,255,728
Total Liabilities and Fund Balances	$98,159,430	$40,667,510	

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.	183,210,568
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.	22,921,935
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	(39,478,263)
Purchase and Sale Agreement	(26,243,161)
Interest payable	(2,909,486)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$62,727,321

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, 2008

	Redevelopment Project	Housing Reserve	Total Governmental Funds
REVENUES			
Property taxes	$32,259,656		$32,259,656
Use of money and property	4,797,240	$1,039,509	5,836,749
Intergovernmental	163,750		163,750
Developer contributions		1,275,000	1,275,000
Other	80,510	43,901	124,411
Total Revenues	37,301,156	2,358,410	39,659,566
EXPENDITURES			
Current:			
General Government	665,943	4,162,730	4,828,673
Public works	2,269,892		2,269,892
Planning and Neighborhood Services	70,524	155,513	226,037
Capital outlay	29,360,795		29,360,795
Debt service:			
Principal	9,410,350		9,410,350
Interest and fees	9,405,315		9,405,315
Total Expenditures	51,182,819	4,318,243	55,501,062
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,881,663)	(1,959,833)	(15,841,496)
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of property (Note 6F)	1,862,360		1,862,360
Transfers in from the City (Note 4B)	1,016,902		1,016,902
Transfers out to the City (Note 4B)	(6,376,903)	(1,100,655)	(7,477,558)
Transfers in (Note 4A)	362,396	6,740,250	7,102,646
Transfers (out) (Note 4A)	(6,740,250)	(362,396)	(7,102,646)
Total Other Financing Sources (Uses)	(9,875,495)	5,277,199	(4,598,296)
NET CHANGE IN FUND BALANCES	(23,757,158)	3,317,366	(20,439,792)
Fund balances at beginning of period	118,283,120	14,412,400	132,695,520
FUND BALANCES AT END OF PERIOD	$94,525,962	$17,729,766	$112,255,728

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, 2008

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	($20,439,792)
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	34,344,059
Retirements are deducted from fund balance	(3,183,066)
Depreciation expense is deducted from the fund balance	(4,555,138)
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	5,955,000
Installment payment to the County is added back to fund balance	3,455,350
Interest accrued to principal is deducted from fund balance	(2,045,519)
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	44,069
Deferred revenue	2,183,197
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$15,758,160

See accompanying notes to financial statements

MILPITAS REDEVELOPMENT AGENCY
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Budget Positive
	Original	Final	Budgetary Basis	(Negative)
Revenues				
Use of money and property	$715,000	$715,000	$1,039,509	$324,509
Developer contributions			1,275,000	1,275,000
Other			43,901	43,901
Total Revenues	715,000	715,000	2,358,410	1,643,410
Expenditures				
Current:				
General Government:				
City Manager	70,658	78,862	68,647	10,215
Non-departmental		5,451,040	4,212,907	1,238,133
Planning and Neighborhood Services	54,000	155,712	155,513	199
Total Expenditures	124,658	5,685,614	4,437,067	1,248,547
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	590,342	(4,970,614)	(2,078,657)	2,891,957
OTHER FINANCING SOURCES (USES)				
Transfers to the City	(1,100,655)	(1,100,655)	(1,100,655)	
Transfers in	6,011,000	6,011,000	6,740,250	729,250
Transfers out			(362,396)	(362,396)
Total Other Financing Sources (Uses)	4,910,345	4,910,345	5,277,199	366,854
Net change in fund balances	$5,500,687	($60,269)	3,198,542	$3,258,811
Adjustment to budgetary basis:				
Encumbrance adjustments			118,824	
Fund balance, July 1			14,412,400	
Fund balance, June 30			$17,729,766	

See accompanying notes to financial statements

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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.

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.

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, 2008 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, 2008:

Cash and investments	$64,875,119
Restricted cash and investments	42,742,567
Total cash and investments	$107,617,686

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
City of Milpitas' Pooled Investments	$46,792,073
Investments:	
California Local Agency Investment Fund	60,811,936
Mutual Funds (U.S. Securities)	13,677
Total cash and investments	$107,617,686

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, 2008, these investments mature in an average of 212 days.

The City of Milpitas' Pooled Investments mature in an average of 436 days at June 30, 2008.

Mutual Funds are available for withdrawal on demand and at June 30, 2008 matured in an average of 55 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 rating as of June 30, 2008 for the mutual funds was AAAm, 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, 2008.

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, 2008 were as follows.

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
Special Revenue Fund:			
Housing Reserve	Redevelopment Project Capital Projects Fund	$6,740,250	(A)
Capital Projects Fund:			
Redevelopment Project	Housing Reserve Special Revenue Fund	362,396	(B)
Total Interfund Transfers		$7,102,646	

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, 2008:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
To the City:			
General Fund	Housing Reserve Special Revenue Fund	$1,100,655	(A)
General Fund	Redevelopment Project Capital Projects Fund	5,220,847	(A)
Public Art Special Revenue Fund	Redevelopment Project Capital Projects Fund	260,662	(B)
Street Improvement Capital Projects Fund	Redevelopment Project Capital Projects Fund	887,155	(C)
Sewer Utility Enterprise Fund	Redevelopment Project Capital Projects Fund	8,239	(C)
Total transfers out to the City		$7,477,558	
From the City:			
Redevelopment Project Capital Projects Fund	General Fund	$100,000	(C)
Redevelopment Project Capital Projects Fund	Public Art Special Revenue Fund	415,000	(B)
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	155,000	(C)
Redevelopment Project Capital Projects Fund	Street Improvement Capital Projects Fund	278,791	(D)
Redevelopment Project Capital Projects Fund	Park Improvement Capital Projects Fund	10,809	(D)
Redevelopment Project Capital Projects Fund	General Government Capital Projects Fund	47,302	(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)
Total transfers in from the City		$1,016,902	

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

The Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing. These loans were comprised of the following at June 30, 2008:

Milpitas Housing Associates	$4,141,798
Parc Metropolitan Housing Development	482,113
Montague Parkway Associates, LP	1,160,843
Parc North Associates LLC	1,974,000
Mid-Peninsula Milpitas Affordable Housing Associates	14,123,181
KB Home South Bay Inc.	900,000
Western Pacific Housing Inc.	140,000
Total Loans Receivable	$22,921,935

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 $196,904 and as of June 30, 2008, principal and accrued interest totaled $4,141,798.

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 $17,887 and as of June 30, 2008, there were $482,113 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; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal and interest of $68,545 was accrued and paid in fiscal 2008. As of June 30, 2008, the outstanding balance totaled $1,160,843.

NOTE 5 - LOANS RECEIVABLE (Continued)

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, 2008, there were $1,974,000 of such loans outstanding.

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 $1,091,664 of the loan during fiscal year 2008, and interest of $259,815 was accrued. As of June 30, 2008, principal and accrued interest outstanding totaled $14,123,181.

F. *KB Home South Bay Inc Loans*

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the Agency will provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately $5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2008, there were $900,000 of loans to Parcel C households outstanding. As of June 30, 2008 the Agency had provided subsidies totaling $2,795,277.

G. *Western Pacific Housing Inc., Loans*

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. In exchange, the Agency will provide a grant of $379,480 for permits, fees, and infrastructure. The Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2008, there were $140,000 of such loans outstanding.

NOTE 5 - LOANS RECEIVABLE (Continued)

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

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, 2008, 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. The Owner Participation Agreement was amended in June 2008 to change the deed-restricted units to 12 extremely low-income units, 43 very low-income units, and 38 market rate units. In exchange, the Agency will provide a $1,230,560 developer loan upon completion of the fifty-five affordable housing units. As of June 30, 2008, the Agency had not expended any funds on the developer loan.

D. 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.

NOTE 6 - DEVELOPMENT AGREEMENTS (Continued)

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.

E. 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, 2008, the Agency had not expended any funds on the silent-second loans.

F. 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 property was sold to the County in fiscal 2008.

G. 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, 2008, 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.

NOTE 7 - CAPITAL ASSETS (Continued)

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.

Governmental activities capital assets at June 30 comprise:

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Governmental activities					
Capital assets not being depreciated:					
Land	$39,129,834	$4,983,264	($3,052,586)		$41,060,512
Construction in Progress	45,952,618	29,241,037	(130,480)	($475,918)	74,587,257
Total capital assets not being depreciated	85,082,452	34,224,301	(3,183,066)	(475,918)	115,647,769
Capital assets being depreciated:					
Buildings and Improvements	87,831,627	119,758		355,179	88,306,564
Other improvements	8,834,055				8,834,055
Machinery and equipment	5,613,320			120,739	5,734,059
Total capital assets being depreciated	102,279,002	119,758		475,918	102,874,678
Less accumulated depreciation for:					
Buildings and Improvements	(22,456,131)	(3,437,996)			(25,894,127)
Other improvements	(4,648,853)	(441,702)			(5,090,555)
Machinery and equipment	(3,651,757)	(675,440)			(4,327,197)
Total accumulated depreciation	(30,756,741)	(4,555,138)			(35,311,879)
Net capital assets being depreciated	71,522,261	(4,435,380)		475,918	67,562,799
Governmental activity capital assets, net	$156,604,713	$29,788,921	($3,183,066)		$183,210,568

NOTE 7 - CAPITAL ASSETS (Continued)

Construction in progress comprises the following at June 30, 2008:

Project	Total Budgeted	Expended	Budget Unexpended
Public Works Yard Parking Lot Expansion	$250,000	$234,935	$15,065
Community Center Renovations	460,000	415,388	44,612
Storm Water Pump Station Improvement	135,000	101,929	33,071
New Finance System	3,096,093	3,096,093	
Department Hardware	2,622,617	2,622,617	
Computer Aided Draft	2,985,000	2,985,000	
Radio Replacement Plan	1,083,245	1,004,448	78,797
Information Management System	700,000	684,618	15,382
Miscellaneous City Building Improvement Projects	876,866	771,902	104,964
Berryessa Pump Station Improvements	1,800,000	1,259,705	540,295
Oakcreek Pump Station Improvement	337,000	241,262	95,738
Milpitas Library Offsite Utility Improvements	6,024,910	5,649,955	374,955
Land Acquisition, Abatement & Site Preparation for Midtown Parking Garage East	4,500,000	2,215,005	2,284,995
Calaveras/Abel Dual Left Turn Lanes	373,500	128,082	245,418
Abel Street Midtown Improvements	1,510,510	1,384,871	125,639
Sports Center Large Gym Improvement	1,400,000	438,822	961,178
Midtown Parking Garage East	12,500,000	11,567,128	932,872
Library Project	39,000,000	28,218,122	10,781,878
Bart Extension Coordination & Plan	350,000	316,093	33,907
Main Street Midtown Improvement	8,033,750	4,681,669	3,352,081
Main/Great Mall Dr Sewer Replacement	20,000	1,491	18,509
Curtis Avenue Improvements	490,000	481,768	8,232
N Main Street EIR Mitigation	700,000	597,682	102,318
Emergency Operations	35,000		35,000
Public Works Security	100,000	27,135	72,865
Range Lead Containment	250,000	154,955	95,045
Senior Center	2,300,000	1,213,229	1,086,771
Transit Area Specific Plan	1,372,697	850,588	522,109
City Building Improvement	500,000	124,277	375,723
Corporation Yard Canopies	600,000	100,655	499,345
In-ground Water Clarifiers	175,000		175,000
Public Art Renovations	25,000	16,148	8,852
Carlos Street and Calaveras Blvd Ramp Conversion Study	250,000	250,000	
Storm Pump Station Improvement	50,000		50,000
Library Art	390,000	72,622	317,378
Terra Serena Homes Infrastructure	3,160,858	2,679,063	481,795
Total	$98,457,046	$74,587,257	$23,869,789

NOTE 7 - CAPITAL ASSETS (Continued)

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	$2,628,229
Public Works	399,445
Parks and Recreation	709,560
Police	505,151
Fire	312,753
Total	$4,555,138

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, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
2003 Tax Allocation Bonds 2%-5.25%, due September 1, 2032	$187,030,000		$3,855,000	$183,175,000	$3,960,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	46,843,094		3,455,350	43,387,744	3,290,810
Agreement of Purchase and Sale with the City of Milpitas 10%, due September 7, 2044	26,243,161	$2,045,519	2,100,000	26,188,680	
Total	$260,116,255	$2,045,519	$9,410,350	$252,751,424	$7,250,810

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. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a $13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

NOTE 9 – LONG TERM DEBT (Continued)

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the $304,449,809 remaining debt service on the bonds which is scheduled to occur in 2032. Projected non-housing revenues are expected to provide coverage over debt service of 158% over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) are expected to provide coverage over debt service of 13.79 over the life of the bonds. For fiscal year 2008, non-housing tax increment revenue amounted to $25,807,725 which represented coverage of 2.09 over the $12,353,269 non-housing portion of debt service. For fiscal year 2008, the housing revenue amounted to $6,451,931 which represented coverage of 17.79 over the $362,696 housing portion of debt service.

C. *Installment Purchase Agreement with the County of Santa Clara*

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original 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 $43,387,744, at June 30, 2008, representing the present value of future payments due under this Agreement.

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. Under the terms of the Amended Agreement, the purchase price of the parcels is $20,455,191. The loan is due on 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
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	8,302,357	11,311,695
2014-2018	46,846,801	55,993,609
2019-2023	55,096,084	52,499,643
2024-2028	52,645,000	24,736,088
2029-2033	31,775,000	13,731,824
2034-2038		10,227,595
2039-2043		10,227,595
2044-2045	26,188,680	2,394,210
	$252,751,424	$226,874,440

F. *Defeased Bonds*

As of June 30, 2008, 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, 2008, 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.

Designated for unrealized gain on investments represents gains or losses on investments resulting from changes in fair market values recognized for financial statement purposes but not realized, since these investments have not been sold.

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 2008, the Agency made pass-thru payments in the amount of $1,103,921.

MILPITAS REDEVELOPMENT AGENCY
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	$30,055,000	$32,259,656	$2,204,656
Use of money and property	2,914,000	4,797,240	1,883,240
Intergovernmental	33,750	163,750	130,000
Other	17,390	80,510	63,120
Total Revenues	33,020,140	37,301,156	4,281,016
Expenditures			
Current:			
General Government:			
Policy, Planning and Implementation	248,305	244,025	4,280
City Attorney	42,075	42,075	
Non-departmental	1,061,234	732,044	329,190
Public Works	3,670,073	2,269,892	1,400,181
Planning and Neighborhood Services	123,070	123,070	
Debt service:			
Principal	9,410,350	9,410,350	
Interest and fiscal charges	13,305,650	9,405,315	3,900,335
Total Expenditures	27,860,757	22,226,771	5,633,986
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,159,383	15,074,385	9,915,002
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of property		1,862,360	1,862,360
Transfers in from the City	652,000	1,016,902	364,902
Transfers to the City	(6,700,847)	(6,376,903)	323,944
Transfers from other Agency funds		362,396	362,396
Transfers to other Agency funds	(6,011,000)	(6,740,250)	(729,250)
Total Other Financing Sources (Uses)	(12,059,847)	(9,875,495)	2,184,352
Net change in fund balances	($6,900,464)	5,198,890	$12,099,354
Adjustment to budgetary basis:			
Capital outlay		(39,912,530)	
Encumbrance adjustments		10,956,482	
Fund balance, July 1		118,283,120	
Fund balance, June 30		$94,525,962	

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
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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, 2008, and have issued our report thereon dated September 24, 2008. 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 24, 2008.

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 & Associates

September 24, 2008

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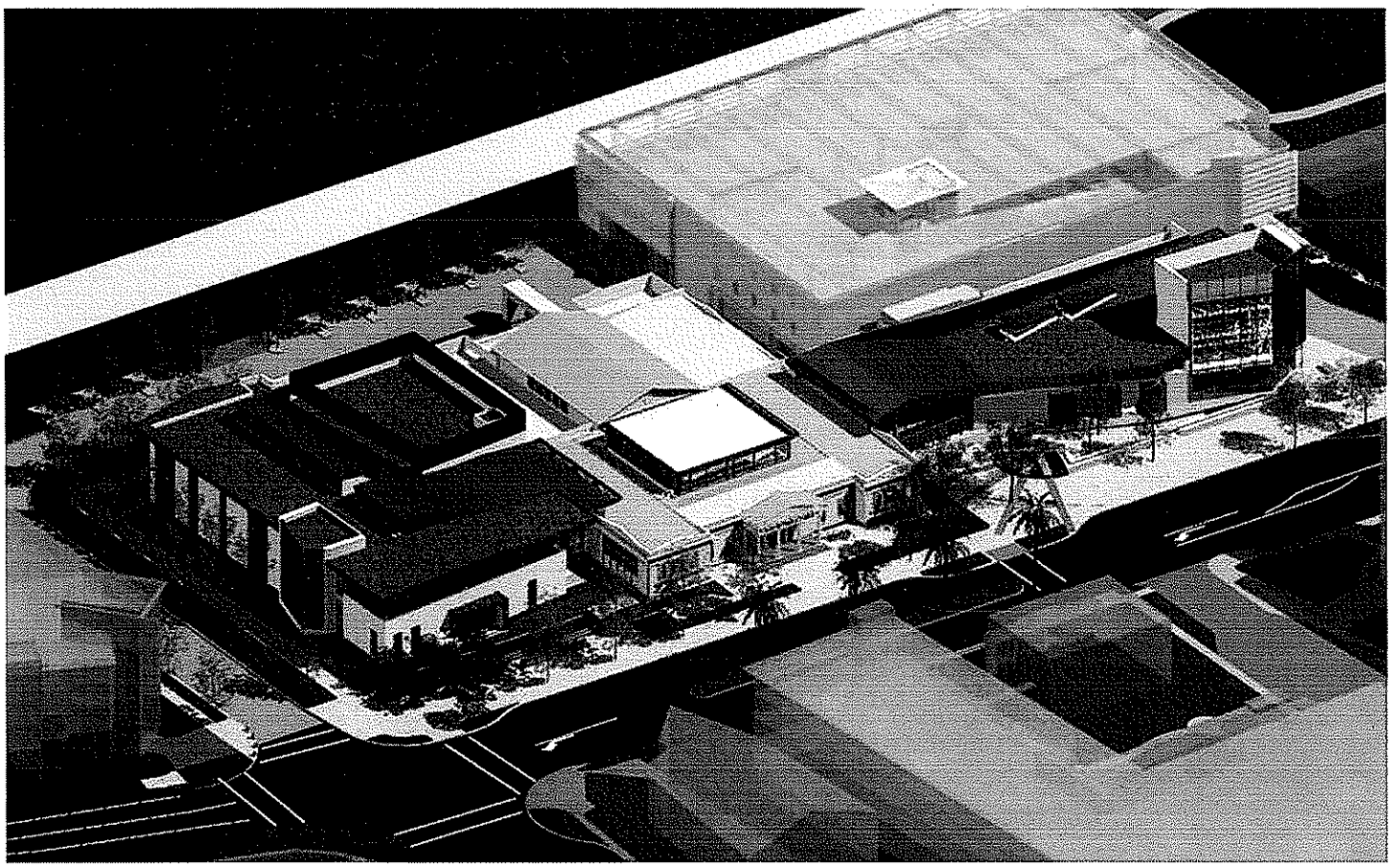
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



Architect rendering of the new Milpitas Public Library on Main Street

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008

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CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS

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

October 27, 2008

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, 2008. 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 Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Public Art Committee and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 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 a 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 but was most recently thwarted by the housing market decline, rising gas prices, and financial market instability. The section below entitled "Major Activity in the City" will discuss some of the more large scale development activities that are occurring in Milpitas.

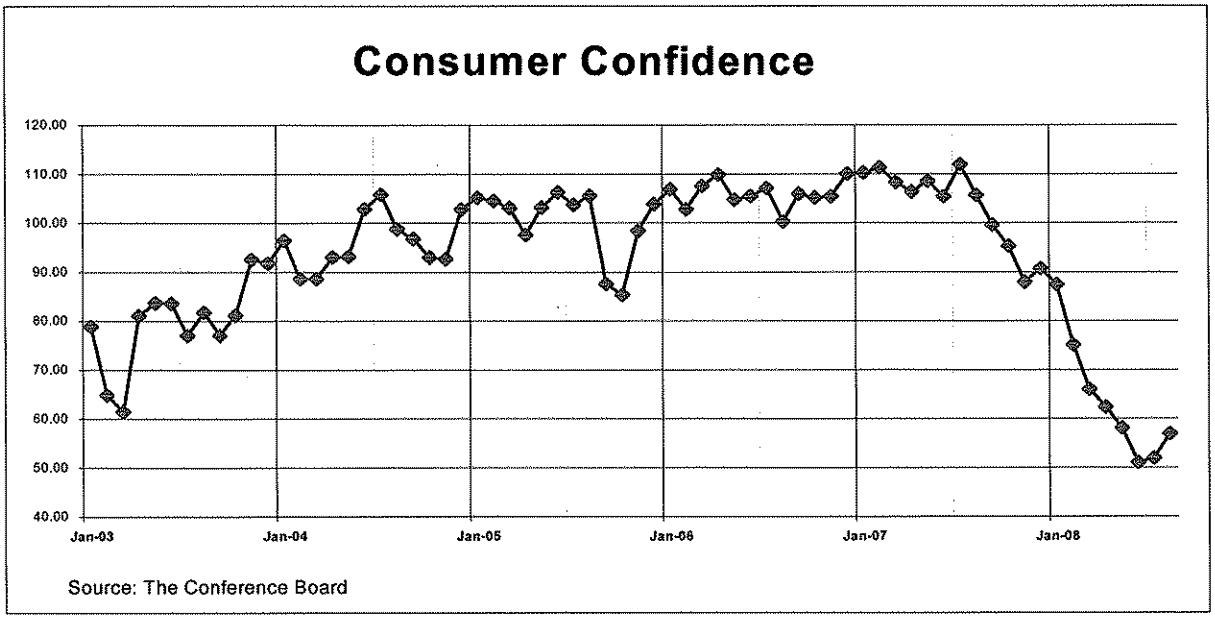
There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks. An estimated 350 acres 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, SanDisk Technology and Flextronics. Other major employers include KLA-Tencor, Linear Technology and Seagate Technology. Several of these top employers make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

Milpitas Redevelopment Agency (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 $33 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.

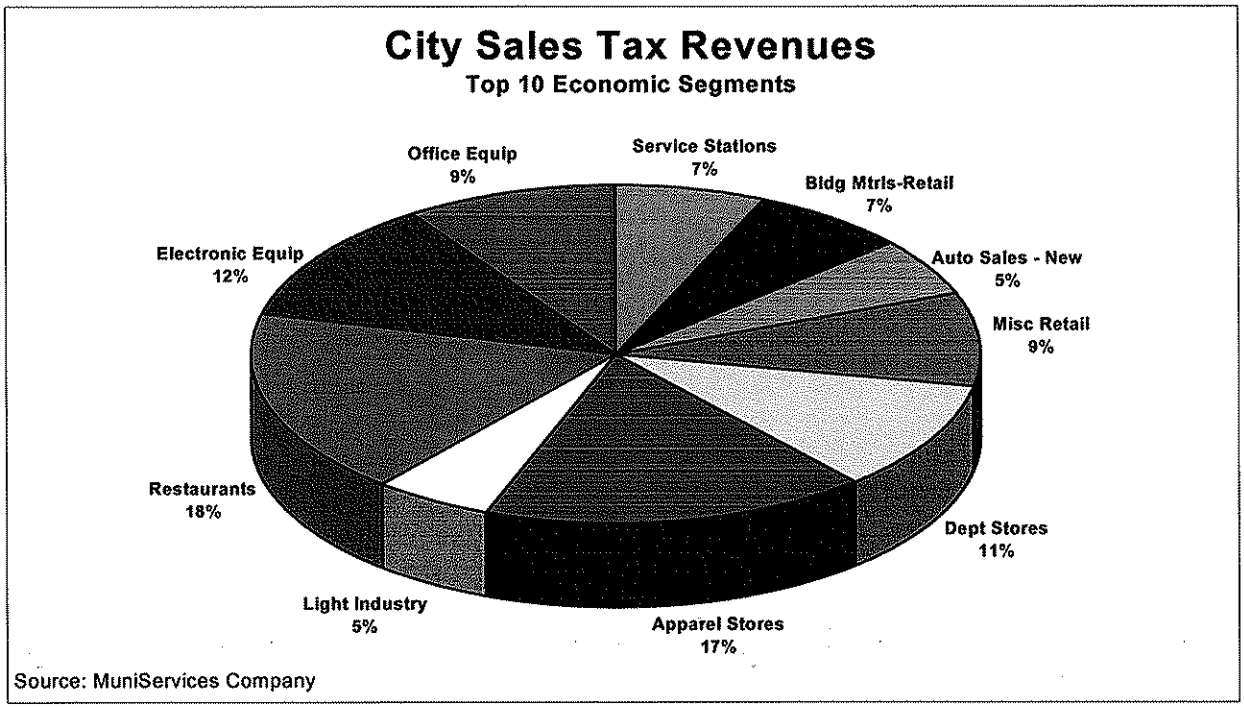
Consumer Confidence Level

The consumer confidence index in June 2008 was at its lowest since 1989. The weakening in consumers' assessment of current conditions, fueled by a combination of less favorable business conditions and a sharp rise in the number of consumers saying jobs are hard to get, suggests that the pace of growth in 2008 has slowed even further. With so few consumers expecting conditions to turnaround in the months ahead, the outlook for the economy continues to worsen and the risk of a recession continues to increase. This sentiment is reflected by decreased local sales tax revenue in recent months.



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 $13.7 million, with the top ten economic segments generating about $10.7 million. Sectors such as apparel stores and service stations led the increases but office equipment was the lowest due to the relocation of a major manufacturer.



Many of the major activities initiated in FY07-08 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 with 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 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 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. 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 were impacted by the declining housing market. Several residential developments that received their application approvals were on hold. Nevertheless, Milpitas represents one of the more affordable alternatives in Santa Clara County, with the median home price at $575,000. Residential developments that were recently completed in the Midtown include Centria (137 condominium units), and KB Homes (683 housing units). Other residential developments under construction include Aspen Apartments (101 rental units).

Non-residential Development – Non-residential development includes tenant improvements in existing commercial buildings. In FY 07-08, building permits were issued to Cisco Corporation for occupancy in several vacant office buildings and Linear Technology for site improvements and renovations. Other commercial development activities include the development of land adjacent to the KB Homes for another car dealership.

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. An H&M clothing outlet was added in 2007. Other new tenants currently under negotiation will be added next year.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2007-2008, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Responded to 4,368 emergency incidents with an average response time of 4.2 minutes.
- Presented fire prevention information at over 60 public events.
- Conducted 1,416 plan reviews, issued 1,007 approvals/permits and performed 1,620 fire inspections.
- Certified 21 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.
- Provided inaugural citywide disaster preparedness training to over 200 city employees.

Police

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 3.6%, to a 30-year low of 2.69 incidents per 1,000 residents.
- Reduced response time to emergency calls to 3.01 minutes, a seven-year low.
- Reduced traffic collisions by 6% to 960 incidents, the lowest number since year 2000.
- Reduced residential burglaries by 35% in 2007.
- Provided 182 car seat safety presentations, an increase of 40% over last year.

Engineering

- Completed 8 construction contracts which resulted in the addition of $3.6 million in capital improvements.
- Completed the review and approval of major land development projects including KB Homes, Piercey Toyota, and Town Center renovation.
- Received over $3 million in transportation and planning grants including N. Main Street streetscape, S. Main Street streetscape and Safe Routes to School.
- Completed construction of the Midtown Parking Garage and continued construction of the new Library and N. Main Street streetscape.

Public Works Maintenance

- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Investigated approximately 3,500 customer service requests and provided immediate response for urgent/safety related service requests.
- Implemented a Clear & Safe Street program citywide.
- Handled all street light repairs within 24 hours.

Planning/Neighborhood Services

- Completed Phase II of the Transit Area Specific Plan, Environmental Impact Report and Financing Plan.
- Completed amendments to the Zoning Ordinance to simplify the approval process for minor site and architectural review applications.

- 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 Community Development Block Grant Five-Year Consolidated Plan.

Parks and Recreation

- Received an award from Project Cornerstone for "Community Values Youth".
- Solicited grants, donations and sponsorships to help fund various programs and received $6,752 for Recreation Assistant Program and $1,000 for Arts Day.
- Partnered with the Rotary Club and SanDisk Technology to provide homework and learning center and created a Homework Club for teens' participation.
- Completed a Parks Master Plan that provided in depth study of existing City parks and future park needs.

Building Inspection

- Continued improvement of the new permitting system to enhance website and develop an "on-line" permit process.
- Implemented in-house training of staff related to adoption of the new California Building Code and continued cross training of staff to improve efficiency.
- Created self-service kiosk to provide automated information services.
- Scheduled building inspection through the use of automated phone system and online until 5AM on the day of inspection.

Administration

- Implemented the Roadmap to Service Improvement project resulting in improved permit turn-around time and customer satisfaction.
- Continued to reorganize City departments and divisions to improve staff utilization, increase efficiency, accountability and cost savings to the City.
- Submitted a balanced FY 08-09 budget for City Council's adoption.
- Completed Branding Stakeholder recommendations with approval by City Council of new City Logo, branding statement and implementation plan.

City Attorney

- Successfully transitioned City Attorney department from outside counsel to in-house staff including staff placement and office organization.
- Monitored and provided legal counsel for the Library project, N. Main Street project and other capital improvement projects.
- Advised on the Environmental Impact Report and the Transit Area Specific Plan Adoption process.
- Assisted staff on purchase of additional sewer capacity to implement General Plan build-out.

Human Resources

- Developed Workers' Compensation procedures and guidelines.
- Organized Sexual Harassment, the Public Records Act, and Defensive Driver trainings for all City employees.
- Successfully completed the Delta Dental Pilot Program and worked with a staff committee to determine staying with this program.

- Conducted classification studies, created job descriptions, and successfully recruited for the in-house City Attorney's Department.

Information Services

- Completed installation of the new online permitting system.
- Installed new-high-performance radio voice/data links to three City sites.
- Completed installation of the Crime Fighter BEAST, and integrated evidence tracking system for the Police Department and Crime Laboratories.
- Consolidated and standardized mobile phone, pager and PDA usages.

Finance

- Received awards from the Government Finance Officer's Association and California Society of Municipal Finance Officers for Budget Presentation and Financial Reporting.
- Installed desktop technology to scan check deposits to enhance cash flow and paperless transactions.
- Created new user-friendly utility bill and saved on printing costs and postage by implementing online bill delivery and payments.
- Established an irrevocable trust fund with CalPERS to start pre-funding retiree medical benefits.

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 4.17% on the City's month-end average investment balances. This compared with a return of 3.78% 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 2007-2008 were as follows:

Project Category	Amount
General Government Projects	$ 220,690
Park Projects	474,478
Street Projects	3,100,426
Water Projects	860,104
Sewer Projects	8,079,338
Redevelopment Agency Projects	25,102,784
Total	$37,837,820

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, 2007. 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 eighteen of the last twenty years (fiscal years ended 1988-2007). 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 to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

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

Respectfully submitted,

Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2008

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

Fire Chief
Clare Frank

City Attorney
Michael Ogaz

Human Resources Director
Carmen Valdez

Planning & Neighborhood Svc Director
James Lindsay

Parks and Recreation Director
Bonnie Greiner

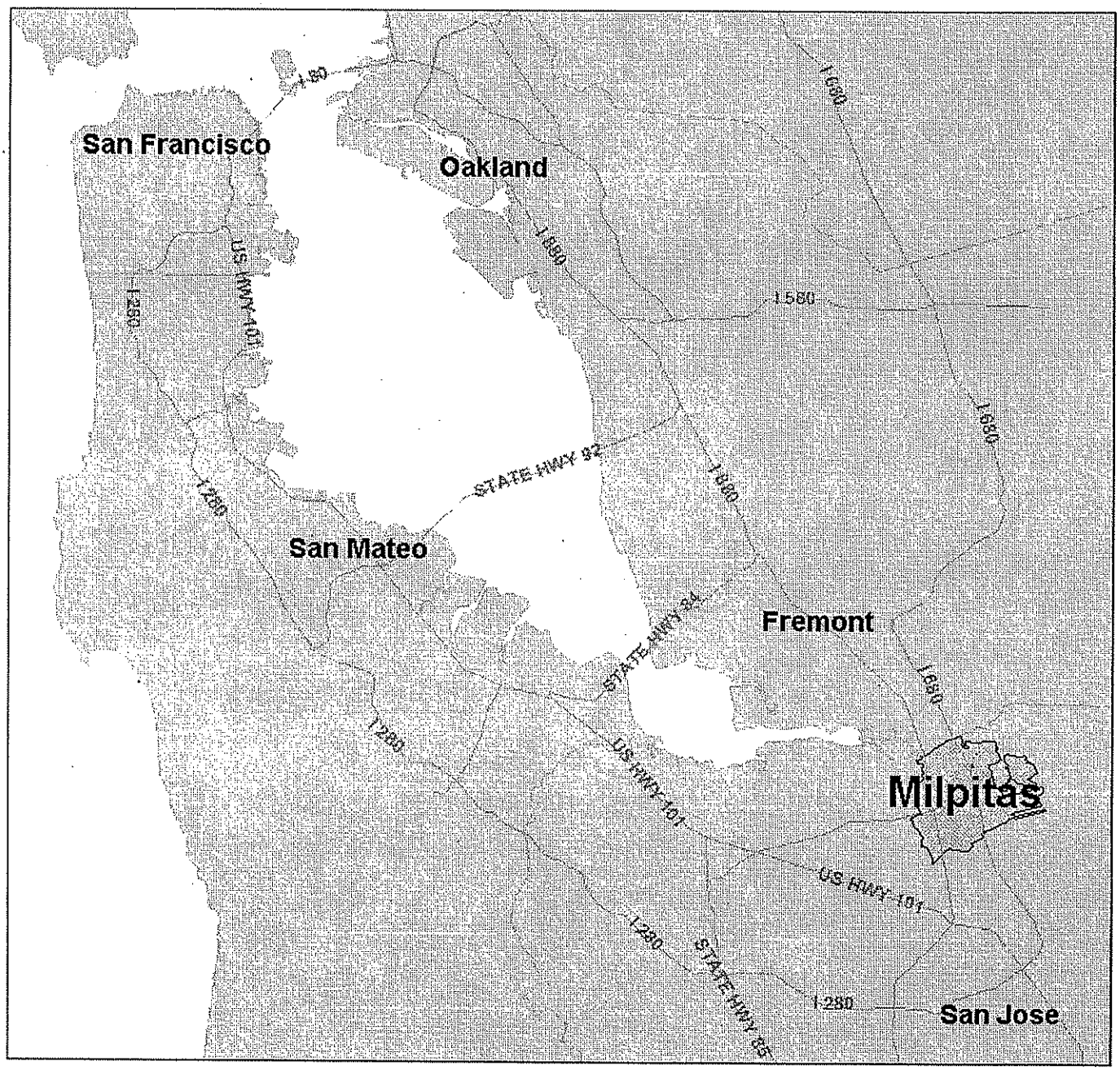
Director of Financial Services
Emma Karlen, CPA

City Clerk
Mary Lavelle

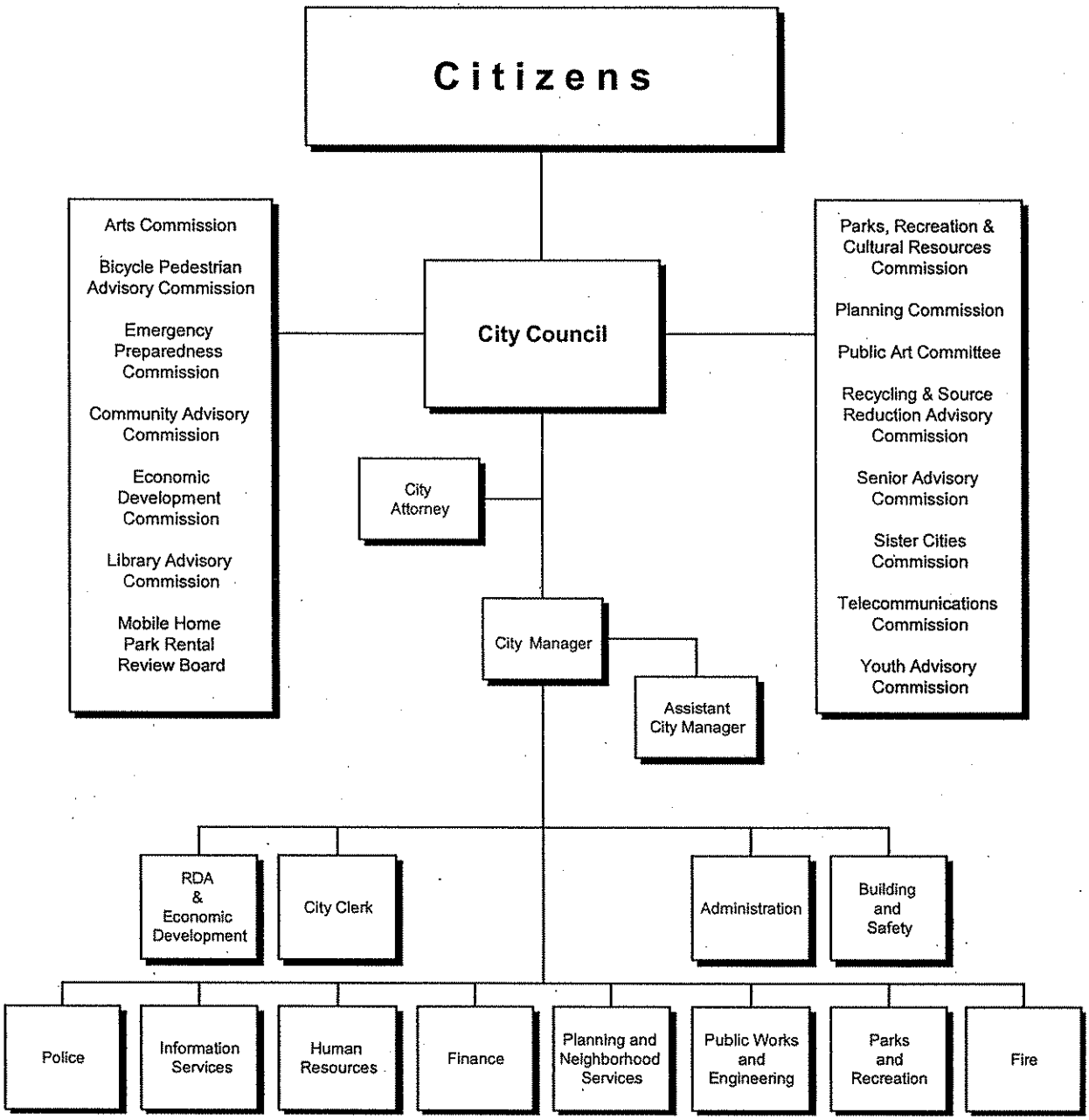
Chief Information Officer
William Marion

Public Works Director/City Engineer
Greg Armendariz

Chief Building Officer
Keyvan Irannejad



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


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

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, 2007

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

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
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Pleasant Hill, California 94523
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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, 2008, 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, 2007, which represent 1.53%, 1.09%, and 2.26% 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, 2008 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 12, effective in fiscal 2008, the City implemented the provisions of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, and as described in Note 9 the City implemented the provisions of GASB Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

September 24, 2008 Maze & Associates

A Professional Corporation

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, 2008. 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 2008 reflects a stagnant local economy primarily due to the faltering housing market coupled with rising gas prices and higher unemployment. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2008 was at 6.1%. It was much higher than the unemployment rate of 4.8% a year ago. The meltdown of the housing market caused by the sharp decline of home prices and sub-prime mortgages greatly affected residential developments and consumer spending. The only growth in building activities was in commercial properties where several vacant commercial buildings were occupied by a major high-tech company. As will be further discussed below, all these economic factors translated into decreases in key revenues such as sales taxes revenues and building permit fees. Property tax revenues and Transient Occupancy tax revenues on the other hand increased from one year ago. Fiscal 2008 financial highlights include the following:

City-wide:

- The City's total net assets were $411.9 million at June 30, 2008. Of this total, $278 million were Governmental assets and $133.9 million were Business-type assets.
- City-wide revenues include program revenues of $59.3 million and general revenues and transfers of $82.5 million, totaling $141.8 million, a decrease of $13.6 million from the prior year's total of $155.4 million.
- Total City-wide expenses were $121.3 million, an increase of $7.9 million from the prior year's $113.4 million.

Fund Level:

- Governmental Fund balances were $165.7 million, a decrease of $15.7 million from fiscal 2007.
- Governmental Fund revenues were $106.1 million in fiscal 2008, down $1.8 million from the prior year's $107.9 million.
- Governmental Fund expenditures were $127.2 million in fiscal 2008, a decrease of $32.3 million from fiscal 2007's level of $159.5 million.
- General Fund revenues of $59.2 million represented an increase of $1.2 million from fiscal 2007's revenues of $58 million.
- Total other financing sources of the General Fund was $9.7 million in fiscal 2008, $22.2 million less than fiscal 2007's $31.9 million.
- General Fund balance of $51.1 million at the fiscal 2008 year-end represented an increase of $2.6 million from fiscal 2007's fund balance of $48.5 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 19-21 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 2008 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 2007 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

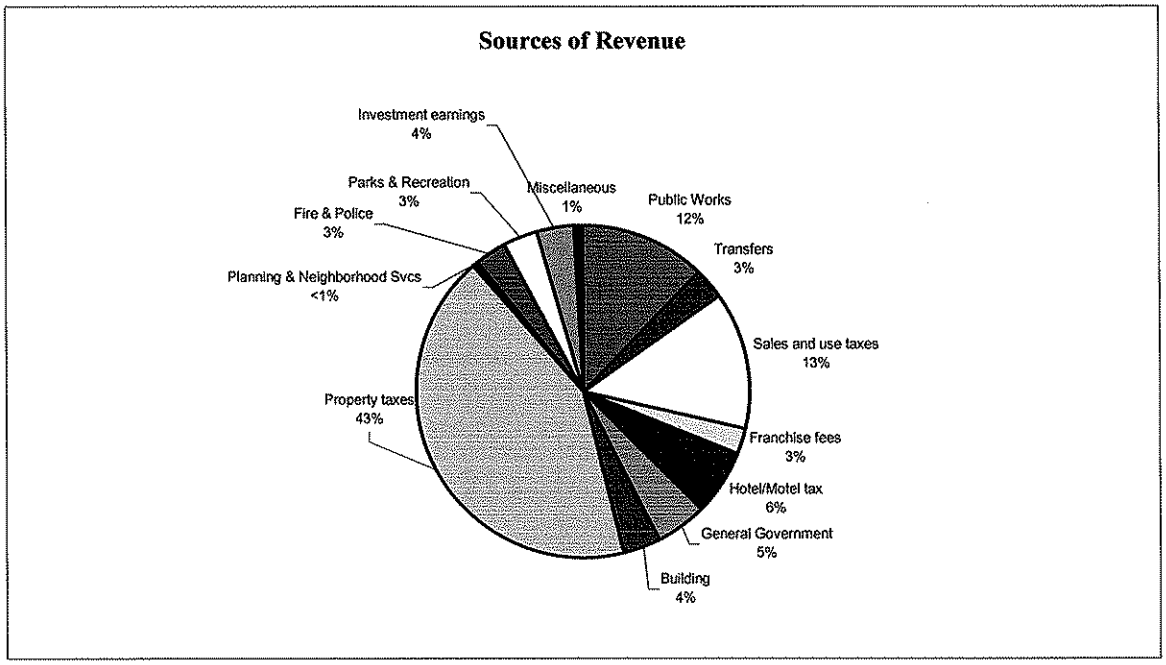
	Governmental Activities	
	2008	2007
Cash and investments	$173.2	$201.5
Other assets	38.9	36.8
Capital assets	320.0	299.2
Total assets	**532.1**	**537.5**
Long-term debt outstanding	219.3	227.8
Other liabilities	34.8	46.5
Total liabilities	**254.1**	**274.3**
Net assets:		
Invested in capital assets, net of related debt	224.6	232.8
Restricted	104.2	92.5
Unrestricted	(50.8)	(62.1)
Total net assets	**$278.0**	**$263.2**

The City's governmental net assets were $278 million at June 30, 2008, an increase of $14.8 million from 2007. 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:

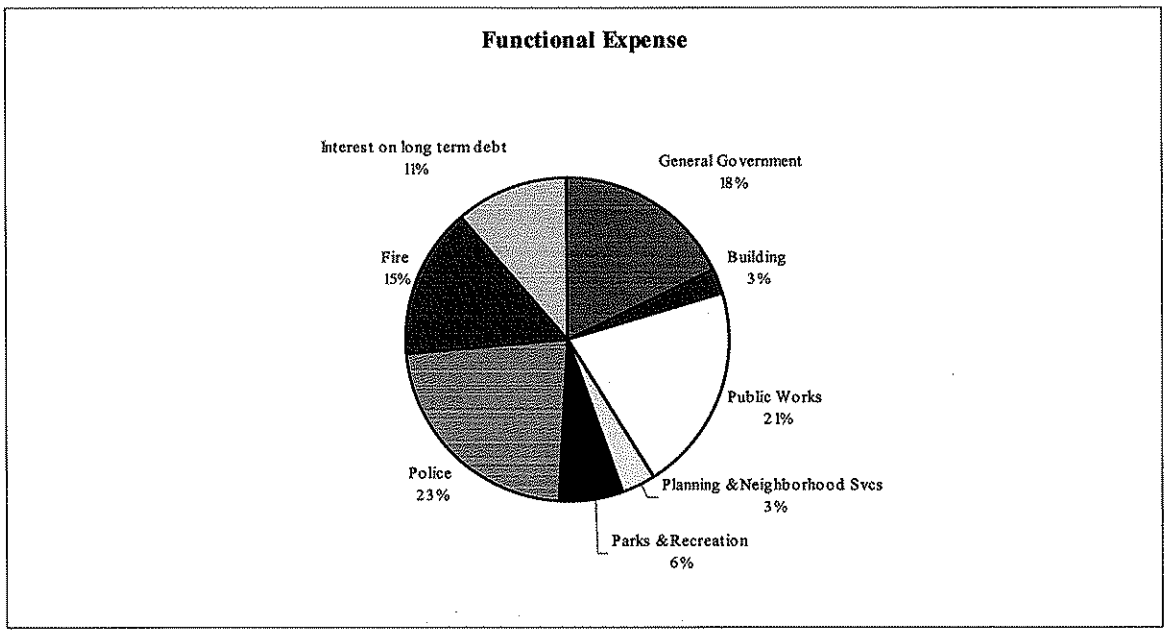
- Cash and investments decreased $28.3 million principally due to expenditure of bond proceeds for the Midtown Garage, Library and other capital improvement projects.
- Capital assets increased $20.8 million from last year, as a result of $35.5 million asset additions net of retirements in fiscal 2008, reduced by $14.7 million depreciation of the capital assets.
- Long-term debt decreased $8.5 million due to payments on outstanding bonds and the Installment Purchase Agreement.
- Other liabilities increased $11.7 million due to decreased accounts payable. 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 liability in 2007 included approximately $9.5 million expenditure to CalPERS. Other reason for decreased accounts payable was attributable to less accrued liability from capital improvement expenditures.

- Net assets invested in capital assets net of related debt decreased $8.2 million primarily due to decreased unspent bond proceeds.

Fiscal Year 2008 Government Activities



As the Sources of Revenue Chart above shows, $49 million or 43% of the City's fiscal 2008 governmental activities revenue came from property taxes, while $15.6 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 franchise fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. In fiscal 2008, the City added $20.8 million in capital assets, net of depreciation. The composition of Fiscal 2008'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	
	2008	2007
Expenses		
General Government	$18.1	$16.3
Building	2.6	2.3
Public Works	20.8	20.7
Planning & Neighborhood Svcs	3.2	2.4
Parks & Recreation	6.5	7.3
Police	22.5	21.5
Fire	15.4	14.3
Interest on long term debt	11.5	9.4
Total expenses	100.6	94.2
Revenues		
Program revenues:		
Charges for services	12.2	13.1
Operating contributions and grants	4.6	4.6
Capital Grants	15.2	16.0
Total program revenues:	32.0	33.7
General revenues:		
Taxes:		
Property taxes	49.0	44.6
Sales and uses taxes	15.6	16.8
Hotel/Motel taxes	7.2	6.4
Other taxes	0.6	0.1
Franchise fees	3.0	2.9
Motor vehicle in lieu	0.3	0.4
Investment earnings	4.1	2.2
Miscellaneous	0.1	0.3
Gain on sale of capital assets	0.1	18.3
Total general revenues	80.0	92.0
Total Revenues	112.0	125.7
Surplus before transfers	11.4	31.5
Transfers	3.4	2.6
Changes in net assets	14.8	34.1
Beginning net assets	263.2	229.1
Ending net assets	**$278.0**	**$263.2**

Table 2 compares fiscal 2008 expenses and revenues with those of fiscal 2007. Expenses increased $6.4 million in fiscal 2008 due to increase in salaries pursuant to negotiated Memoranda of Understanding and increased health insurance premiums. In addition, the RDA provided housing grants amounted to $2 million to low and moderate-income households in the Redevelopment Project Area. In fiscal 2008, RDA also made a $2.1 million interest payment owed on a promissory note to the City. The Agency entered into an agreement with the City for the purchase of eight parcels of land located in the Agency Project Area. As a result of the land sale, a promissory note, which bears simple interest of 10% annually on the outstanding balance, was executed. This transaction is further discussed in note 4 to the financial statements.

Table 2 shows that total government revenues decreased $13.7 million in fiscal 2008. Program revenues decreased $1.7 million while general revenues decreased $12 million. The reasons for the decrease in program revenues were fewer capital grants received from developers and less service charges received for Building permits and inspections. The reason for the decreased general revenues was primarily due to a gain on sale of capital assets in fiscal 2007 that did not recur in fiscal 2008. In fiscal 2007, the City recorded a one-time gain of $18.2 million from the sale of eight parcels of land to RDA

Sales tax revenue in fiscal 2008 was $1.2 million less than fiscal 2007. The decrease reflected a stagnant economy that led to less consumer spending. The City also lost one major manufacturer due to its relocation to another city. The increase in property tax revenue of $4.4 million was due to enrollment of new residential properties primarily in the Redevelopment Project area on the fiscal 2008 tax roll. In addition, several commercial buildings that were previously vacant were occupied by a major high-tech company. Increase in interest earnings is due to $2.1 million of interest income received on a promissory note related to the sale of City's properties to RDA.

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 increased $8.1 million for two reasons. The cost of providing general government and public safety had increased due to negotiated salary increases and health benefits premiums increases while the revenues received such as capital grants and charges for services such as building permits and inspection fees decreased. In addition, during fiscal 2008, RDA provided more grants to fund affordable housing projects and paid a $2.1 million interest payment to the City.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2008	2007
General Government	$(12.4)	$(12.0)
Building	1.6	2.7
Public Works	(6.7)	(2.8)
Planning & Neighborhood	(2.6)	(1.1)
Parks & Recreation	(2.8)	(5.6)
Police	(20.1)	(19.0)
Fire	(14.0)	(13.2)
Interest on long term debt	(11.5)	(9.4)
Totals	**$(68.5)**	**$(60.4)**

Business-type Activities

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

	Business-Type Activities	
	2008	2007
Cash and investments	$43.1	$42.3
Other assets	2.3	2.3
Capital assets	100.7	95.3
Total assets	**146.1**	**139.9**
Other liabilities	3.4	2.6
Long-term Debt	8.8	9.2
Total liabilities	**12.2**	**11.8**
Net assets:		
Invested in capital assets	92.0	95.3
Restricted	18.3	16.2
Unrestricted	23.6	16.6
Total net assets	**$133.9**	**$128.1**

The net assets of business-type activities were $133.9 million in fiscal 2008, an increase of $5.8 million from fiscal 2007. Total assets and liabilities increased $6.2 million and $0.4 million respectively. The increase in net assets are explained by the $6.6 million net revenues from the Water, Sewer and Recycled Water Funds offset by the non-operating expenses of $0.8 million.

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

	Business-Type Activities	
	2008	2007
Expenses		
Water Utility	$11.6	$10.7
Recycled Water Utility	0.5	0.3
Sewer Utility	8.6	8.2
Total expenses	20.7	19.2
Revenues		
Program revenues:		
Charges for services	26.3	25.5
Capital Grants	1.0	2.4
Total program revenues:	27.3	27.9
General revenues:		
Investment earnings	2.6	1.7
Total general revenues	2.6	1.7
Total Revenues	29.9	29.6
Excess before transfers	9.2	10.4
Transfers	(3.4)	(2.6)
Changes in net assets	5.8	7.8
Beginning net assets	128.1	120.3
Ending net assets	**$133.9**	**$128.1**

Table 5 compares fiscal 2008 expenses and revenues with those of fiscal year 2007. Expenses increased $1.5 million in total in fiscal 2008 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 decreased by $0.6 million due to decreased capital contributions received from other agencies for capital improvement project funding. Total general revenue shows an increase of $0.9 million from last year primarily due to market value gain on the investment portfolio. 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)

	2008	2007
Total assets	$230.4	$257.5
Total liabilities	64.7	76.1
Total fund balances	165.7	181.4
Total revenues	106.1	107.9
Total expenditures	127.2	159.5
Total other financing sources	5.4	23.1

At June 30, 2008, the City's governmental funds reported combined fund balances of $165.7 million, a decrease of $15.7 million from last year. However, the fund balances of the General Fund, Housing Reserve Fund and Other Governmental Funds increased $2.6 million, $3.3 million and $2.4 million while the fund balances of the Redevelopment Project Fund and Street Improvement Fund decreased $23.7 million, and $0.3 million, respectively.

Revenues at the fund level totaled $106.1 million, a decrease of $1.8 million. Revenues for the General Fund, Housing Reserve Fund and Other Governmental Funds increased $1.3 million, $1.3 million, and $0.7 million while the Redevelopment Project Fund, and Street Improvement Fund declined $3.8 million and $1.3 million, respectively.

Expenditures decreased $32.3 million this year to $127.2 million from last year's $159.5 million. The expenditures of General Fund, Housing Reserve Fund, Redevelopment Project Fund, Street Fund and Other Governmental Funds all declined by $4.3 million, $11.4 million, $14.8 million, $1.3 million and $0.5 million, respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to $59.3 million this fiscal year, up $1.3 million from the prior fiscal year. Increases came from property tax, other taxes, and interest income categories. Property tax revenue increased $0.9 million due to increased assessed valuation on commercial properties and business equipment. Several commercial properties that were previously vacant were occupied by a major high-tech company in fiscal 2008. Other taxes increased by $1.2 million due to increased Transient Occupancy Tax revenue most likely attributable to increased business activities and travel. Interest income was up due to a $2.1 million interest payment on a promissory note from the Redevelopment Agency. Sales tax revenue decreased $1.2 million due to relocation of a major manufacturer to another city and economic stagnation that affected consumer spending. Licenses and permits declined $1 million due to less development activities. Several residential developments that received their application approvals were on hold.

General Fund expenditures decreased $4.3 million primarily due to a lump sum pre-funding of retiree medical benefits of $9.5 million in fiscal 2007. Beginning in fiscal 2008, the City only funded the annual required contribution, amounting to approximately $2.4 million for the General Fund. Otherwise, General Fund expenditures would have increased by about $2.8 million reflecting increases in salaries, health insurance premiums and general increases in supplies and contractual services.

Net transfers primarily consist of reimbursements from other operating funds for administrative and overhead expenditures advanced by the General Fund. Net transfers was approximately $9.8 million, down $1.6 million from last year. The decrease was explained by an updated Cost Allocation Plan which revised the overhead and administrative expense reimbursements from various operating funds.

Compared to the final budget, expenditures were under budget by $6.1 million. Other than cost savings, the variances were explained by the reduction of uninsured claims payable which reduced expenditures by about $1.7 million. The differences between the original budget and final budget were primarily due to additional budget appropriations related to operating grant revenues and reimbursable expenses by developers that were added to the departments' budgets throughout the year.

At June 30, 2008, the fund balance of the General Fund was $51.1 million, of which $1.3 million was reserved for encumbrances and other items; $20.5 million was reserved for the advance to the Redevelopment Project Fund related to a property purchase, $5.3 million was designated for the Library and performance arts programs, $5.4 million for stabilization of future PERS rate increases, $2.8 million for uninsured claims payable, $0.1 million for market value gain on investment, and $15.7 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 2008, the balances of loans to developers increased from $20.5 million to $22.9 million, due to new loans provided to first time homebuyers and a non-profit developer for the development of a low-income senior housing project. Total expenditures of $4.3 million primarily consisted of housing grants and loans for affordable housing.

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.

Revenue from interest income at $1 million in fiscal 2008 was similar to fiscal 2007. The net transfers of $5.3 million comprised of $6.7 million tax increment revenue for the 20% set-aside housing reserve requirement, offset by reimbursements to the General Fund and Redevelopment Project Fund for the Housing Reserve Fund's share of the administrative costs and debt service payments.

The Fund's fiscal year end fund balance of $17.7 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 $37.3 million in fiscal 2008, a decrease of $3.8 million from fiscal 2007. Property tax increment revenues increased to $32.2 million in fiscal 2008, an increase of $3.8 million or 13% from fiscal 2007 due to enrollment of new housing units on the tax roll, primarily in the Midtown area. Interest income increased by $0.7 million due to market value gains on investments. Other revenue decreased $8.5 million from fiscal 2007 due to one-time revenues that included $3.9 million developer contributions and $4.5 million litigation settlement that did not recur in fiscal 2008.

Fund expenditures were $51.1million in fiscal 2008, a decrease of $14.8 million. Interest and principal payments totaling $18.7 million included $12.6 million debt service payments for the 2003 Tax Allocation Bonds, $4 million installment payment pursuant to a Purchase and Sale Agreement with the County of Santa Clara, and $2.1 million interest expenditure on a promissory note related to the purchase of properties from the City. Fund expenditures also included capital improvement project expenditures of $29.4 million, a decrease of $12 million from prior year. However, last year's capital project expenditures included purchase of eight properties from the City for $20.5 million. By excluding this one-time transaction, the capital improvement project expenditures in fiscal 2008 would have been an $8.5 million increase.

The Fund's fiscal year end fund balance of $68.3 million may be used only for redevelopment purposes. Of this amount, $11.1 million was reserved for outstanding encumbrances and prepaids, $7.0 million was reserved for property held for resale or redevelopment, $0.7 million for market value gain on investments and $35.1 million was designated for committed capital projects and $14.4 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 $1.6 million in fiscal 2008, a decrease of $1.2 million from fiscal 2007. The decrease was due to decreased capital grants received from other agencies.

Fund expenditures were $3.2 million in fiscal 2008, a decrease of $1.2 million from fiscal 2007 due to decreased capital outlay and decreased contractual obligations to outside agencies.

The fund ended fiscal 2008 with $9.9 million in fund balance, of which $2.2 million was reserved for encumbrances outstanding, $4.6 million was designated for capital projects and $3.1 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 $0.7 million from last year, while operating expenses increased $1.3 million. Total revenues and total operating expenses were $26.3 million and $20.3 million respectively. Non-operating revenues of $2.2 million in fiscal 2008 were $0.6 million higher than the prior year primarily due to increased interest income of $0.8 million offset by $0.2 million increased interest expense. Capital contributions decreased by $1.4 million while net transfers out increased by $0.8 million.

Water Utility

Water fund revenues were $14.9 million in fiscal 2008, up $0.4 million from the prior year. The increase in revenues is primarily due to increased water usage from new housing. Expenses were $11.6 million in fiscal 2008, up $0.9 million from the prior year primarily due to increased purchased water expense and increased personnel and supplies costs. Net assets of the Water Utility Fund increased $3.1 million in the current year to a total of $55.8 million. The increase comprised $3.4 million in operating income for the current year, $0.9 million in non-operating revenues, $0.1 million capital contributions from developer, offset by net transfers out of $1.3 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 $1.7 million were for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Assets includes $39.4 million invested in capital assets, $6.9 million in restricted net assets, and $9.5 million in unrestricted net assets.

Recycled Water Utility

Recycled Water fund revenues were $1.3 million in fiscal 2008, up $0.1 million from the prior year. Expenses were $0.5 million in fiscal 2008, up $0.2 million from last fiscal year. Net assets of the Fund increased $0.5 million in the current year to a total of $3.3 million. This increase included $0.8 million in operating income and $0.2 million in non-operating income, offset by transfers out totaling $0.5 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 and $3 million in unrestricted net assets.

Sewer Utility

Sewer fund revenues were $10 million in fiscal 2008, up $0.2 million from the prior due to service charges collected from new housing developments. Expenses were $8.3 million in fiscal 2008, up $0.3 million from the prior year due to increased contribution for the City's share of the operating expenses in Waste Water Treatment plant. Non-operating revenues in fiscal year 2008 consists of $1.5 million interest income and $0.4 million interest expense. Net assets of the Sewer Utility Fund increased $2.1 million in the current year to a total of $74.7 million. This increase comprised of $1.8 million in operating income, $1.1 million in non-operating revenues, $0.8 million in capital contributions by developers, offset by net transfers out of $1.5 million. Transfers out of $1.5 million represent reimbursements for administration costs incurred by the General Fund.

$11 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, $52.3 million was invested in capital assets and $11.4 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 2008, 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)

	2008	2007
Governmental Activities:		
Land	$57.0	$55.1
Construction in progress	81.8	55.0
Buildings and improvements	93.4	92.9
Other improvements	22.8	20.3
Machinery and equipment	20.0	19.3
Landscape system	29.6	29.6
Storm system	72.8	72.8
Street system	207.3	204.6
Traffic system	16.6	16.3
Less accumulated depreciation	(281.3)	(266.7)
Totals	**$320.0**	**$299.2**
Business-type Activities:		
Land	$1.1	$1.1
Construction in progress	18.1	9.7
Distribution facilities	67.3	67.3
Service lines	10.4	10.3
Sewer lines	58.3	57.9
Capacity rights	30.8	30.8
Less accumulated depreciation	(85.3)	(81.8)
Totals	**$100.7**	**$95.3**

The principal additions in fiscal 2008 was construction in progress. Most of the construction-in-progress were expenditures on Midtown infrastructure projects and Library related projects. Other additions included sports center large gym renovation, senior center design and Transit Area Plan. 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, Sewer infrastructure improvements and technological capital outlays. These debt issues are secured by the tax increment revenue of the Redevelopment Agency, lease payments of the General Fund and sewer revenue. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. In fiscal 2008, the ratings for the City's debt issues were downgraded due to the downgrade of MBIA, the bond insurance company for all three bonds. The ratings for the two Certificates of Participation were downgraded to "A1" and "AA" by Moody's and S&P respectively. The Agency's Tax Allocation Bonds were downgraded to "AA" and "AA" by S&P and Fitch respectively. This downgrade applied to all the municipalities insured by MBIA. The impact to the City/Agency is nominal. At June 30, 2008 the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

Governmental Activity Debt:	Balance June 30, 2007	Balance June 30, 2007
Redevelopment Agency 2003 Tax Allocation Bonds 2% - 5.25%, due September 1, 2032	$183.2	$187.0
Technology Certificates of Participation, Series 2000 4% - 4.25%, due November 1, 2008	1.2	2.4
Installment Purchase Agreement with the County Of Santa Clara, due June 30, 2023	43.4	46.9
Total Governmental Activity Debt	$227.8	$236.3
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026.	$ 9.2	$ 9.5
Total Business-type Activity Debt	$ 9.2	$ 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, 2008, a total of $23.3 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.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

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

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

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

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

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

Both of these Statements include the financial activities of the City and the blended component unit: the Milpitas Redevelopment Agency (RDA). The RDA is a legally separate component unit of the City because it is controlled by the City and the City is financially accountable for the Agency's activities. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. is included in these statements as separate columns.

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

CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	$130,441,638	$42,695,136	$173,136,774	$13,271
Restricted investments (Note 3)	42,742,567	439,300	43,181,867	898,896
Receivables:				
Accounts	1,850,897	1,564,067	3,414,964	3,049
Due from other governments	1,790,910	43,025	1,833,935	350
Interest	1,576,982	401,133	1,978,115	
Loans receivable (Note 5)	26,002,213		26,002,213	
Prepaids, materials, supplies and deposits	746,562	253,915	1,000,477	13,936
Property held for resale (Note 6)	6,988,800		6,988,800	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	138,862,359	19,272,907	158,135,266	1,565,277
Depreciable capital assets, net	181,117,902	81,476,115	262,594,017	7,863,496
Total assets	532,120,830	146,145,598	678,266,428	10,358,275
LIABILITIES				
Accounts payable	5,976,786	2,504,475	8,481,261	68,331
Accrued payroll	2,105,494	64,303	2,169,797	18,314
Interest payable	2,918,199	57,282	2,975,481	
Uninsured claims payable (Note 13):				
Due within one year	1,234,174		1,234,174	
Due in more than one year	2,545,264		2,545,264	
Refundable deposits	1,394,465	130,333	1,524,798	77,050
Unearned revenue	409,994		409,994	781
Accrued vacation (Note 12):				
Due within one year	542,546	49,176	591,722	
Due in more than one year	3,931,551	119,806	4,051,357	
Sick leave payable (Note 12):				
Due within one year	295,331	47,688	343,019	
Due in more than one year	4,974,348	128,934	5,103,282	
Long term debt (Note 9):				
Due within one year	8,480,810	345,000	8,825,810	
Due in more than one year	219,311,934	8,815,000	228,126,934	
Total liabilities	254,120,896	12,261,997	266,382,893	164,476
NET ASSETS (Note 10)				
Invested in capital assets and capacity rights, net of related debt	224,603,171	92,028,322	316,631,493	
Restricted for:				
Capital projects	21,696,556	18,252,249	39,948,805	
Redevelopment and community development activities	82,464,448		82,464,448	
Total restricted net assets	104,161,004	18,252,249	122,413,253	
Unrestricted	(50,764,241)	23,603,030	(27,161,211)	10,193,799
Total net assets	$277,999,934	$133,883,601	$411,883,535	$10,193,799

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	$18,130,131	$995,625	$1,380,456	$3,381,527	($12,372,523)	
Building	2,625,449	4,194,112			1,568,663	
Public Works	20,745,559	2,409,903	2,044,388	9,620,050	(6,671,218)	
Planning and Neighborhood Services	3,238,552	459,003	3,422	150,000	(2,626,127)	
Parks and Recreation	6,526,977	1,663,347	179,187	1,920,129	(2,764,314)	
Police	22,440,345	1,350,546	942,586		(20,147,213)	
Fire	15,411,114	1,144,351	66,923	170,257	(14,029,583)	
Interest on long term debt	11,534,171				(11,534,171)	
Total Governmental Activities	100,652,298	12,216,887	4,616,962	15,241,963	(68,576,486)	
Business-type Activities:						
Water Utility	11,566,602	14,936,984		139,278		$3,509,660
Recycled Water Utility	481,013	1,323,487		28,233		870,707
Sewer Utility	8,626,254	10,041,250		788,237		2,203,233
Total Business-type Activities	20,673,869	26,301,721		955,748		6,583,600
Total Primary Government	$121,326,167	$38,518,608	$4,616,962	$16,197,711	(68,576,486)	6,583,600
Component Unit:						
Terrace Gardens Inc.	$1,533,219	$1,524,727				
General revenues:						
Taxes:						
Property taxes					49,060,448	
Sales and use taxes					15,551,041	
Hotel/Motel taxes					7,195,838	
Other taxes					602,177	
Franchise fees, unrestricted					2,967,818	
Motor vehicle in lieu					296,241	
Investment earnings					4,100,269	2,579,926
Miscellaneous					108,894	
Gain from sale of capital assets					34,356	
Transfers (Note 4)					3,410,934	(3,410,934)
Total general revenues and transfers					83,328,016	(831,008)
Change in Net Assets					14,751,530	5,752,592
Net Assets-Beginning					263,248,404	128,131,009
Net assets-Ending					$277,999,934	$133,883,601

See accompanying notes to financial statements

Total	Net (Expense) Revenue and Changes in Net Assets Component Unit Terrace Gardens Inc.
($12,372,523)	
1,568,663	
(6,671,218)	
(2,626,127)	
(2,764,314)	
(20,147,213)	
(14,029,583)	
(11,534,171)	
(68,576,486)	
3,509,660	
870,707	
2,203,233	
6,583,600	
(61,992,886)	
	($8,492)
49,060,448	
15,551,041	
7,195,838	
602,177	
2,967,818	
296,241	
6,680,195	23,840
108,894	
34,356	
82,497,008	23,840
20,504,122	15,348
391,379,413	10,178,451
$411,883,535	$10,193,799

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 2008. 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, 2008

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments available for operations (Note 3)	$31,737,500	$17,560,600	$47,314,519	$10,875,861	$15,274,343	$122,762,823
Restricted investments (Note 3)			42,742,567			42,742,567
Receivables:						
Accounts	1,619,231	68,545	387	108,882	53,733	1,850,778
Due from other governments	1,128,724		145,235	5,048	464,489	1,743,496
Interest	275,615	114,332	867,045	101,125	145,490	1,503,607
Due from other funds (Note 4)	28,987					28,987
Advance to other funds (Note 4)	26,188,680					26,188,680
Loans receivable (Note 5)		22,921,935			3,080,278	26,002,213
Prepaids, materials, supplies and deposits	515,647	2,098	100,877	5,060	8,459	632,141
Property held for resale (Note 6)			6,988,800			6,988,800
Total Assets	$61,494,384	$40,667,510	$98,159,430	$11,095,976	$19,026,792	$230,444,092
LIABILITIES						
Accounts payable	$1,111,099	$10,635	$3,591,149	$973,787	$216,260	$5,902,930
Accrued payroll	2,026,778	5,174	42,319	11,487	7,068	2,092,826
Due to other funds (Note 4)					28,987	28,987
Refundable deposits	1,375,622				18,843	1,394,465
Deferred revenue	5,872,808	22,921,935		220,506	55,217	29,070,466
Advance from other funds (Note 4)			26,188,680			26,188,680
Total Liabilities	10,386,307	22,937,744	29,822,148	1,205,780	326,375	64,678,354
FUND BALANCES						
Fund balances (Note 10)						
Reserved for:						
Encumbrances	778,192	118,824	10,968,206	2,180,749	353,826	14,399,797
Loans					3,080,278	3,080,278
Advance	20,455,191					20,455,191
Prepaids, materials, supplies and deposits	515,647	2,098	100,877	5,060	8,459	632,141
Property held for resale			6,988,800			6,988,800
Low and moderate income housing		17,608,844				17,608,844
Unreserved, designated for:						
PERS stabilization	5,432,703					5,432,703
Library and performing arts programs	5,328,434					5,328,434
Uninsured claims payable	2,816,694					2,816,694
Projects, reported in Capital Projects Funds			35,156,402	4,605,233	4,176,131	43,937,766
Change in investment market values reported in:						
General Fund	97,389					97,389
Capital Projects Funds			754,526		132,384	886,910
Unreserved, undesignated						
Reported in:						
General Fund	15,683,827					15,683,827
Special Revenue Funds					4,213,318	4,213,318
Capital Projects Funds			14,368,471	3,099,154	6,736,021	24,203,646
TOTAL FUND BALANCES	51,108,077	17,729,766	68,337,282	9,890,196	18,700,417	165,765,738
Total Liabilities and Fund Balances	$61,494,384	$40,667,510	$98,159,430	$11,095,976	$19,026,792	

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.	319,980,261
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.	7,751,855
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.	28,660,472
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	(227,792,744)
Interest payable	(2,918,199)
Non-current portion of accrued vacation and sick leave	(9,668,011)
Non-current portion of uninsured claims payable	(3,779,438)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$277,999,934

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, 2008

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$16,800,792		$32,259,656			$49,060,448
Sales taxes	16,173,366					16,173,366
Other taxes	11,190,558				$445,886	11,636,444
Licenses and fines	5,991,484					5,991,484
Use of money and property	3,826,031	$1,039,509	4,797,240	$603,636	829,518	11,095,934
Intergovernmental	601,344		163,750	855,243	2,471,619	4,091,956
Charges for services	4,554,276				57,304	4,611,580
Developer contributions		1,275,000		93,894	1,514,724	2,883,618
Other	113,624	43,901	80,510	106	345,398	583,539
Total Revenues	59,251,475	2,358,410	37,301,156	1,552,879	5,664,449	106,128,369
EXPENDITURES						
Current:						
General Government	10,062,883	4,162,730	665,943	81,734	105,697	15,078,987
Building and Safety	2,566,393					2,566,393
Public Works	7,817,454		2,269,892	181,470	747,645	11,016,461
Planning and Neighborhood Services	1,853,449	155,513	70,524		448,121	2,527,607
Parks and Recreation	6,512,517					6,512,517
Police	21,602,294				98,456	21,700,750
Fire	14,663,715					14,663,715
Capital outlay	29,258		29,360,795	2,920,911	822,395	33,133,359
Debt service:						
Principal	1,180,000		7,310,350			8,490,350
Interest and fees	77,055		11,450,834			11,527,889
Total Expenditures	66,365,018	4,318,243	51,128,338	3,184,115	2,222,314	127,218,028
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,113,543)	(1,959,833)	(13,827,182)	(1,631,236)	3,442,135	(21,089,659)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of properties	5,989		1,862,360			1,868,349
Transfers in (Note 4)	9,971,167	6,740,250	1,379,298	1,803,131	525,662	20,419,508
Transfers (out) (Note 4)	(225,000)	(1,463,051)	(13,117,153)	(433,791)	(1,629,579)	(16,868,574)
Total Other Financing Sources (Uses)	9,752,156	5,277,199	(9,875,495)	1,369,340	(1,103,917)	5,419,283
NET CHANGE IN FUND BALANCES	2,638,613	3,317,366	(23,702,677)	(261,896)	2,338,218	(15,670,376)
Fund balances at beginning of period	48,469,464	14,412,400	92,039,959	10,152,092	16,362,199	181,436,114
FUND BALANCES AT END OF PERIOD	$51,108,077	$17,729,766	$68,337,282	$9,890,196	$18,700,417	$165,765,738

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, 2008

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	($15,670,376)
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 $667,919 have already been added to capital assets)	37,960,138
Retirements are deducted from the fund balance (Internal service fund retirements of $9,310 have already been deducted from capital assets)	(3,052,586)
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $801,148 which has already been allocated to serviced funds.)	(14,001,930)
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	8,490,350
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Non-current portion of accrued vacation and sick leave	(766,480)
Non-current portion of uninsured claims payable	(1,193,927)
Interest payable	48,199
Deferred revenue	2,123,517
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	814,625
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$14,751,530

See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Revenues				
Property taxes	$16,184,000	$16,184,000	$16,800,792	$616,792
Sales taxes	18,684,021	18,684,021	16,173,366	(2,510,655)
Other taxes	9,857,000	9,857,000	11,190,558	1,333,558
Licenses and fines	5,555,000	5,698,340	5,991,484	293,144
Use of money and property	7,496,000	7,496,000	3,826,031	(3,669,969)
Intergovernmental	772,000	829,310	601,344	(227,966)
Charges for services	4,275,000	4,658,768	4,554,276	(104,492)
Other	49,000	54,953	113,624	58,671
Total Revenues	62,872,021	63,462,392	59,251,475	(4,210,917)
Expenditures				
Current:				
General Government:				
City Manager	2,042,266	2,063,234	1,939,229	124,005
City Attorney	807,964	807,964	706,020	101,944
Finance	2,734,972	2,738,901	2,649,867	89,034
Information Services	2,711,488	2,714,264	2,696,474	17,790
Human Resources	1,201,406	1,143,278	1,061,659	81,619
Non-departmental	5,209,055	5,138,916	1,360,230	3,778,686
Building and Safety	2,818,574	2,727,881	2,566,393	161,488
Public Works	8,509,602	8,765,369	8,009,412	755,957
Planning and Neighborhood Services	2,197,140	2,127,483	1,895,333	232,150
Parks and Recreation	7,000,951	6,926,269	6,561,634	364,635
Police	21,797,429	22,053,183	21,618,187	434,996
Fire	14,341,815	14,766,788	14,760,254	6,534
Debt service:				
Principal	1,180,000	1,180,000	1,180,000	
Interest and fees	78,000	78,000	77,055	945
Total Expenditures	72,630,662	73,231,530	67,081,747	6,149,783
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,758,641)	(9,769,138)	(7,830,272)	1,938,866
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			5,989	5,989
Transfers in	10,182,793	9,931,717	9,971,167	39,450
Transfers (out)	(485,000)	(225,000)	(225,000)	
Total Other Financing Sources (Uses)	9,697,793	9,706,717	9,752,156	45,439
Net change in fund balance	($60,848)	($62,421)	1,921,884	$1,984,305
Adjustment to budgetary basis:				
Capital outlay			(42,806)	
Encumbrance expenditures			759,535	
Fund balance, July 1			48,469,464	
Fund balance, June 30			$51,108,077	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
Revenues				
Use of money and property	$715,000	$715,000	$1,039,509	$324,509
Developer contributions			1,275,000	1,275,000
Other			43,901	43,901
Total Revenues	715,000	715,000	2,358,410	1,643,410
Expenditures				
Current:				
General Government:				
City Manager	70,658	78,862	68,647	10,215
Non-departmental	5,300,000	5,451,040	4,212,907	1,238,133
Planning and Neighborhood Services	54,000	155,712	155,513	199
Total Expenditures	5,424,658	5,685,614	4,437,067	1,248,547
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,709,658)	(4,970,614)	(2,078,657)	2,891,957
OTHER FINANCING SOURCES (USES)				
Transfers in	6,011,000	6,011,000	6,740,250	729,250
Transfers (out)	(1,100,655)	(1,100,655)	(1,463,051)	(362,396)
Total Other Financing Sources (Uses)	4,910,345	4,910,345	5,277,199	366,854
Net change in fund balance	$200,687	($60,269)	3,198,542	$3,258,811
Adjustment to budgetary basis:				
Encumbrance expenditures			118,824	
Fund balance, July 1			14,412,400	
Fund balance, June 30			$17,729,766	

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 2008.

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, 2008

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
ASSETS					
Current Assets					
Cash and investments available for operations (Note 3)	$16,251,823	$3,033,732	$23,409,581	$42,695,136	$7,678,815
Restricted cash and investments (Note 3)			439,300	439,300	
Receivables:					
Accounts	941,915	73,604	548,548	1,564,067	119
Due from other governments			43,025	43,025	47,414
Interest	147,335	29,154	224,644	401,133	73,375
Prepaids, materials, supplies and deposits	231,991	487	21,437	253,915	114,421
Total current assets	17,573,064	3,136,977	24,686,535	45,396,576	7,914,144
Noncurrent assets:					
Capital assets and capacity rights (Note 8):					
Land and construction in progress	4,142,078		15,130,829	19,272,907	
Depreciable capital assets, net	35,247,317	291,221	45,937,577	81,476,115	3,825,508
Total noncurrent assets	39,389,395	291,221	61,068,406	100,749,022	3,825,508
Total assets	56,962,459	3,428,198	85,754,941	146,145,598	11,739,652
LIABILITIES					
Current liabilities:					
Accounts payable	855,407	84,444	1,564,624	2,504,475	73,856
Accrued payroll	36,726	2,396	25,181	64,303	12,668
Interest payable			57,282	57,282	
Refundable deposits	68,500	61,833		130,333	
Accrued vacation (Note 12)	24,588		24,588	49,176	14,320
Sick leave payable (Note 12)	23,844		23,844	47,688	6,642
Certificates of Participation (Note 9)			345,000	345,000	
Total current liabilities	1,009,065	148,673	2,040,519	3,198,257	107,486
Non-current liabilities:					
Accrued vacation (Note 12)	59,903		59,903	119,806	36,844
Sick leave payable (Note 12)	64,467		64,467	128,934	17,959
Certificates of Participation (Note 9)			8,815,000	8,815,000	
Total non-current liabilities	124,370		8,939,370	9,063,740	54,803
Total liabilities	1,133,435	148,673	10,979,889	12,261,997	162,289
NET ASSETS					
Invested in capital assets and capacity rights, net of related debt	39,389,395	291,221	52,347,706	92,028,322	3,825,508
Restricted for capital projects	6,884,152		11,368,097	18,252,249	
Unrestricted	9,555,477	2,988,304	11,059,249	23,603,030	7,751,855
Total net assets	$55,829,024	$3,279,525	$74,775,052	$133,883,601	$11,577,363

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, 2008

	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	$14,780,526	$1,294,082	$9,933,701	$26,008,309	$2,860,998
Other operating revenue	156,458	29,405	107,549	293,412	21,576
Total Operating Revenues	14,936,984	1,323,487	10,041,250	26,301,721	2,882,574
OPERATING EXPENSES					
Purchased water	6,967,224	356,922		7,324,146	
Purchased sewer capacity			4,205,005	4,205,005	
Personnel services	2,034,893	93,952	1,289,554	3,418,399	728,620
Services and supplies	1,052,788	9,923	693,936	1,756,647	904,686
Depreciation	1,370,542	20,216	2,064,311	3,455,069	801,148
Repairs and maintenance	141,155		19,555	160,710	334,013
Total Operating Expenses	11,566,602	481,013	8,272,361	20,319,976	2,768,467
Operating Income (Loss)	3,370,382	842,474	1,768,889	5,981,745	114,107
NONOPERATING REVENUES					
Interest income	933,788	179,193	1,466,945	2,579,926	437,995
Interest expense			(353,893)	(353,893)	
Subventions and grants		28,233		28,233	47,414
Gain on sale of assets					28,367
Total Nonoperating Revenues	933,788	207,426	1,113,052	2,254,266	513,776
Income (Loss) Before Contributions and Transfers	4,304,170	1,049,900	2,881,941	8,236,011	627,883
Capital contributions					326,742
Capital contributions - connection fees	139,278		788,237	927,515	
Transfers in (Note 4)	440,000		8,239	448,239	
Transfers (out) (Note 4)	(1,739,961)	(566,260)	(1,552,952)	(3,859,173)	(140,000)
Change in net assets	3,143,487	483,640	2,125,465	5,752,592	814,625
Total net assets-beginning	52,685,537	2,795,885	72,649,587	128,131,009	10,762,738
Total net assets-ending	$55,829,024	$3,279,525	$74,775,052	$133,883,601	$11,577,363

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	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	$14,989,855	$1,300,149	$10,109,744	$26,399,748	$2,882,479
Payments to suppliers	(8,134,866)	(283,540)	(4,194,310)	(12,612,716)	(1,260,301)
Payments to employees	(2,015,695)	(92,409)	(1,273,817)	(3,381,921)	(719,760)
Net cash provided by operating activities	4,839,294	924,200	4,641,617	10,405,111	902,418
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Due from other funds			(43,025)	(43,025)	
Transfers in	440,000		8,239	448,239	
Transfers (out)	(1,739,961)	(566,260)	(1,552,952)	(3,859,173)	(140,000)
Cash Flows from Noncapital Financing Activities	(1,299,961)	(566,260)	(1,587,738)	(3,453,959)	(140,000)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Principal paid on long-term debt			(375,000)	(375,000)	
Interest paid			(355,933)	(355,933)	
Proceeds from sale of capital assets					37,677
Acquisition of capital assets	(820,696)		(8,079,160)	(8,899,856)	(341,177)
Capital contributions - connection fees	139,278		788,237	927,515	
Subventions and grants		28,233		28,233	
Cash Flows from Capital and Related Financing Activities	(681,418)	28,233	(8,021,856)	(8,675,041)	(303,500)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	918,627	181,837	1,449,631	2,550,095	445,137
Cash Flows from Investing Activities	918,627	181,837	1,449,631	2,550,095	445,137
Net increase (decrease) in cash and cash equivalents	3,776,542	568,010	(3,518,346)	826,206	904,055
Cash and investments at beginning of period	12,475,281	2,465,722	27,367,227	42,308,230	6,774,760
Cash and investments at end of period	$16,251,823	$3,033,732	$23,848,881	$43,134,436	$7,678,815
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$3,370,382	$842,474	$1,768,889	$5,981,745	$114,107
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,370,542	20,216	2,064,311	3,455,069	801,148
Change in assets and liabilities:					
Receivables, net	64,871	(20,105)	68,494	113,260	(95)
Materials, supplies and deposits	(18,227)	38	(5,252)	(23,441)	(8,609)
Accrued payroll	11,533	1,543	8,072	21,148	
Accounts and other payables	40,193	80,034	737,103	857,330	(4,133)
Net cash provided by operating activities	$4,839,294	$924,200	$4,641,617	$10,405,111	$902,418
NONCASH TRANSACTIONS:					
Contributions and transfers of capital assets, net					$326,742
Retirement of capital assets, net					$9,310

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, 2008

	Agency Funds
ASSETS	
Cash and investments (Note 3)	$7,830,138
Accounts receivable	114
Interest receivable	31,186
Total Assets	$7,861,438
LIABILITIES	
Refundable deposits	$1,367,508
Due to Local Improvement Districts	6,493,930
Total Liabilities	$7,861,438

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, 2007 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.

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.

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 the General Fund and the 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.

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	$173,136,774
Restricted investments	43,181,867
Total Primary Government cash and investments	216,318,641
Cash and investments available for operations	13,271
Restricted investments	898,896
Total Component Unit cash and investments	912,167
Cash and investments in Fiduciary Funds (separate statement)	7,830,138
Total cash and investments	$225,060,946

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

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

The City's Investment Policy 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	$25,164,400	$12,310,000	$39,562,028	$70,127	$77,106,555
Corporate Notes	7,029,626	7,148,934	8,102,922		22,281,482
U.S. Treasury Notes	7,072,500		5,297,500		12,370,000
California Local Agency Investment Fund	106,109,680				106,109,680
Mutual Funds (U.S. Securities)	5,946,579				5,946,579
Terrace Gardens, Inc.:					
Certificates of Deposit	831,975				831,975
Total Investments	$152,154,760	$19,458,934	$52,962,450	$70,127	224,646,271
Demand Deposits - City of Milpitas					334,483
Demand Deposits - Terrace Gardens					80,192
Total Cash and Investments					$225,060,946

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, 2008 these investments matured in an average of 212 days.

Mutual funds are available for withdrawal on demand and at June 30, 2008 matured in an average of 41 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, 2008 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	$77,106,555		$77,106,555
Corporate Notes	8,099,271	$14,182,211	22,281,482
Mutual Funds (U.S. Securities)	5,946,579		5,946,579
Totals	$91,152,405	$14,182,211	105,334,616
Not rated:			
California Local Agency Investment Fund			106,109,680
Exempt from credit rate disclosure:			
U.S. Treasury Notes			12,370,000
Total Investments			$223,814,296

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2008, 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, 2008:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal agency securities	$37,600,438
Federal Farm Credit Bank	Federal agency securities	25,385,340

There are no investments in the securities of any individual issuers that represent 5% or more of total investments by individual funds as of June 30, 2008.

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, 2008 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Housing Reserve Special Revenue Fund	$1,100,655	(A)
	Redevelopment Project Capital Projects Fund	5,220,847	(A)
	Solid Waste Reduction Services Special Revenue Fund	189,063	(A)
	Abandoned Vehicle Abatement Special Revenue Fund	37,121	(B)
	Hetch-Hetchy Special Revenue Fund	3,055	(A)
	Park Improvement Capital Projects Fund	8,924	(C)
	General Government Project Capital Projects Fund	2,329	(A)
	Water Utility Enterprise Fund	1,734,961	(A)
	Recycled Water Utility Enterprise Fund	126,260	(A)
	Sewer Utility Enterprise Fund	1,547,952	(A)
Special Revenue Funds:			
Housing Reserve	Redevelopment Project Capital Projects Fund	6,740,250	(D)
Public Art	General Fund	125,000	(C)
Public Art	Redevelopment Project Capital Projects Fund	260,662	(C)
Capital Projects Funds:			
Redevelopment Project	General Fund	100,000	(E)
Redevelopment Project	Housing Reserve Special Revenue Fund	362,396	(A)
Redevelopment Project	Street Improvement Capital Projects Fund	155,000	(E)
Redevelopment Project	Street Improvement Capital Projects Fund	278,791	(F)
Redevelopment Project	Public Art Special Revenue Fund	415,000	(C)
Redevelopment Project	Park Improvement Capital Projects Fund	10,809	(F)
Redevelopment Project	General Government Project Capital Projects Fund	47,302	(F)
Redevelopment Project	Water Utility Enterprise Fund	5,000	(E)
Redevelopment Project	Sewer Utility Enterprise Fund	5,000	(E)
Street Improvement	Redevelopment Project Capital Projects Fund	887,155	(E)
Street Improvement	Gas Tax Special Revenue Fund	915,976	(E)
General Government Project	Equipment Management Internal Service Fund	140,000	(E)
Enterprise Funds:			
Water Utility	Recycled Water Utility Enterprise Fund	440,000	(E)
Sewer Utility	Redevelopment Project Capital Projects Fund	8,239	(E)
Total Interfund Transfers		$20,867,747	

The reasons for these transfers are set forth below:
(A) Reimbursement of costs incurred
(B) Transfer to close the fund
(C) Transfer to fund public art project
(D) State-required set-aside of Low and Moderate Income Housing portion of property tax increment.
(E) Transfer of capital projects amounts
(F) Return of unused capital projects funds

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. Under the terms of the Amended Agreement, the purchase price of the parcels is $20,455,191. The advance is due on September 7, 2044 and bears simple interest of 10% annually. At June 30, 2008 the balance of the advance including principal and accrued interest was $26,188,680.

C. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2008, the Housing and Community Development Special Revenue Fund owed the General Fund $28,987.

NOTE 5 - LOANS RECEIVABLE

The City and Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing. These loans were comprised of the following at June 30, 2008:

Rehabilitation Loans	$3,080,278
Milpitas Housing Associates	4,141,798
Parc Metropolitan Housing Development	482,113
Montague Parkway Associates, LP	1,160,843
Parc North Associates LLC	1,974,000
Mid-Peninsula Milpitas Affordable Housing Associates	14,123,181
KB Home South Bay Inc.	900,000
Western Pacific Housing Inc.	140,000
Total Loans Receivable	$26,002,213

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2008 the City had outstanding rehabilitation loans of $3,080,278 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2008, the City received $94,536 from all participants, and made new loans totaling $574,717.

NOTE 5 - LOANS RECEIVABLE (Continued)

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 $196,904 and as of June 30, 2008, principal and accrued interest totaled $4,141,798.

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 $11,163 and as of June 30, 2008, there were $482,113 in loans outstanding.

D. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, $1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal and interest of $68,545 was accrued and paid in fiscal 2008. As of June 30, 2008, the outstanding balance totaled $1,160,843.

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, 2008, 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 $1,091,664 of the loan during fiscal year 2008, and interest of $259,815 was accrued. As of June 30, 2008, principal and accrued interest outstanding totaled $14,123,181.

NOTE 5 - LOANS RECEIVABLE (Continued)

G. KB Home South Bay Inc Loans

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the Agency will provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately $5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2008, there were $900,000 of loans to Parcel C households outstanding. As of June 30, 2008 the Agency had provided subsidies totaling $2,795,277.

H. Western Pacific Housing Inc., Loans

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. In exchange, the Agency will provide a grant of $379,480 for permits, fees, and infrastructure. The Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2008, there were $140,000 of such loans outstanding.

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

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, 2008, 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. The Owner Participation Agreement was amended in June 2008 to change the deed-restricted units to 12 extremely low-income units, 43 very low-income units, and 38 market rate units. In exchange, the Agency will provide a $1,230,560 developer loan upon completion of the fifty-five affordable housing units. As of June 30, 2008, the Agency had not expended any funds on the developer loan.

D. 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.

E. 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, 2008, the Agency had not expended any funds on the silent-second loans.

F. 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 property was sold to the County in fiscal year 2008.

G. 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, 2008, 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.

NOTE 8 - CAPITAL ASSETS (Continued)

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.

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2007	Additions	Retirements	Transfers	Balance at June 30, 2008
Capital assets not being depreciated:					
Land	$55,092,035	$4,983,264	($3,052,586)		$57,022,713
Construction in progress	54,979,124	29,936,205		($3,075,683)	81,839,646
Total capital assets not being depreciated	110,071,159	34,919,469	(3,052,586)	(3,075,683)	138,862,359
Capital assets being depreciated:					
Buildings and improvements	92,885,792	119,758		355,179	93,360,729
Other improvements	20,345,690			2,469,285	22,814,975
Machinery and equipment	19,337,523	667,919	(127,632)	120,739	19,998,549
Landscape system	29,633,961				29,633,961
Storm system	72,787,213	10,500			72,797,713
Street system	204,583,145	2,568,828		130,480	207,282,453
Traffic system	16,269,592	341,583			16,611,175
Total capital assets being depreciated	455,842,916	3,708,588	(127,632)	3,075,683	462,499,555
Less accumulated depreciation for:					
Buildings and improvements	(25,371,937)	(3,576,636)			(28,948,573)
Other improvements	(11,388,421)	(981,852)			(12,370,273)
Machinery and equipment	(13,270,675)	(1,484,450)	118,322		(14,636,803)
Landscape system	(8,153,101)	(593,776)			(8,746,877)
Storm system	(64,739,704)	(891,150)			(65,630,854)
Street system	(136,220,431)	(6,635,919)			(142,856,350)
Traffic system	(7,552,628)	(639,295)			(8,191,923)
Total accumulated depreciation	(266,696,897)	(14,803,078)	118,322		(281,381,653)
Net capital assets being depreciated	189,146,019	(11,094,490)	(9,310)	3,075,683	181,117,902
Governmental activity capital assets, net	$299,217,178	$23,824,979	($3,061,896)		$319,980,261

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2008:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Public Works Yard Parking Lot Expansion	$250,000	$234,935	$15,065
Community Center Renovations	460,000	415,388	44,612
Storm Water Pump Station Improvement	135,000	101,929	33,071
New Finance System	3,096,093	3,096,093	
Department Hardware	2,622,617	2,622,617	
Computer Aided Draft	2,985,000	2,985,000	
Radio Replacement Plan	1,083,245	1,004,448	78,797
Information Management System	700,000	684,618	15,382
Miscellaneous City Building Improvement Projects	876,866	771,902	104,964
Berryessa Pump Station Improvements	1,800,000	1,259,705	540,295
Oakcreek Pump Station Improvement	337,000	241,262	95,738
Milpitas Library Offsite Utility Improvements	6,024,910	5,649,955	374,955
Land Acquisition, Abatement & Site Preparation for Midtown Parking Garage East	4,500,000	2,215,005	2,284,995
Calaveras/Abel Dual Left Turn Lanes	373,500	128,082	245,418
Abel Street Midtown Improvements	1,510,510	1,384,871	125,639
Sports Center Large Gym Improvement	1,400,000	438,822	961,178
Midtown Parking Garage East	12,500,000	11,567,128	932,872
Library Project	39,000,000	28,218,122	10,781,878
Bart Extension Coordination & Plan	350,000	316,093	33,907
Main Street Midtown Improvement	8,033,750	4,681,669	3,352,081
Main/Great Mall Dr Sewer Replacement	20,000	1,491	18,509
Curtis Avenue Improvements	490,000	481,768	8,232
N Main Street EIR Mitigation	700,000	597,682	102,318
Emergency Operations	35,000		35,000
Public Works Security	100,000	27,135	72,865
Range Lead Containment	250,000	154,955	95,045
Senior Center	2,300,000	1,213,229	1,086,771
Transit Area Specific Plan	1,372,697	850,588	522,109
City Building Improvement	500,000	124,277	375,723
Corporation Yard Canopies	600,000	100,655	499,345
In-ground Water Clarifiers	175,000		175,000
Public Art Renovations	25,000	16,148	8,852
Carlos Street and Calaveras Blvd Ramp Conversion Study	250,000	250,000	
Storm Pump Station Improvement	50,000		50,000
Library Art	390,000	72,622	317,378
Alviso Adobe Renovation	2,403,272	845,192	1,558,080
Ball Park Fence Field Extension	375,000	212,242	162,758
Berryessa Creek Trail, Reach 3	1,015,000	996,160	18,840
Penitencia Creek Trail Feasibility Study	40,000	292	39,708
Berryessa Creek Trail, Reach 4	25,000	2,676	22,324
Park Renovation Project 2007	104,500	54,838	49,662
Park Master Plan	225,000	138,139	86,861
Berryessa Crk Trail, Reach 6A	10,000	2,519	7,481
Electrical Cabinet Upgrade	100,000		100,000
Park Irrigation System Rehabilitation	400,000	528	399,472
Calle Oriente Park	80,000	62,917	17,083
Minor Storm Drain Projects	455,000	431,613	23,387
Expanded Public Safety Technology	3,456,014	3,454,985	1,029
Abbott Pump Replacement	55,000	2,269	52,731
Public Cable Access Facility	440,000	427,169	12,831
On-line Development System	640,000	620,850	19,150
Community Warning System Master Plan	150,000		150,000
Terra Serena Homes Infrastructure	3,160,858	2,679,063	481,795
Total construction in progress	$108,430,832	$81,839,646	$26,591,186

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2007	Additions	Transfers	Balance at June 30, 2008
Capital assets not being depreciated:				
Land	$1,133,079			$1,133,079
Construction in progress	9,744,707	$8,880,698	($485,577)	18,139,828
Total capital assets not being depreciated	10,877,786	8,880,698	(485,577)	19,272,907
Capital assets being depreciated:				
Distribution facilities	67,261,796			67,261,796
Service lines	10,301,382	19,158	105,463	10,426,003
Sewer lines	57,930,598		380,114	58,310,712
Capacity rights	30,766,096			30,766,096
Total capital assets being depreciated	166,259,872	19,158	485,577	166,764,607
Less accumulated depreciation for:				
Distribution facilities	(36,899,782)	(1,170,765)		(38,070,547)
Service lines	(3,858,721)	(219,994)		(4,078,715)
Sewer lines	(33,579,870)	(1,128,637)		(34,708,507)
Capacity rights	(7,495,050)	(935,673)		(8,430,723)
Total accumulated depreciation	(81,833,423)	(3,455,069)		(85,288,492)
Net capital assets being depreciated	84,426,449	(3,435,911)	485,577	81,476,115
Business-type activity capital assets, net	$95,304,235	$5,444,787		$100,749,022

Business-type activities construction in progress comprised the following at June 30, 2008:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Sewer I/I Structure	$3,347,027	$2,839,866	$507,161
Main SPS Site Improvements	2,750,000	1,994,140	755,860
Venus Pump Station	202,000	98,547	103,453
Main Sewage Pump Station Improvement	13,243,025	10,193,341	3,049,684
Minor Sewer Project 2007	35,000	3,435	31,565
Pressure Reducing Valve Replacement	120,000	36,010	83,990
Well Upgrade Program	3,045,000	1,602,186	1,442,814
Los Coches Water Valve Replacement	84,100	3,229	80,871
City Reservoir Evaluation & Upgrades	510,000	475,626	34,374
South Milpitas Water Line Replacement	440,000	298,284	141,716
Gibraltar Reservoir & Pump Station	2,725,000	581,073	2,143,927
Ayer Reservoir & Pump Station Improvements	100,000	7,321	92,679
Minor Water Projects 2007	125,000	6,770	118,230
Total construction in progress	$26,726,152	$18,139,828	$8,586,324

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, 2008:

	Balance December 31, 2006	Additions	Balance December 31, 2007
Capital assets not being depreciated:			
Land	$1,565,277		$1,565,277
Capital assets being depreciated:			
Buildings	11,819,224	$262,914	12,082,138
Furniture	217,149		217,149
Office equipment	60,710		60,710
Improvements	200,423		200,423
Total capital assets being depreciated	12,297,506	262,914	12,560,420
Less accumulated depreciation	(4,439,649)	(257,275)	(4,696,924)
Net capital assets being depreciated	7,857,857	5,639	7,863,496
Total capital assets, net	$9,423,134	$5,639	$9,428,773

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	$2,709,286
Public Works	9,672,368
Parks and Recreation	752,016
Police	513,202
Fire	355,058
Internal Service Fund	801,148
Total Governmental Activities	$14,803,078
Business-Type Activities	
Water Utility	$1,370,542
Recycled Water Utility	20,216
Sewer Utility	2,064,311
Total Business-Type Activities	$3,455,069
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	$257,275

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. The City has 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 2008 the City's operation and maintenance share was approximately 6.43% of the total WPCP operations.

Under a plan approved by the Regional Water Resources Control Board, the City is responsible for approximately 8.1% of the costs to be incurred by the WPCP to mitigate damage to an endangered species habitat. Approved in 1995, the South Bay Water Recycling Program (SBWRP) consisted of constructing a water recycling distribution system that would reduce the volume of wastewater discharged into the San Francisco Bay by the treatment plant. This Program was estimated to cost a total of $140 million for Phase I and $100 million for Phase II, of which the City's share will approximate 8.1%. At June 30, 2007, Phase I and Phase II construction for Milpitas' infrastructure 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, 2007	Retirements	Balance June 30, 2008	Current Portion
Governmental Activity Debt:				
2003 Redevelopment Agency Tax Allocation Bonds				
2%-5.25%, due September 1, 2032	$187,030,000	$3,855,000	$183,175,000	$3,960,000
Technology Certificates of Participation, Series 2000				
4% - 4.25%, due November 1, 2008	2,410,000	1,180,000	1,230,000	1,230,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	46,843,094	3,455,350	43,387,744	3,290,810
Total Governmental Activity Debt	$236,283,094	$8,490,350	$227,792,744	$8,480,810
Business-type Activity Debt:				
Sewer Certificates of Participation, 2006 Series A				
3.4% - 4.20%, due November 1, 2026	$9,535,000	$375,000	$9,160,000	$345,000
Total Business-type Activity Debt	$9,535,000	$375,000	$9,160,000	$345,000

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. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a $13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the $304,449,809 remaining debt service on the bonds which is scheduled to occur in 2032. Projected non-housing revenues are expected to provide coverage over debt service of 158% over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) are expected to provide coverage over debt service of 13.79 over the life of the bonds. For fiscal year 2008, non-housing tax increment revenue amounted to $25,807,725 which represented coverage of 2.09 over the $12,353,269 non-housing portion of debt service. For fiscal year 2008, the housing revenue amounted to $6,451,931 which represented coverage of 17.79 over the $362,696 housing portion of debt service.

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 7D above. As discussed in Note 7D, under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of $43,387,744 at June 30, 2008, 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
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	8,302,357	9,266,176	395,000	292,965
2014-2018	46,846,801	45,766,014	2,180,000	1,242,089
2019-2023	55,096,084	42,272,048	2,625,000	789,597
2024-2028	52,645,000	14,508,493	2,510,000	215,102
2029-2033	31,775,000	3,504,229		
	$227,792,744	$152,913,203	$9,160,000	$3,841,235

G. *Defeased Bonds*

As of June 30, 2008, outstanding balances for defeased debt were $29,140,000 for the Redevelopment Agency 1997 Tax Allocation Bonds, $5,390,000 for the Redevelopment Agency 2000 Tax Allocation Bonds, and $5,115,000 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:

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

Total capital assets	$319,980,261
Total outstanding debt	(227,792,744)
Adjustments to outstanding debt:	
Unspent bond proceeds	26,683,012
Debt not related to the purchase of the City's capital assets:	
Portion of the 2003 Tax Allocation Bonds funded capital assets owned by other governments	62,344,898
Installment Purchase Agreement	43,387,744
Invested in Capital Assets, Net of Related Debt	$224,603,171

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

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

B. *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.

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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.

Designated for unrealized gain on investments represents gains or losses on investments resulting from changes in fair market values recognized for financial statement purposes but not realized, since these investments have not been sold.

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, 2008, 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	22.932%	14.928%
Actuarially required contribution	$4,574,696	$3,762,511

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
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%
2006	133,625,518	158,393,586	24,768,068	84.4%	17,945,091	138.021%

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
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%
2006	91,352,176	108,397,205	17,045,029	84.3%	21,689,035	78.588%

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, 2006 (the most recent available) as follows:

	Safety	Miscellaneous
Beginning Balance 6/30/05	$122,027,882	$82,237,103
Contributions received	6,884,154	5,606,302
Benefits and Refunds Paid	(5,448,284)	(3,404,572)
Miscellaneous Adjustments	39,631	52,748
Expected Investment Earnings Credited	9,513,270	6,459,106
Expected Actuarial Value of Assets 6/30/06	$133,016,653	$90,950,687
Market Value of Assets 6/30/06	$142,149,632	$96,973,021
Actuarial Value of Assets 6/30/06	$133,625,518	$91,352,176

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2008, 2007, and 2006 were $8,337,207, $8,032,234, and $8,638,190 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 $17,654 and the employee's required contributions of $70,609 were made during the fiscal year ending June 30, 2008.

NOTE 12 - EMPLOYEE BENEFITS

A. Deferred Compensation Plan

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

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

B. Retiree Medical Benefits

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2008 there were 166 participants receiving these health care benefits.

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 indicated 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), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. City Council authorized a deposit of $9,496,160 with CERBT on June 5, 2007 to begin funding its OPEB liability.

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

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

	Hire/Retirement Date	Eligibility Rule (continuous years of service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired prior to July 1, 1995	At least 5	If retirement occurred between July 1, 1990 and September 1, 2002: - Any employee only medical premium rate If retirement occurs after September 1, 2002: - Benefit cap
	Hired on or after July 1, 1995 and retired on or after September 1, 2002	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Fire Safety (IAFF)	Retired prior to January 1, 1990	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($80.80 per month in 2007, $97.00 per month in 2008)
	Retired January 1, 1990 - February 20, 2007	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired after Feb. 20, 2007	1 but less than 10	50% of the lesser of the retiree cap and premium rate
		At least 10	100% of the lesser of the retiree cap and premium rate
	Hired on or after January 1, 1995 and retired after Feb. 20, 2007	1 but less than 10	25% of the lesser of the retiree cap and premium rate
		10 but less than 15	50% of the lesser of the retiree cap and premium rate
		15 but less than 20	75% of the lesser of the retiree cap and premium rate
		At least 20	100% of the lesser of the retiree cap and premium rate

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (continuous years of service)	City Contribution Requirement
Police (MPOA)	Retired Prior to January 1 , 1989	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($80.80 per month in 2007, $97.00 per month in 2008)
	Hired prior to January 1, 1996	At least 5	If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap
	Hired on or after January 1, 1996	1 but less than 10	Up to 25% of the retiree cap
		10 but less than 15	Up to 50% of the retiree cap
		15 but less than 20	Up to 75% of the retiree cap
		At least 20	Up to 100% of the retiree cap
Employee Association (MEA)	Hired prior to June 30, 1996	At least 5	If retirement occurs on or before July 17, 1989 - None If retirement occurs on or after July 17,1989 - Any employee only medical premium rate
	Hired on or after June 30, 1996	1 but less than 10	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City
		10 but less than 15	Up to 50% of the lowest cost employee only premium
		15 but less than 20	Up to 75% of the lowest cost employee only premium
		At least 20	Up to 100% of the lowest cost employee only premium
Supervisors (MSA)	Hired prior to June 30, 1995	At least 5	Up to the employee only medical premium rate
	Hired on or after June 30, 1995	1 but less than 10	Up to 25% of the employee only premium
		10 but less than 15	Up to 50% of the employee only premium
		15 but less than 20	Up to 75% of the employee only premium
		At least 20	Up to 100% of the employee only premium

Funding Policy and Actuarial Assumptions

The City's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City's annual budget approved by Council. The annual required contribution (ARC) was determined as part of a July 1, 2007 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates of 5-8.5% for medical and 3% for dental. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The study indicates that as of July 1, 2007, the actuarial accrued liability was estimated to be $36,371,140.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2008, the City contributed the ARC amounting to $2,797,701 to the Plan, as presented below:

Annual required contribution	$2,797,701
Adjustment to annual required contribution	0
Annual OPEB cost	2,797,701
Contributions made	(2,797,701)
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2007	0
Net OPEB obligation (asset) June 30, 2008	$0

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2007, amounted to $36,371,140. The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contribution, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of $11,135,630 as of June 30, 2008, which partially reduced the unfunded actuarial accrued liability.

The Plan's annual required contributions and actual contributions for the year ended June 30, 2008 are set forth below:

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
June 30, 2008	$2,797,701	$2,797,701	100%	$0

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2007 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
7/1/2007	$9,496,160	$36,371,140	$26,874,980	26.11%	$41,522,000	64.72%

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, 2008, sick leave benefits payable increased $503,303 and vacation benefits payable increased $284,128. 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, 2007	$3,980,035	$159,742	$4,991,640	$170,532
Additions	4,129,308	246,000	1,976,800	75,155
Payments and adjustments	(3,635,246)	(236,759)	(1,698,761)	(69,066)
Balance as of June 30, 2008	$4,474,097	$168,983	$5,269,679	$176,621
General Government	$455,154		$212,982	
Building	161,086		135,321	
Public Works	411,339		250,227	
Engineering and Planning	320,812		234,641	
Recreation	90,967		70,598	
Police	1,998,597		1,670,572	
Fire	984,977		2,670,737	
Water Utility		$84,491		$88,311
Sewer Utility		84,491		88,311
Internal Service	51,165		24,601	
Total	$4,474,097	$168,982	$5,269,679	$176,622
Long-Term Portion:				
Governmental activities	$3,931,551		$4,974,348	
Business-type activities		$119,806		$128,934
Total long term portions	$3,931,551	$119,806	$4,974,348	$128,934
Current Portion				
Governmental activities	$542,546		$295,331	
Business-type activities		$49,176		$47,688
Total current portions	$542,546	$49,176	$295,331	$47,688

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 up to $1 billion based on its appraised values of the properties up to $350,000,000. 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, 2008 the City contributed $393,671 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 annual contributions to ABAG Plan are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

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

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of $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, 2008 the City paid $631,289 in dental claims and administrative fees.

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:

	2008			
	Worker's Compensation	General Liability	Total	2007
Beginning balance	$3,990,325	$222,743	$4,213,068	$4,083,114
Liability for current fiscal year claims	200,917	30,469	231,386	863,730
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	621,648	106,890	728,538	529,733
Claims paid	(1,269,964)	(123,590)	(1,393,554)	(1,263,509)
Ending balance	$3,542,926	$236,512	$3,779,438	$4,213,068
Due in one year	$1,096,403	$137,771	$1,234,174	$1,627,557

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 year 2008, the Agency made pass-through payments in the amount of $1,103,921.

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, 2008 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2008
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	$215,000-365,000	2009-2017	$2,560,000
LID #18	1999	5.45-5.85%	165,000-290,000	2009-2019	2,445,000
LID #18 Refunding	1998	5.45-5.65%	540,000-750,000	2009-2015	4,480,000
LID #20	1999	5.40-5.70%	785,000-1,365,000	2009-2019	11,580,000
LID #9R and 12R	1999	5.30-5.625%	395,000-495,000	2009-2013	2,200,000
Total					$23,265,000

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 BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	$30,055,000	$32,259,656	$2,204,656
Use of money and property	2,914,000	4,797,240	1,883,240
Intergovernmental	33,750	163,750	130,000
Other	17,390	80,510	63,120
Total Revenues	33,020,140	37,301,156	4,281,016
Expenditures			
Current:			
General Government:			
City Manager	248,305	244,025	4,280
City Attorney	42,075	42,075	
Non-departmental	1,061,234	732,044	329,190
Public Works	3,670,073	2,269,892	1,400,181
Planning and Neighborhood Services	123,070	123,070	
Debt service:			
Principal	7,310,350	7,310,350	
Interest and fiscal charges	15,405,650	11,450,834	3,954,816
Total Expenditures	27,860,757	22,172,290	5,688,467
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,159,383	15,128,866	9,969,483
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of property		1,862,360	1,862,360
Transfers in	652,000	1,379,298	727,298
Transfers (out)	(12,711,847)	(13,117,153)	(405,306)
Total Other Financing Sources (Uses)	(12,059,847)	(9,875,495)	2,184,352
Net change in fund balance	($6,900,464)	5,253,371	$12,153,835
Adjustment to budgetary basis:			
Capital outlay		(39,912,530)	
Encumbrance adjustments		10,956,482	
Fund balance, July 1		92,039,959	
Fund balance, June 30		$68,337,282	

CITY OF MILPITAS
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Use of money and property	$376,000	$603,636	$227,636
Intergovernmental	1,960,318	855,243	(1,105,075)
Developer contributions	18,448	93,894	75,446
Other		106	106
Total Revenues	2,354,766	1,552,879	(801,887)
Expenditures			
Current:			
General Government:			
Non-departmental	153,821	84,084	69,737
Public Works	181,470	181,470	
Total Expenditures	335,291	265,554	69,737
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,019,475	1,287,325	(732,150)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,355,000	1,803,131	(551,869)
Transfers (out)	(80,000)	(433,791)	(353,791)
Total Other Financing Sources (Uses)	2,275,000	1,369,340	(905,660)
Net change in fund balance	$4,294,475	2,656,665	($1,637,810)
Adjustment to budgetary basis:			
Capital outlay		(5,099,258)	
Encumbrance adjustments		2,180,697	
Fund balance, July 1		10,152,092	
Fund balance, June 30		$9,890,196	

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.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2008

	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	$518	$3,200	$346,899	$1,283,787	$289,723	
Receivables:						
Accounts				53,733		
Due from other governments	396,780	54,102				
Interest	2,828	386	3,888	12,589	2,325	
Loans receivable		3,080,278				
Prepaids, materials, supplies and deposits		774		341	798	
Total Assets	$400,126	$3,138,740	$350,787	$1,350,450	$292,846	
LIABILITIES						
Accounts payable		$39,727	$33,502	$35,146	$31,147	
Accrued payroll		2,140		2,893	515	
Due to other funds		28,987				
Deferred revenue			55,217			
Refundable deposits				18,843		
Total Liabilities		70,854	88,719	56,882	31,662	
FUND BALANCE						
Fund Balances:						
Reserved for:						
Encumbrances		4,848		1,870	14,154	
Loans		3,080,278				
Prepaids, materials, supplies and deposits		774		341	798	
Unreserved, Designated for:						
Projects						
Change in investment market values						
Unreserved, Undesignated	$400,126	(18,014)	262,068	1,291,357	246,232	
Total Fund Balances	400,126	3,067,886	262,068	1,293,568	261,184	
Total Liabilities and Fund Balances	$400,126	$3,138,740	$350,787	$1,350,450	$292,846	

		CAPITAL PROJECTS FUNDS			
Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$1,600,409	$434,347	$9,627,556	$718,509	$969,395	$15,274,343
					53,733
		13,607			464,489
6,601	4,092	87,839	16,173	8,769	145,490
					3,080,278
2,215			4,331		8,459
$1,609,225	$438,439	$9,729,002	$739,013	$978,164	$19,026,792
	$1,000	$69,454	$6,284		$216,260
		1,114	406		7,068
					28,987
					55,217
					18,843
	1,000	70,568	6,690		326,375
	12,900	293,756	26,298		353,826
					3,080,278
$2,215			4,331		8,459
		3,045,195	152,772	$978,164	4,176,131
		132,384			132,384
1,607,010	424,539	6,187,099	548,922		10,949,339
1,609,225	437,439	9,658,434	732,323	978,164	18,700,417
$1,609,225	$438,439	$9,729,002	$739,013	$978,164	$19,026,792

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	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				$445,886		
Use of money and property	$16,171	$3,422	$17,389	56,220	$11,743	
Intergovernmental	1,186,339	783,313	160,112	154,813		
Charges for services				55,641		
Developer contributions						
Other				7,651	307,747	
Total Revenues	1,202,510	786,735	177,501	720,211	319,490	
EXPENDITURES:						
Current:						
General Government		79,851				
Public Works				451,116	296,529	
Engineering and Planning		448,121				
Police			98,456			
Capital outlay			127,227			
Total Expenditures		527,972	225,683	451,116	296,529	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,202,510	258,763	(48,182)	269,095	22,961	
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(915,976)			(189,063)		($37,121)
Total Other Financing Sources (Uses)	(915,976)			(189,063)		(37,121)
NET CHANGE IN FUND BALANCES	286,534	258,763	(48,182)	80,032	22,961	(37,121)
FUND BALANCES AT BEGINNING OF YEAR	113,592	2,809,123	310,250	1,213,536	238,223	37,121
FUND BALANCES AT END OF YEAR	$400,126	$3,067,886	$262,068	$1,293,568	$261,184	

		CAPITAL PROJECTS FUNDS			
Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
					$445,886
$76,178	$25,175	$537,604	$44,723	$40,893	829,518
		187,042			2,471,619
	1,663				57,304
		1,254,781	100,075	159,868	1,514,724
	30,000				345,398
76,178	56,838	1,979,427	144,798	200,761	5,664,449
25,846					105,697
					747,645
					448,121
					98,456
		474,478	220,690		822,395
25,846		474,478	220,690		2,222,314
50,332	56,838	1,504,949	(75,892)	200,761	3,442,135
	385,662		140,000		525,662
(3,055)	(415,000)	(19,733)	(49,631)		(1,629,579)
(3,055)	(29,338)	(19,733)	90,369		(1,103,917)
47,277	27,500	1,485,216	14,477	200,761	2,338,218
1,561,948	409,939	8,173,218	717,846	777,403	16,362,199
$1,609,225	$437,439	$9,658,434	$732,323	$978,164	$18,700,417

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Use of money and property		$16,171	$16,171	$2,000	$3,422	$1,422
Intergovernmental	$1,207,000	1,186,339	(20,661)	601,000	783,313	182,313
Charges for services						
Other						
Total Revenues	1,207,000	1,202,510	(4,490)	603,000	786,735	183,735
EXPENDITURES						
Current:						
General Government:						
Finance				20,000	18,115	1,885
Non-departmental				73,419	66,584	6,835
Public Works						
Planning and Neighborhood Services				1,023,458	1,022,839	619
Police						
Total Expenditures				1,116,877	1,107,538	9,339
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,207,000	1,202,510	(4,490)	(513,877)	(320,803)	193,074
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,200,000)	(915,976)	284,024	(71,348)		71,348
Total Other Financing Sources (Uses)	(1,200,000)	(915,976)	284,024	(71,348)		71,348
NET CHANGE IN FUND BALANCES	$7,000	286,534	$279,534	($585,225)	(320,803)	$264,422
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					574,718	
Capital outlay						
Encumbrance adjustments					4,848	
Fund balances at beginning of year		113,592			2,809,123	
Fund balances at end of year		$400,126			$3,067,886	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			$440,000	$445,886	$5,886			
$8,000	$17,389	$9,389	33,000	56,220	23,220	$7,000	$11,743	$4,743
154,933	160,112	5,179	117,348	154,813	37,465			
			42,000	55,641	13,641			
				7,651	7,651	303,500	307,747	4,247
162,933	177,501	14,568	632,348	720,211	87,863	310,500	319,490	8,990
			518,479	452,986	65,493	350,503	310,683	39,820
106,689	98,456	8,233						
106,689	98,456	8,233	518,479	452,986	65,493	350,503	310,683	39,820
56,244	79,045	22,801	113,869	267,225	153,356	(40,003)	8,807	48,810
			(189,063)	(189,063)				
			(189,063)	(189,063)				
$56,244	79,045	$22,801	($75,194)	78,162	$153,356	($40,003)	8,807	$48,810
	(127,227)							
				1,870			14,154	
	310,250			1,213,536			238,223	
	$262,068			$1,293,568			$261,184	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2008

	HETCH-HETCHY GROUND LEASE			PUBLIC ART		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Use of money and property	$68,000	$76,178	$8,178	$13,000	$25,175	$12,175
Intergovernmental						
Charges for services					1,663	1,663
Other					30,000	30,000
Total Revenues	68,000	76,178	8,178	13,000	56,838	43,838
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	32,000	25,846	6,154			
Public Works						
Planning and Neighborhood Services						
Police						
Total Expenditures	32,000	25,846	6,154			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	36,000	50,332	14,332	13,000	56,838	43,838
OTHER FINANCING SOURCES (USES)						
Transfers in				450,000	385,662	(64,338)
Transfers (out)	(3,055)	(3,055)		(415,000)	(415,000)	
Total Other Financing Sources (Uses)	(3,055)	(3,055)		35,000	(29,338)	(64,338)
NET CHANGE IN FUND BALANCES	$32,945	47,277	$14,332	$48,000	27,500	($20,500)
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		1,561,948			409,939	
Fund balances at end of year		$1,609,225			$437,439	

TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
$440,000	$445,886	$5,886
131,000	206,298	75,298
2,080,281	2,284,577	204,296
42,000	57,304	15,304
303,500	345,398	41,898
2,996,781	3,339,463	342,682
20,000	18,115	1,885
105,419	92,430	12,989
868,982	763,669	105,313
1,023,458	1,022,839	619
106,689	98,456	8,233
2,124,548	1,995,509	129,039
872,233	1,343,954	471,721
450,000	385,662	(64,338)
(1,878,466)	(1,523,094)	355,372
(1,428,466)	(1,137,432)	291,034
(556,233)	206,522	762,755
	574,718	
	(127,227)	
	20,872	
	6,656,611	
	$7,331,496	

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 YEAR ENDED JUNE 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Employee Benefit				
Assets				
Cash and investments available for operations	$974,404	$523,155	$149,469	$1,348,090
Receivables:				
Accounts		1,412	1,298	114
Interest	11,543	13,104	11,555	13,092
Total Assets	$985,947	$537,671	$162,322	$1,361,296
Liabilities				
Refundable deposits	$985,947	$537,671	$162,322	$1,361,296
Total Liabilities	$985,947	$537,671	$162,322	$1,361,296
Senior Advisory Commission				
Assets				
Cash and investments available for operations	$3,953	$3,895	$1,693	$6,155
Receivables:				
Interest	45	57	45	57
Total Assets	$3,998	$3,952	$1,738	$6,212
Liabilities				
Refundable deposits	$3,998	$3,952	$1,738	$6,212
Total Liabilities	$3,998	$3,952	$1,738	$6,212
LID #18 - Reassessment and Refunding				
Assets				
Cash and investments available for operations	$1,350,852	$1,561,707	$1,483,004	$1,429,555
Cash and investments held by trustees	1,188,610	114,528	70,705	1,232,433
Receivable:				
Interest	7,312	7,394	7,312	7,394
Total Assets	$2,546,774	$1,683,629	$1,561,021	$2,669,382
Liabilities				
Due to Local Improvement Districts	$2,546,774	$1,683,629	$1,561,021	$2,669,382
Total Liabilities	$2,546,774	$1,683,629	$1,561,021	$2,669,382

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
LID #20				
Assets				
Cash and investments available for operations	$1,180,623	$1,495,598	$1,433,696	$1,242,525
Cash and investments held by trustees	1,154,199	112,869	70,315	1,196,753
Receivables:				
Interest	5,457	6,056	5,457	6,056
Total Assets	$2,340,279	$1,614,523	$1,509,468	$2,445,334
Liabilities				
Due to Local Improvement Districts	$2,340,279	$1,614,523	$1,509,468	$2,445,334
Total Liabilities	$2,340,279	$1,614,523	$1,509,468	$2,445,334
LID #9R and #12R				
Assets				
Cash and investments available for operations	$306,936	$595,123	$80,889	$821,170
Cash and investments held by trustees	965,125	103,241	514,909	553,457
Receivables:				
Interest	1,378	4,587	1,378	4,587
Total Assets	$1,273,439	$702,951	$597,176	$1,379,214
Liabilities				
Due to Local Improvement Districts	$1,273,439	$702,951	$597,176	$1,379,214
Total Liabilities	$1,273,439	$702,951	$597,176	$1,379,214

(Continued)

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008

TOTAL AGENCY FUNDS	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and investments available for operations	$3,816,768	$4,179,478	$3,148,751	$4,847,495
Cash and investments held by trustees	3,307,934	330,638	655,929	2,982,643
Receivables:				
Accounts		1,412	1,298	114
Interest	25,735	31,198	25,747	31,186
Total Assets	$7,150,437	$4,542,726	$3,831,725	$7,861,438
Liabilities				
Refundable deposits	$989,945	$541,623	$164,060	$1,367,508
Due to Local Improvement Districts	6,160,492	4,001,103	3,667,665	6,493,930
Total Liabilities	$7,150,437	$4,542,726	$3,831,725	$7,861,438

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:

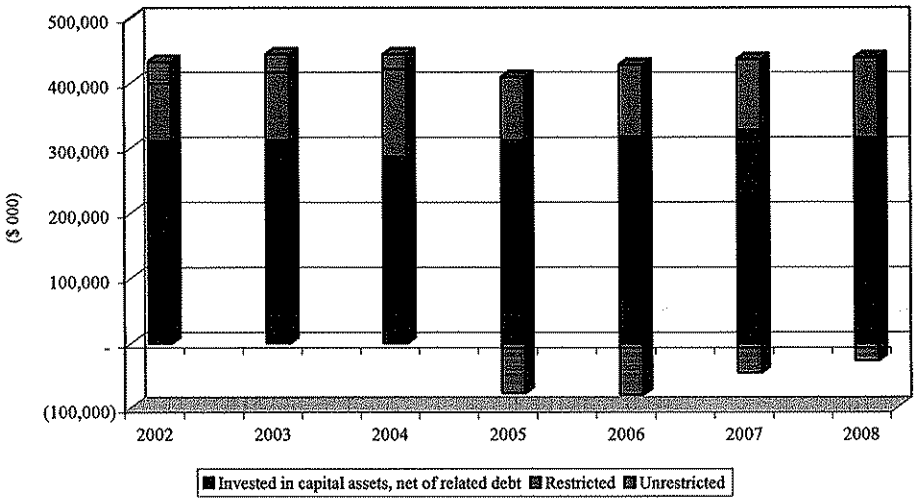
Installment Payment Coverage, Sewer Certificates of Participation – Schedule 13
Bimonthly Sewer Rates by Customer Class – Schedule 14
Demographic and Economic Statistics – Schedule 15
Principal Employers – Schedule 16
Taxable Sales by Category – Schedule 17
Direct and Overlapping Sales Tax Rates – Schedule18
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 SEVEN FISCAL YEARS
(Accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30						
	2002	2003	2004	2005	2006	2007	2008
Governmental activities							
Invested in capital assets, net of related debt	$219,305	$221,431	$192,380	$225,140	$224,223	$232,841	$224,603
Restricted	84,043	100,007	130,126	89,652	97,069	92,504	104,161
Unrestricted	11,755	(963)	(798)	(97,657)	(92,209)	(62,097)	(50,764)
Total governmental activities net assets	$315,103	$320,475	$321,708	$217,135	$229,083	$263,248	$278,000
Business-type activities							
Invested in capital assets, net of related debt	$92,182	$91,151	$94,693	$88,191	$94,467 (a)	$95,300	$92,028
Restricted	4,358	4,020	4,974	6,774	12,852	16,179	18,252
Unrestricted	21,596	28,824	23,102	21,125	12,980	16,652	23,603
Total business-type activities net assets	$118,136	$123,995	$122,769	$116,090	$120,299	$128,131	$133,883
Primary government							
Invested in capital assets, net of related debt	$311,487	$312,582	$287,073	$313,331	$318,690	$328,141	$316,631
Restricted	88,401	104,027	135,100	96,426	109,921	108,683	122,413
Unrestricted	33,351	27,861	22,304	(76,532)	(79,229)	(45,445)	(27,161)
Total primary government net assets	$433,239	$444,470	$444,477	$333,225	$349,382	$391,379	$411,883

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 SEVEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30						
	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental activities							
General Government	$ 10,687	$ 13,178	$ 13,243	$ 17,412	$ 18,651	$ 16,297	$ 18,130
Building	2,348	2,512	2,017	2,048	2,195	2,334	2,626
Public Works	17,851	18,131	17,537	17,794	17,156	20,647	20,745
Engineering and Planning	8,549	7,156	7,114	7,116	7,453	2,396	3,239
Recreation	3,852	4,219	4,246	4,170	4,266	7,301	6,527
Police	16,465	19,593	19,575	18,773	20,473	21,452	22,440
Fire	11,353	14,293	13,865	14,448	14,381	14,329	15,411
Payment under developer agreements	210	98			9,384		
Interest on Long Term Debt	4,288	3,724	9,829	9,338		9,419	11,534
Total governmental activities expenses	75,603	82,904	87,426	91,099	93,959	94,175	100,652
Business-type activities							
Water Utility	8,375	8,583	9,877	9,668	9,837	10,673	11,567
Recycled Water Utility	166	208	255	247	328	337	481
Sewer Utility	6,369	6,784	6,165	6,040	7,047	8,210	8,626
Total business-type activities expenses	14,910	15,575	16,297	15,955	17,212	19,220	20,674
Total primary government expenses	$ 90,513	$ 98,479	$ 103,723	$ 107,054	$ 111,171	$ 113,395	$ 121,326
Program Revenues							
Governmental activities:							
Charges for services:							
General Government	$ 465	$ 437	$ 860	$ 906	$ 580	$ 662	$ 996
Building	1,951	1,305	1,488	2,899	5,800	5,029	4,194
Public Works	285	320	307	311	344	2,817	2,410
Engineering and Planning	913	901	1,185	1,678	2,412	436	459
Recreation	1,226	1,382	1,391	1,482	1,496	1,599	1,663
Police	1,083	1,190	1,273	1,693	1,132	1,406	1,351
Fire	524	490	766	305	1,070	1,109	1,144
Operating grants and contributions	6,098	3,697	4,197	3,780	4,089	4,600	4,617
Capital grants and contributions	8,521	8,124	13,770	12,012	12,971	16,056	15,242
Total government activities program revenues	21,066	17,846	25,237	25,066	29,894	33,714	32,076
Business-type activities							
Charges for services:							
Water Utility	10,148	10,779	12,265	12,430	13,224	14,523	14,937
Recycled Water Utility	680	747	878	1,017	1,086	1,203	1,323
Sewer Utility	7,826	6,547	7,472	8,253	8,966	9,833	10,041
Operating grants and contributions	857						
Capital grants and contributions	3,400	8,937	1,602	604	3,854	2,418	956
Total business-type activities program revenue	22,911	27,010	22,217	22,304	27,130	27,977	27,257
Total primary government program revenues	$ 43,977	$ 44,856	$ 47,454	$ 47,370	$ 57,024	$ 61,691	$ 59,333
Net (Expense)/Revenue							
Governmental activities	($ 54,537)	($ 65,058)	($ 62,189)	($ 66,033)	($ 64,065)	($ 60,461)	($ 68,576)
Business-type activities	8,001	11,435	5,920	6,349	9,918	8,757	6,584
Total primary government net expense	($ 46,536)	($ 53,623)	($ 56,269)	($ 59,684)	($ 54,147)	($ 51,704)	($ 61,992)

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

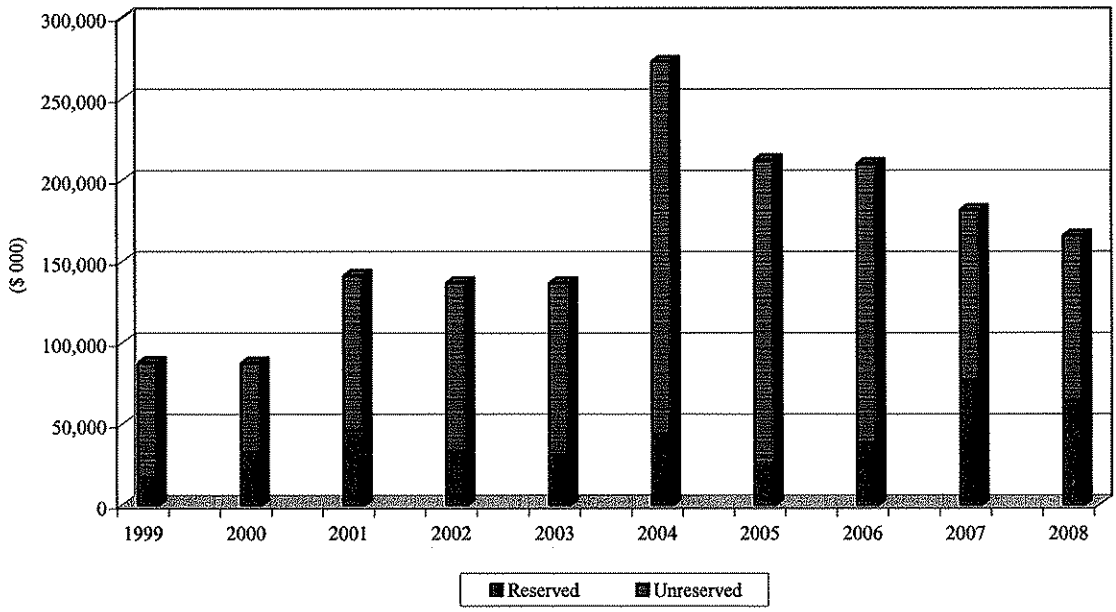
	Fiscal Year Ended June 30						
	2002	2003	2004	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets							
Governmental activities							
Taxes:							
Property taxes	$42,081	$39,823	$36,788	$38,913	$44,026	$44,565	$49,061
Less: Educational Revenue Augmentation Fund Fund payment		(1,010)	(1,950)	(2,993)	(2,422)		
Sales and use taxes	14,298	12,573	12,065	13,816	15,613	16,765	15,551
Hotel/Motel taxes	5,791	4,953	4,717	4,986	5,669	6,427	7,195
Other taxes	146	152	138	132	133	125	602
Franchise fees	2,882	2,674	2,650	2,772	2,643	2,912	2,968
Motor vehicle in lieu	3,561	3,680	2,969	421	1,548	357	296
Investment earnings	3,019	2,611	(2,427) (a)	1,069	1,302	2,225	4,100
Gain on sale of capital assets					12	18,257	34
Miscellaneous	164	54	258	332	856	355	109
Redevelopment expense				(102,281) (b)			
Transfers	3,687	4,920	8,213	4,294	6,633	2,638	3,411
Total government activities	75,629	70,430	63,421	(38,539)	76,013	94,626	83,327
Business-type activities							
Investment earnings	1,807	1,417	1,068 (a)	627	924	1,714	2,580
Loss on adjustment of capital assets valuation		(2,073)					
Transfers	(3,687)	(4,920)	(8,213)	(4,294)	(6,633)	(2,638)	(3,411)
Total business-type activities	(1,880)	(5,576)	(7,145)	(3,667)	(5,709)	(924)	(831)
Total primary government	$ 73,749	$ 64,854	$ 56,276	($ 42,206)	$ 70,304	$ 93,702	$ 82,496
Change in net assets							
Governmental activities	$ 21,092	$ 5,372	$ 1,232	($ 104,572)	$ 11,948	$ 34,165	$ 14,751
Business-type activities	6,121	5,859	(1,225)	2,682	4,209	7,833	5,753
Total primary government	$ 27,213	$ 11,231	$ 7	($ 101,890)	$ 16,157	$ 41,998	$ 20,504

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,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	$ 3,472	$ 2,086	$ 3,075	$ 3,458	$ 1,434	$ 2,366	$ 1,344	$ 1,315	$ 21,753	$ 21,749
Unreserved	11,589	18,969	32,998	36,588	37,529	30,636	26,699	27,966	26,716	29,359
Total General Fund	$ 15,061	$ 21,055	$ 36,073	$ 40,046	$ 38,963	$ 33,002	$ 28,043	$ 29,281	$ 48,469	$ 51,108
All Other Governmental Funds										
Reserved	$13,240	$30,310	$42,427	$29,489	$29,351	$41,131	$23,049	$36,812	$54,763	$41,416
Unreserved, reported in:										
Special revenue funds	(6,851)	(6,744)	(2,315)	3,454	8,113	19,493	23,745	3,524	4,025	4,213
Capital project funds	66,182	42,775	64,996	63,454	59,127	179,291	137,415	140,259	74,178	69,028
Debt service funds	0	0	0	185	966	0	0	0	0	0
Total all other governmental funds	$72,571	$66,341	$105,108	$96,582	$97,557	$239,915	$184,209	$180,595	$132,966	$114,657

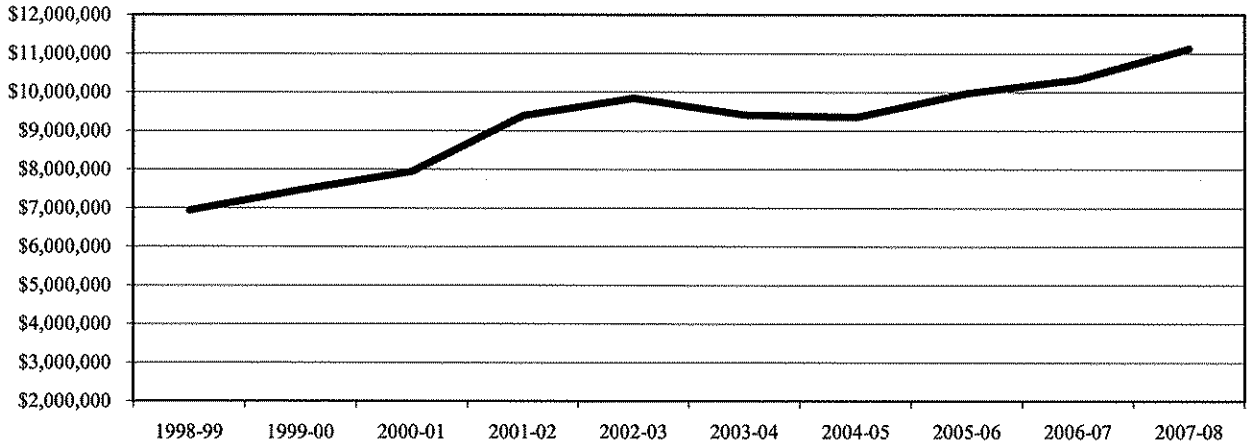
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST SEVEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30						
	2002	2003	2004	2005	2006	2007	2008
Revenues							
Property taxes	$41,782	$39,520	$36,186	$38,337	$43,155	$44,289	$49,060
Less: Educational Revenue Augmentation Fund payment		(1,010)	(1,950)	(2,993)	(2,422)		
Sales taxes	15,009	13,222	12,655	14,409	16,228	17,383	16,173
Other taxes	9,572	8,509	8,555	9,066	10,003	10,508	11,636
Licenses and fines	2,974	2,431	3,020	4,328	7,357	6,958	5,991
Interest and others	8,948	7,086	2,515 (a)	6,149	6,260	8,292	11,096
Use of money and property	8,587	9,442	11,124	4,914	6,045	5,589	4,092
Charges for services	2,683	2,721	3,277	3,842	4,165	4,715	4,612
Developer contributions	1,536	823	3,452	1,439	5,010	1,217	2,884
Other	458	361	798	4,097	1,186	8,978	584
Total Revenues	91,549	83,105	79,632	83,588	96,987	107,929	106,128
Expenditures							
Current:							
General government	10,391	11,245	10,365	13,026	15,608	34,136	15,079
Building	2,368	2,389	1,978	2,075	2,226	2,232	2,566
Public works	7,171	7,085	7,130	7,736	7,789	10,646 (d)	11,016
Engineering and planning	8,381	6,262	5,983	6,444	6,581	2,329 (d)	2,528
Recreation	3,532	3,806	3,860	4,199	4,284		
Parks and Recreation						6,486 (d)	6,513
Police	15,740	17,197	18,384	19,723	20,167	20,081	21,701
Fire	11,218	11,957	12,864	15,363	14,312	13,717	14,664
Capital outlay	30,227	17,431	11,169	15,998	16,861	46,076	33,133
Payments under developer agreements	210	98	127				
Debt service:							
Principal	6,260	6,470	8,860	6,605	8,559	8,508	8,490
Interest and fees	4,198	4,194	9,686	9,379	9,424	15,250	11,528
Total Expenditures	99,696	88,134	90,406	100,548	105,811	159,461	127,218
Excess (deficiency) of revenues over (under) expenditures	(8,147)	(5,029)	(10,774)	(16,960)	(8,824)	(51,532)	(21,090)
Other Financing Sources (Uses)							
Proceeds from debt issuance			200,000			20,455	
Bond issuance premium			5,372				
Payments to refunded debt escrow agent			(67,164)				
Proceeds from sale of properties							1,868
Transfers in	47,363	42,620	124,899	23,095	28,523	22,561	20,420
Transfers (out)	(43,681)	(37,700)	(115,936)	(18,801)	(22,075)	(19,924)	(16,869)
Total other financing sources (uses)	3,682	4,920	147,171	4,294	6,448	23,092	5,419
Special Item							
Redevelopment expense				(48,000) (b)			
Net Change in fund balances	($4,465)	($109)	$136,397	($60,666)	($2,376)	($28,440)	($15,671)
Debt service as a percentage of noncapital expenditures	17.8%	17.8%	30.6%	23.3%	25.3%	26.5%	27.0%

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: Residential Property	Real Property: Commercial Property	Real Property: Industrial Property	Real Property: Other	Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
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%
2007-08	5,974,338	1,208,674	2,423,285	320,499	1,329,060	(146,495)	11,109,361	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
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
2007-08	1.00	1.00	0.0412	0.0956	0.0071

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 2007-08 and 1998-99
(Dollars in thousands)

	2007-08			1998-99		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Technology Inc.	$ 217,000	1	1.95%			
Silicon Valley California LLC	197,676	2	1.78%			
KLA Tencor Corporation	147,205	3	1.33%			
Cisco Systems Capital Corporation	106,205	4	0.96%			
Trinet Milpitas Associates LLC	97,462	5	0.88%			
Linear Technology Corporation	94,075	6	0.85%			
Shapell Industries, Inc.	54,146	7	0.49%	$ 51,501	6	0.74%
ABN Amro Leasing Inc.	51,500	8	0.46%			
Prudential Insurance Company	51,294	9	0.46%			
A & P Children Investors LLC	51,000	10	0.46%			
Richard T. Peery Trustee & Et. Al.				160,747	1	2.32%
Quantum Corporation				93,080	2	1.35%
Lease Plan USA				88,912	3	1.28%
RFS Partnership Limited Partnership				68,147	4	0.98%
LSI Logic Corporation				61,112	5	0.88%
Milpitas Oak Creek Delaware Inc.				50,555	7	0.73%
Lucent Technologies Inc.				46,004	8	0.66%
Limar Realty Corporation No.1				51,907	9	0.75%
Callahan Pentz Properties Buckeye				45,358	10	0.66%
Subtotal	$ 1,067,563		9.61%	$ 717,324		10.37%

Fiscal Year 2007-2008 Total Net Assessed Valuation $ 11,109,361
Fiscal Year 1998-1999 Total Net Assessed Valuation $ 6,919,307

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2007/08 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
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%
2007-08	49,060	49,060	100.00%	0	49,060	100.00%

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

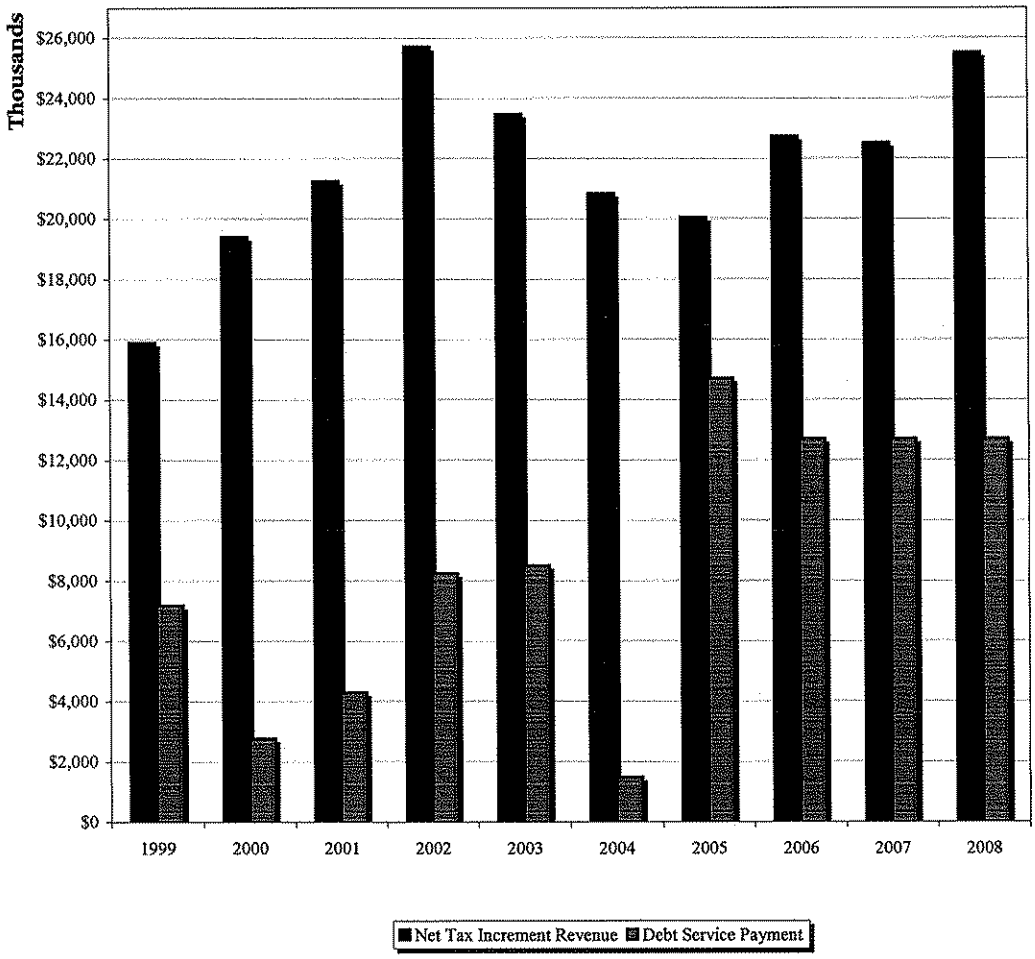
Source: City of Milpitas Comprehensive Financial Annual Report

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)
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	6.45%	3,549
2007-08	0	1,230	183,175	43,388	227,793	(b)	3,281

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 2007-08 not available until May of 2009.

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	
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
2008	32,259,656	6,740,250	25,519,406	3,855,000	8,860,665	12,715,665	2.01

(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, 2008

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2007-08 Assessed Valuation, Direct and Overlapping Bonded Debt		$8,151,472,105
San Jose-Evergreen Community College District	9.360%	$23,107,556
Milpitas Unified School District	98.520%	52,381,014
East Side Union High School District	0.548%	2,395,790
Berryessa Union School District	3.249%	1,386,788
Santa Clara Valley Water District Benefit Assessment District	3.285%	5,305,393
City of Milpitas, 1915 Act Bonds	100.000%	23,265,000
Santa Clara County General Fund Obligations	3.285%	28,795,308
Santa Clara County Board of Education Certificates of Participation	3.285%	12,521,937
East Side Union High School District , OPEB Bonds	0.548%	496,557
Santa Clara County Vector Control District Certificate of Participation	3.285%	162,814
TOTAL GROSS DIRECT & OVERLAPPING BONDS DEBT		$149,818,157 (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 %	0.02%
Total Gross Debt %	1.85%

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 2007-08

Assessed value (net) - June 30, 2008		$11,109,361
Debt limit: 3.75% of assessed value (a)		$416,601
Debt applicable to limit		
Total Bonded Debt	183,175	
Less: Tax Allocation Bonds and Certificates of Participation, not subject to limit	183,175	
Amount of Debt subject to limit		0
Legal debt margin		$416,601

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
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%
2007-08	416,601	0	416,601	0.0%

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

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

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

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
2007-08	10,041,250	6,208,050	3,833,200	375,000	353,893	728,893	5

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)
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
2007-08	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)
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%	13.66
2005-06	65,276	3,840	50	9,748	4.40%	13.66
2006-07	66,568	3,916	55	9,682	4.70%	13.66
2007-08	69,419	5,082	(b)	9,590	5.50%	13.66

(a) For Santa Clara County.
(b) Data for fiscal year 2007-08 is not available until May of 2009.

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

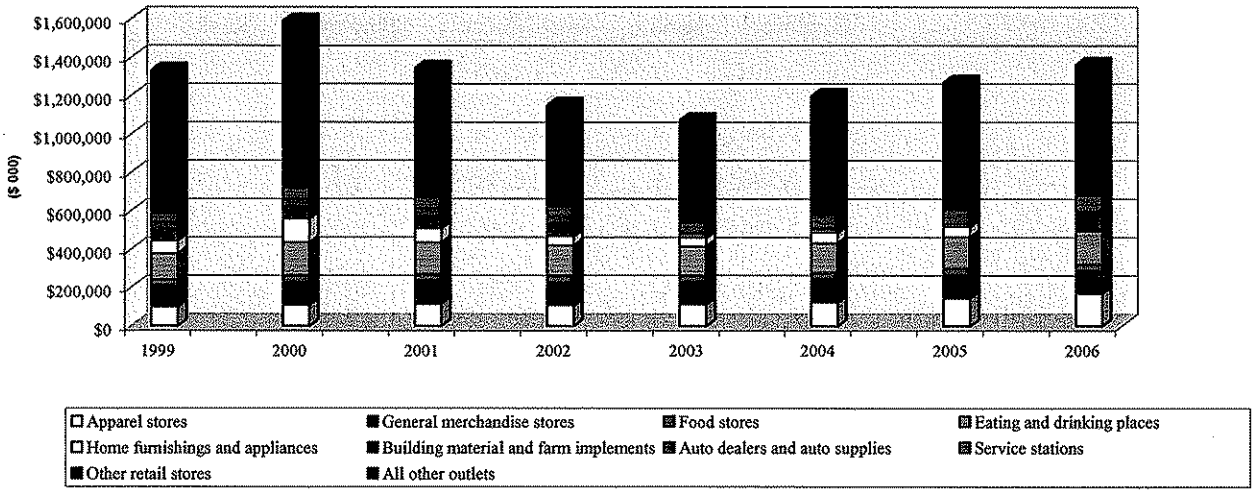
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2006-07 and 1998-99

	2006-07 (a)			1998-99		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,710	1	4.54%			
Great Mall	3,180	1	3.89%			
Lifescan, Inc.	2,500	3	3.06%	1,700	4	2.08%
LSI Logic Corporation	1,320	4	1.62%	2,300	3	2.82%
Flextronics	1,300	5	1.59%			
SanDisk Corporation	1,200	5	1.47%			
Seagate Technology	1,100	7	1.35%	1,000	10	1.22%
KLA-Tencor Corporation	1,000	7	1.22%	1,400	5	1.71%
Linear Technology	1,000	7	1.22%	1,009	8	
Milpitas Unified School District	864	10	1.06%			
Quantum				2,700	2	3.31%
Solectron California				6,400	1	7.84%
Read Rite				1,250	6	1.53%
Adaptec, Inc.				1,200	7	1.47%
Lucent Technologies				1,000	9	1.22%
Subtotal	17,174		21%	19,959		23%
Estimated City Day Population, Census 2000			81,646			

(a) Data for fiscal year 2007-08 is not available until December 2008.

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

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



	CALENDAR YEARS							
	1999	2000	2001	2002	2003	2004	2005	2006
Apparel stores	$99,089	$109,258	$113,729	$109,078	$114,599	$123,583	$145,317	$168,985
General merchandise stores	106,071	117,006	118,362	115,336	113,574	119,471	120,297	118,348
Food stores	34,461	37,075	37,302	35,830	33,765	32,950	33,592	34,979
Eating and drinking places	136,510	170,825	166,174	159,420	152,736	156,318	164,694	173,424
Home furnishings and appliances	66,492	123,801	72,493	48,513	45,497	54,460	54,906	(a)
Building material and farm implements	61,846	66,251	66,570	70,600	(a)	(a)	(a)	91,571
Auto dealers and auto supplies	33,388	38,105	38,684	32,433	25,558	19,990	15,132	12,221
Service stations	49,424	61,244	58,395	52,369	58,491	71,231	76,455	82,868
Other retail stores	174,803	194,086	184,594	156,196	227,373	251,599	255,805	220,862
All other outlets	571,419	673,677	489,438	373,179	301,404	370,253	405,111	460,265
Total	$1,333,503	$1,591,328	$1,345,741	$1,152,954	$1,072,997	$1,199,855	$1,271,309	$1,363,523
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	0.75	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
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
2007-08	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 2007-08 and 1999-2000
IN ALPHABETICAL ORDER

2007-08	1999-2000(a)
Arco AM/PM Mini Marts	Acropolis Systems
Best Buy Stores	ADAC Laboratories
Burlington Coat Factory	Adaptec
Chevron Service Stations	Arcom Electronics Inc.
Contract Office Group	Best Buy Stores
Credence Systems Corp	Billings Chevrolet
Dave & Busters	Burlington Coat Factory
Headway Technologies	Contract Office Group
Home Depot	Divicom
KLA Tencor Corporation	Dynamic Circuits
KOHL's Department Store	GAP Stores
Life Scan	Hanson Concrete Products
Marshall's Stores	Home Depot
Mervyn's Department Store	KLA-Tencor Corporation
Milpitas Materials Company	Life Scan Inc
Neiman Marcus Department Store	Lindsay_Ferrari, Inc.
One Workplace L Ferrari	Marshall Industries
Orchard Supply Hardware	Marshall's Store
Piercey Toyota	Mervyn's Department Stores
Saks Fifth Avenue	Milpitas Materials Company
Shell Service Stations	Octel Communications
Soletron Corporation	Orchard Supply Hardware
Sportmart	Saks Fifth Avenue
Tesoro Service Stations	Sun Microsystems
Wal-Mart Stores	Wal-Mart Stores

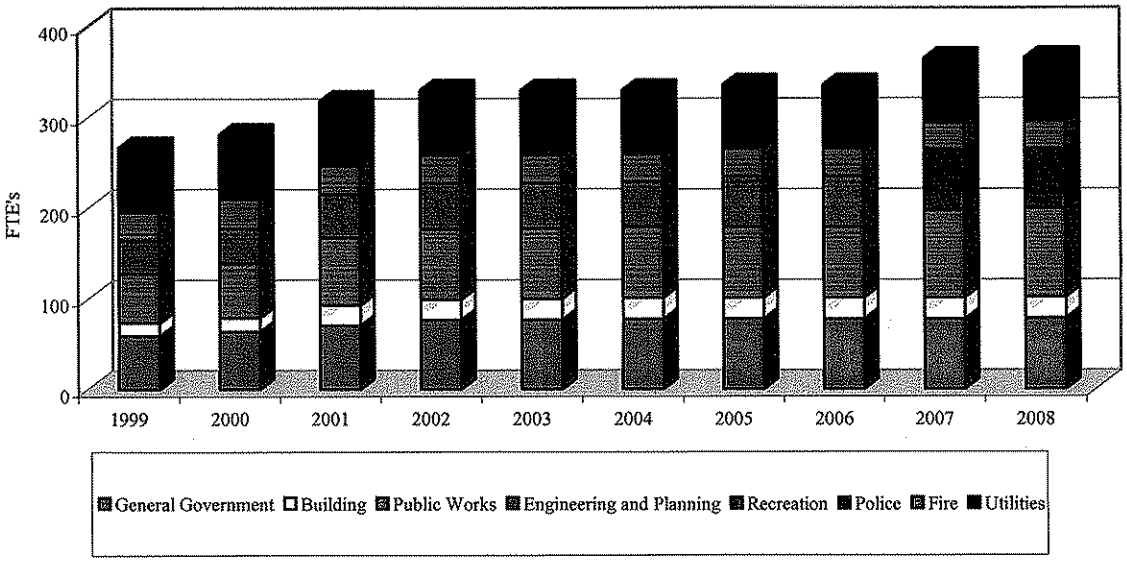
(a) The City started tracking principal sales tax payers in 1999-2000.

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Function										
General Government	58.8	63.3	70.3	76.3	76.3	77.0	77.3	77.0	77.0	78.0
Building	14.0	15.0	22.0	22.0	23.0	23.0	23.0	23.0	23.0	23.0
Public Works	55.0	61.0	75.0	78.0	78.0	79.0	78.8	79.0	97.0 (a)	98.0
Engineering and Planning	36.0	38.0	47.5	50.5	49.5	49.5	55.5	55.5	(a)	
Planning and Neighborhood									16.5 (a)	16.5
Recreation	21.0	20.0	23.5	28.5	29.0	29.0	29.0	29.0	(a)	
Parks and Recreation									50.0 (a)	49.0
Police:										
Sworn Police	86.5	89.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0	94.0
Civilians	31.5	32.5	31.5	31.5	31.5	30.5	30.5	30.5	30.5	30.5
Fire:										
Firefighters and Safety	71.0	71.0	71.0	71.0	71.0	70.0	70.0	70.0	70.0	70.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	25.0	25.0	26.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0
Total	408.8	424.8	470.8	488.8	489.3	489.0	495.0	495.0	495.0	496.0

(a The City departments were reorganized in fiscal year 2007.
Source: City of Milpitas, final budget

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

	Fiscal Year				
	1999	2000	2001	2002	2003
Function/Program					
Building					
Building permits issued	1,850	1,585	1,690	1,735	1,777
Plan checked performed	1,040	432	410	340	536
Public Works					
Street miles maintained	126	126	136	137	137
Play ground safety inspections	990	833	521	852	1,508
Engineering and Planning					
Development projects reviewed	170	170	160	150	115
Applications to Planning Commission	143	141	101	110	93
Recreation					
Sports Center members	n/a	n/a	n/a	2,741	4,398
Senior nutrition meals served	n/a	n/a	23,727	23,886	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	2,924
Crime prevention presentations	n/a	n/a	191	191	175
Number of vehicle citations issued	n/a	n/a	16,003	12,804	15,312
DARE presentations: schools/students	14/1,178	14/1,528	14/1,795	14/1468	14/1,456
Fire					
Emergency calls for service	2,710	3,802	3,250	3,550	3,850
Public education events	90	110	120	140	75
Permits Inspections	3,680	3,742	3,500	3,750	2,160
Plan Review	1,170	950	1,070	1,420	660
Utility					
Clean sewer lines (feet)	559,440	687,724	800,000	552,000	347,670
Repair, replace or set water meters	738	569	700	678	399
Average daily consumption (thousands of gallons)	10,047	11,095	11,587	10,290	11,120

Source: City of Milpitas, final budget

Fiscal Year				
2004	2005	2006	2007	2008
1,650	3,156	3,788	3,500	3,500
590	650	1,181	1,000	1,000
137	138	139	139	139
784	1,062	1,304	1,264	180
n/a	n/a	293	190	150
100	120	150	165	
				1,264
5,800	6,500	7,508	7,885	8,278
16,139	16,932	19,421	20,667	21,165
3:35	3:44	3:12	3:06	3:06
7,649	10,664	12,813	12,300	3,500
201	180	179	190	240
15,041	14,453	14,161	10,624	12,386
13/1,610	14/1579	13/1538	14/1572	14/1492
4,100	4,200	4,250	4,000	4,368
73	73	70	65	80
1,909	2,514	4,231	4,300	5,400
786	845	1,005	1,000	750
358,610	500,000	500,000	500,000	500,000
341	422	425	600	580
11,222	10,090	9,162	9,693	9,566

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

	Fiscal Year				
	1999	2000	2001	2002	2003
Function/Program					
Public Works					
Miles of streets	126	127	137	137	137
Street lights	4,976	4,976	n/a	4,262	4,281
Square feet of buildings maintained (in thousands)	215	215	215	252	299
City vehicles	475	483	490	657	618
Signs	6,300	6,300	6,300	6,900	7,050
Signal lights	64	64	64	64	66
City Parks	28	28	28	24	26
Acres of Parkland	178	178	178	178	161
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	3	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	7	7	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	1	1	2	2	2
Police patrol vehicles	26	27	28	28	30
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	10	10	10	10	11
Fire hydrants	1,614	1,650	1,656	1,661	1,670
Utility					
Miles of water mains	195	197	198	198	199
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	15.64
Miles of sanitary sewers	164	166	166	167	168
Miles of storm drain	96	98	100	98	99
Miles of recycled water main	7.5	7.5	7.5	7.5	7.5

Source: City of Milpitas, final budget

Fiscal Year				
2004	2005	2006	2007	2008
137	137	139	139	139
4,324	4,346	4,354	4,354	4,435
344	350	350	350	350
626	631	635	635	630
7,150	7,250	7,167	7,400	8,000
68	68	68	68	68
24	26	26	29	
171	172	172	172	
26	32	32	30	29
				171.5
				32
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	4	4
24	22	22	22	22
1	1	1	1	1
21	21	21	21	21
13	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	28	27
4	4	4	4	4
15	13	14	16	14
1,739	1,755	1,756	1,756	1,809
202	203	204	204	206
15.64	15.64	15.64	15.64	16.21
168	173	173	173	177
99	99	105	105	107
7.5	11.0	11.0	11.0	11

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954