

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005



City of Milpitas
CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES



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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

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

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

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

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

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 30 years, the population growth has increased from 26,561 in 1970 to over 65,000 in 2005. 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. This trend continued in 2002 through 2004. Over 130,000 jobs were lost as a result of the economic recession. This region is severely impacted due to concentration of the high-tech industry and shifting of some of these technology and manufacturing jobs overseas. Consequently, while the nation and the rest of the State have begun to see economic growth, the Silicon Valley is lagging. Milpitas is similarly impacted because of its location and comparable economic mix.

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., Solectron Corporation, LSI Logic Corporation, and Seagate Technology. Other major employers are Palm One, Linear Technology, KLA-Tencor. Several of these top employers make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

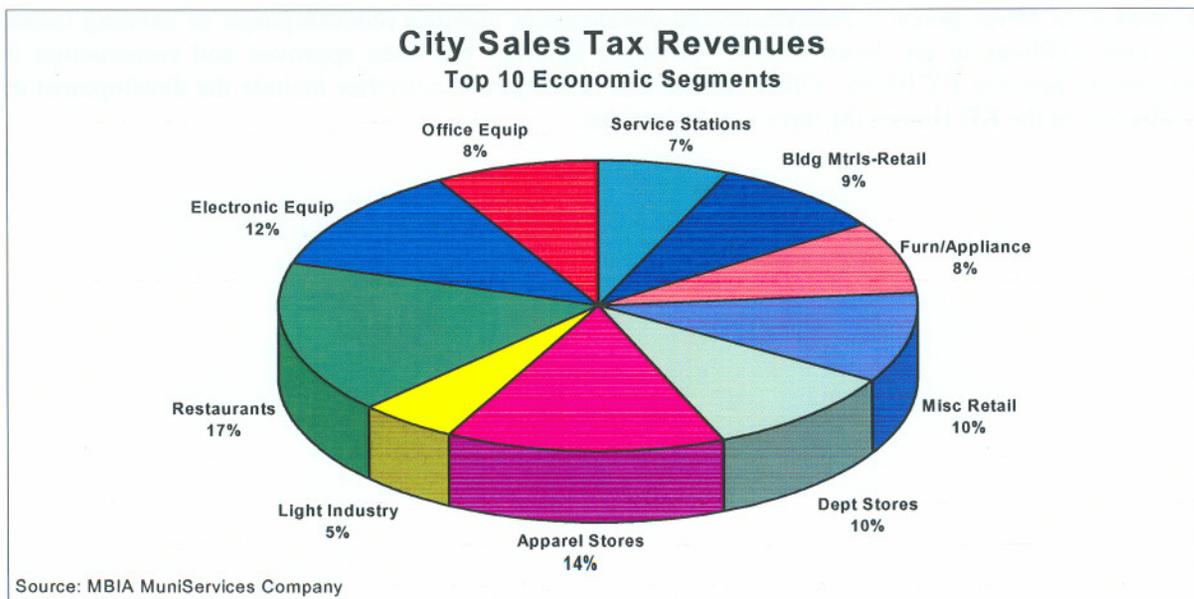
Consumer Confidence Level

Despite recent fluctuations of the consumer confidence index, the overall consumers' assessment of current economic conditions remain favorable, primarily due to improved job outlook. Consumers are more optimistic than they were a year ago, which could lead to consumer spending. This sentiment is reflected by increased local sales tax revenue in 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 \$13.8 million, with the top ten economic segments generated about \$9.7 million. Sectors such as business-to-business, general retail and food products all show improvement over a year ago.



Many of the major activities initiated in FY04-05 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

Major Activity in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began by several capital improvement projects such as the new Library, parking garages, Main Street and Abel Street infrastructure improvements. Other development activities that are being planned by outside agencies include the design and construction of a County Health Center and a 104-unit Senior Housing project restricted for low-income seniors.

Transit Sub-Area Land Use Plan – The City developed phase I of a Transit Sub-Area Land Use Plan which provides a development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. In FY 05-06, the City will initiate phase II of the Plan which will include a general plan amendment, zoning changes, design guidelines, fiscal impact study and environmental report. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, schools, retail and restaurants.

Residential Development – Residential development activities remained relatively strong and have shown signs of increased activities. Although Milpitas still represents one of the more affordable alternatives in Santa Clara County, the median home price in Milpitas is catching up with the County's median home prices at \$670,000. Residential development approvals in progress outside the Midtown area include Barry Swenson's Twin Towers (181 condominium units). Spurred by the high density potential of the Midtown Plan, residential and mixed use development approvals in progress within the Midtown area include KB Homes (683 units of single family homes, townhouses and condominiums), Apton Plaza (98 condominium units and 3,000 square feet of retail space), and Fairfield (481 apartment units). Residential development under construction includes 285 town houses and condominium units of the Parc Place project, of which 58 units will be deed restricted for affordable housing.

Non-residential Development – Non-residential development includes redevelopment of existing tenant spaces and buildings in the Town Center. A Super Safeway has been approved and construction is anticipated to begin in FY 05-06. Other commercial development activities include the development of land adjacent to the KB Homes for three car dealerships.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2004-2005, City staff initiated and implemented various programs and projects that will significantly improve services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Completed implementation of the "Learn Not to Burn" program for licensed home childcare facilities.
- Implemented revisions to the department's tactical performance standards for Weapons of Mass Destruction, hazardous materials, high-rise, and high-density residential.
- Developed a "Save a Life" campaign by increasing the number of citizens certified in Cardio-Pulmonary Resuscitation within the community, with a goal of 100 new community participants per year.
- Improved the life-safety inspection program by adding seating plan layouts to the electronic inspection program to reduce staff inspection time, and increase the business responsible awareness to the hazards of overcrowding.
- Expanded "Strategic Actions For Emergencies" (SAFE) training program by 30 members in various neighborhoods.

Police

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 2.5%.
- Placed the entire Police Fleet on the City's high-speed wireless network to increase information availability and functionality in emergency vehicles.
- Conducted 10,993 patrol checks of potential terrorist targets such as utilities, churches, government buildings and schools.
- Achieved an accident-free year of students walking to and from schools at designated crossings.
- Provided fingerprint service to over 6,000 children using the digital fingerprint system.

Engineering

- Completed the annual report and audit for the Community Rating System of the National Flood Insurance Program. This allows the residents of Milpitas to continue to purchase flood insurance at a 25% discount (an annual savings of nearly \$350,000 for the entire community).
- Completed design for Sports Center Circulation improvements, construction of Abel Street Right Turn Lane improvements, construction of the Hillside Water system, and several other public improvement projects.
- Developed new Water Distribution System Seismic Upgrade Plan.
- Completed the review and approval of several land development projects including Apton Plaza, KB residential development, Parc Place, and Kennedy Subdivision.
- Conducted the review and participated in the preparation of all traffic improvement plans including the City's annual street resurfacing project.

Planning/Neighborhood Services

- Completed the Environmental Impact Report for the North Main Street projects three months ahead of schedule.
- Led the Sign Code Task Force in completing amendments to the Sign, Zoning and Neighborhood Beautification Ordinance Codes.
- Completed Phase I of the Midtown Transit Sub-area Visioning Project to prepare the City for major developments in that area.
- Monitored the Calaveras/Selwyn neighborhoods to ensure continuation of the task force efforts to resolve code violations.
- Eliminated code enforcement customer service request backlog by 100%.

Recreation Services

- Assisted 124 qualified families in the Recreation Assistance Program. After School Stay and Play, and Camp Stay and Play, utilizing 100% of Community Development Block Grant funding.
- Renovated the Interim Senior Center with minimal disruption to Senior Services.
- Added twelve new fitness classes to increase daily attendance for drop-in participants by 10%.
- Implemented Raising a Reader Pilot Program in conjunction with Milpitas Unified School District at Rose and Randall elementary schools for pre-kindergarten students.
- Received an Award of Excellence from the California Park and Recreation Society for the 50TH Anniversary City Calendar in 2005.

Building Inspection

- Successfully responded to 85 requests for after-hours and weekend inspections to allow construction projects to be completed on time.
- Completed development of the new building permit fee schedule and implemented in September 2004
- Completed the 2004 "Performance Measures" study conducted inclusive of Milpitas and nearby cities. The results showed that the Building Division performed above average in the following: permit issuance over the counter, number of plan checks per month, waiting time at counter and waiting time for each inspection.
- Introduced cross training of plan checkers, permit technicians and building inspectors.
- Developed handouts for homeowners and contractors to clarify submittal and code requirements.

Administration

- Provided oversight for the completion of the Interim Senior Center improvements and design of the new Library.
- Facilitated and funded college classes at Milpitas High School and Monday afternoon Library hours at the Milpitas High School for the public.
- Led citywide service/activity prioritization and expenditure reduction analysis and managed the impact of economic recession without reduction of essential City services.
- Provided direction for the continued implementation of the Public Safety Terrorism Response Plan.
- Initiated consideration of the location and development of a County Health Clinic, parking garage and senior housing on Main Street.
- Received Standard & Poor's "AA" rating for the City of Milpitas' financial condition and management.

Human Resources

- Conducted a customer survey for workers' compensation to enhance service delivery.
- Recruited several essential positions and secured appointment of skilled highly qualified candidates.
- Provided specialized and personalized back injury prevention training for all Public Works personnel.
- Formalized a bay area wide public agency medical benefits consortium to review the possibility of a regionalized pooling of benefits through a bulk purchase process.

Information Services

- Completed the Final Phase of the Expanded Public Safety Technology Project with the implementation of the new Computer Aided Dispatch System.
- Expanded the City's wireless access system to improve connectivity between Public Safety vehicles and the City's network.
- Completed the scanning and conversion of over 3 million documents into the document imaging system.
- Completed the fiber connections to Fire Station #2, the temporary Senior Center and the Fleet Garage.
- Continued to deliver Geographic Information System products for other City departments and public agencies.

Finance

- Conducted an actuarial study on retiree medical benefits and provided recommendations to the City Council.
- Led in the citywide efforts to form a Community Facility District in connection with the Midtown development.
- Received awards from the Government Finance Officer's Association and California Society of Municipal Finance Officers for Budget Presentation and Financial Reporting.
- Continued with various cross training programs of professional staff and clerical staff to enhance flexibility of staffing.
- Implemented late payment and reconnection fees for utility accounts in accordance with the updated utility ordinance.
- Developed an online vendor registration system via the City's website that automatically updates approved applications to the Purchasing bidders list database.

Public Works

- Maintained infrastructure to preserve integrity with minimum disruption to the public.
- Investigated approximately 3,500 customer service requests within 30 minutes of receipt.
- Maintained employee skills through safety meetings, section cross training and local seminars.
- Provided technical and operational assistance for the Hillside Water System project, Storm Pump Station improvement project and the Sewer Rehabilitation project.
- Implemented a weed and insect control program through the use of monitoring, early detection and treatment, and the use of cultural and mechanical means to reduce pesticide applications.

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:

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

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

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

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

FINANCIAL ANALYSIS

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 2.82% on the City’s month-end average investment balances. This compared with a return of 2.93% 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 2004-2005 were as follows:

<u>Project Category</u>	<u>Amount</u>
General Government Projects	\$ 803,986
Park Projects	1,162,725
Street Projects	7,093,024
Water Projects	896,207
Sewer Projects	1,579,459
Redevelopment Agency Projects	<u>5,780,875</u>
Total	<u>\$17,316,276</u>

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, 2004. 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 sixteen of the last seventeen years (fiscal years ended 1988-2004). The 1992-93 report was not submitted to GFOA due to timing delays.

In addition, the City received the California Society of Municipal Finance Officers (CSMFO) Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. Previously the City has received the CSMFO Certificate of Award for five out of six years from fiscal years ended 1987 through 1992, and then again for fiscal years ended June 30, 1998 through 2004. The 1988-89 report and the 1992-93 through 1996-97 reports were not submitted to CSMFO due to timing delays.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,



Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2005

City Council

Mayor	Jose "Joe" Esteves
Vice-Mayor	Armando Gomez
Councilmember	Robert Livengood
Councilmember	Althea Polanski
Councilmember	Debra Giordano

City Manager

Charles Lawson

Police Chief

Thomas Nishisaka

Director of Financial Services

Emma Karlen, CPA

Fire Chief

Clare Frank

City Clerk

Mary Lavelle

City Attorney

Myers, Nave, Riback, Wilson and Silver

Chief Information Officer

William Marion

Human Resources Director

Vacant

City Engineer

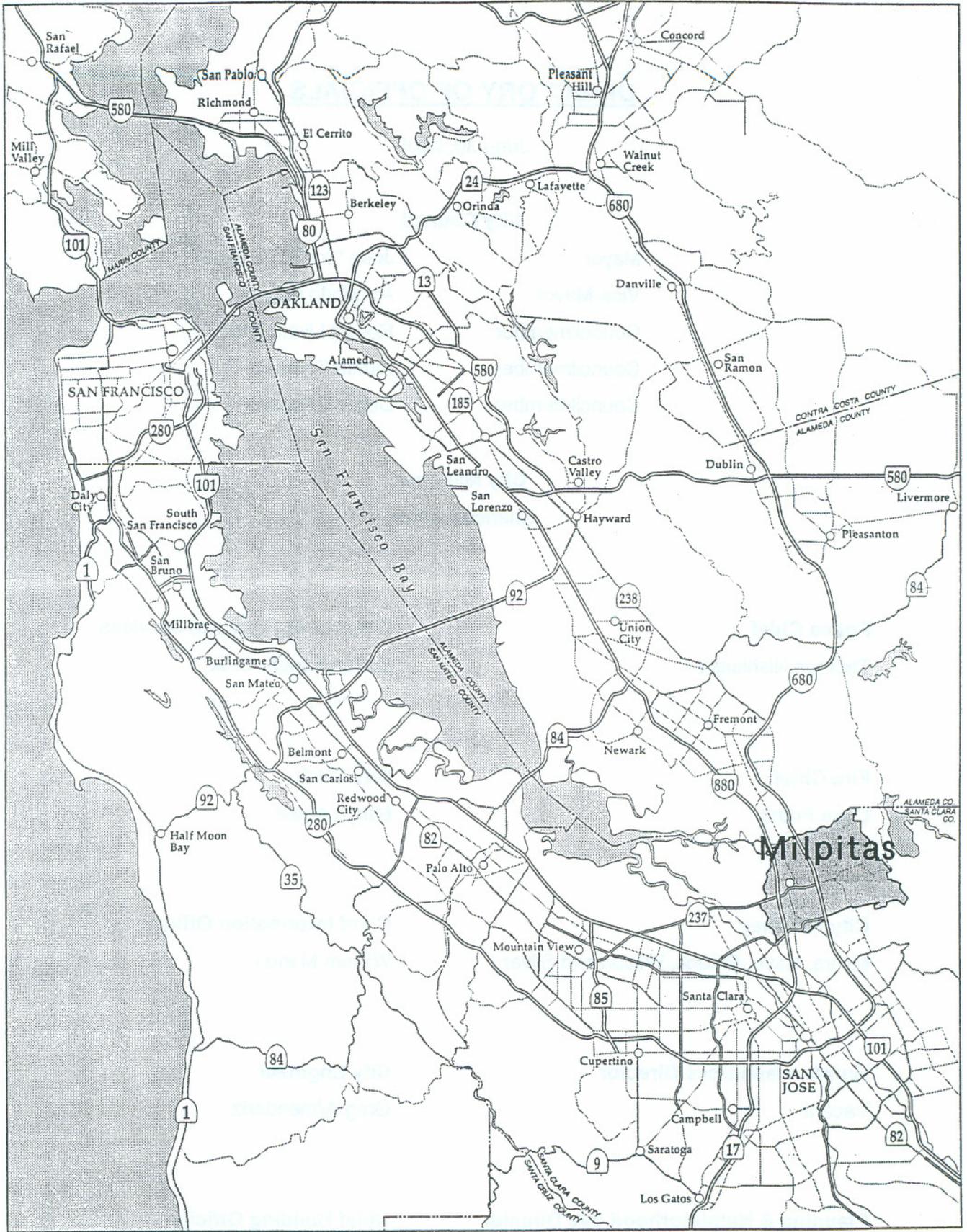
Greg Armendariz

Planning & Neighborhood Svc Director

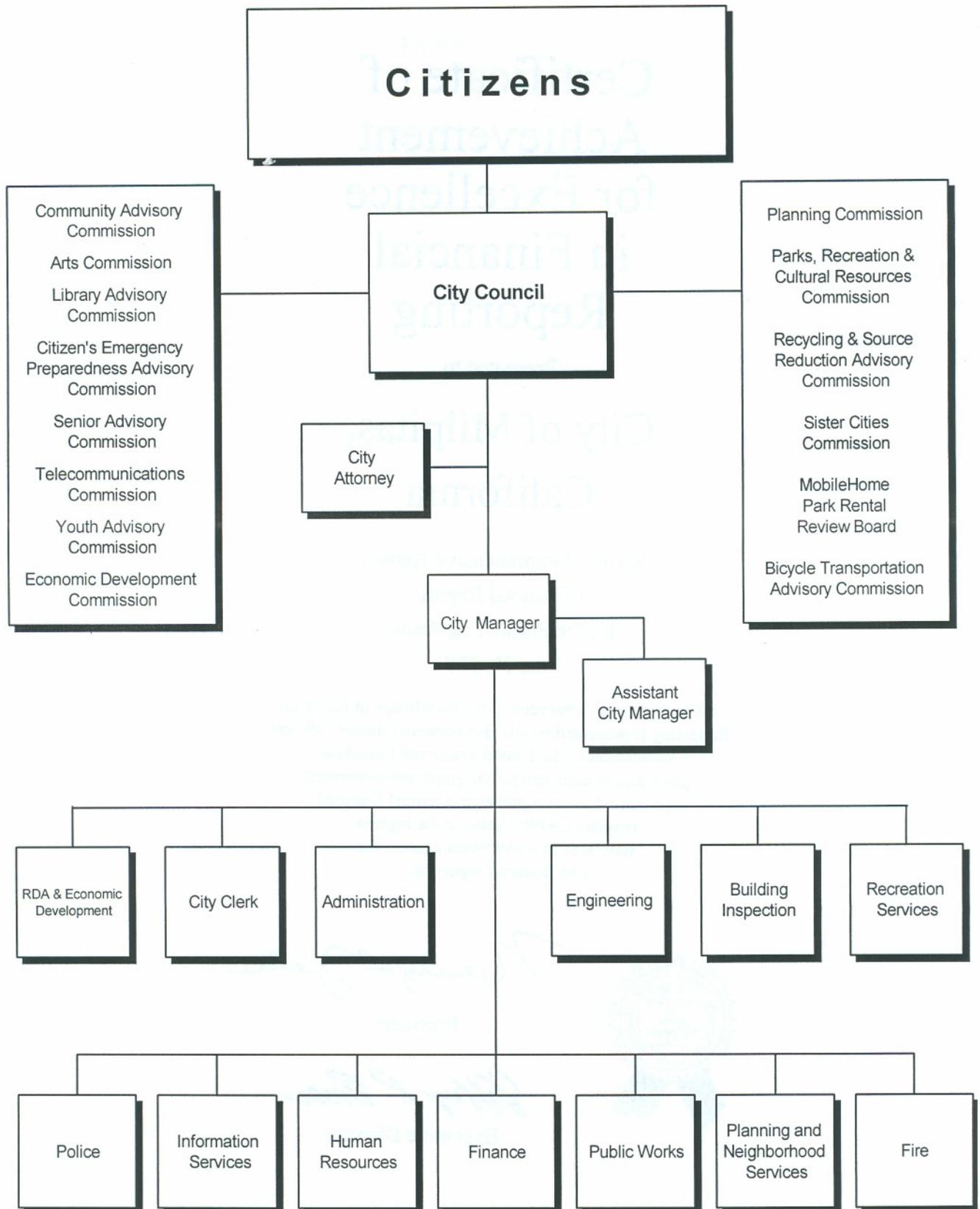
Thomas Williams

Chief Building Official

Keyvan Irannejad



City of Milpitas



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, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Enev

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of Milpitas

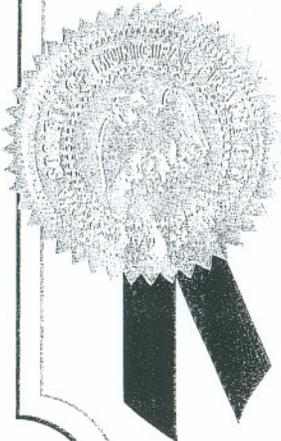
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management





**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, 2005, 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, 2004, which represent 2%, 1%, and 3% 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.

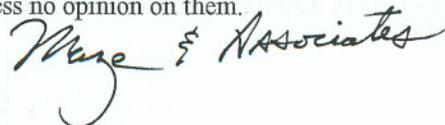
In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 23, 2005 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

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

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

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



September 23, 2005

ACCOUNTING CORPORATION
1000 WEST 10TH AVENUE - SUITE 200
DENVER, COLORADO 80202
303-733-1100

DEPARTMENT OF PUBLIC WORKS
CITY OF MILPITAS

City of Milpitas Department of Public Works
1000 West 10th Avenue, Suite 200
Denver, Colorado 80202



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1/27/2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2005. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2005 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2005 reflected a moderate recovery in the business activities in the Silicon Valley. The recovery is moderate as job growth continued to be limited and vacancy rates for office, manufacturing and R & D space remained high. However, compared to one year ago, local economy has gained strength and the Northern California technology outlook is much improved. The factors that contributed to economic growth are renewed capital investment in information technology, acceleration of home prices in the Santa Clara Valley that led to demand for residential developments, and return to profitability for many high-tech companies. As discussed below, economic growth translated primarily into increases in key revenues such as property taxes, sales taxes, and building permit fees. Fiscal 2005 financial highlights include the following:

City-wide:

- The City's total net assets were \$342.6 million at June 30, 2005. Of this total, \$217.1 million were Governmental assets and \$125.5 million were Business-type assets.
- City-wide revenues include program revenues of \$47.4 million and general revenues and transfers of \$60 million, totaling \$107 million, an increase of \$4 million from the prior year's total of \$103 million.
- Total City-wide expenses were \$209 million which included a special item redevelopment expense of \$102 million. Total expenses increased \$105 million from the prior year's \$104 million.

Fund Level:

- Governmental Fund balances were \$212 million, a decrease of \$61 million from fiscal 2004.
- Governmental Fund revenues increased to \$83.6 million in fiscal 2005, up \$4 million from the prior year's \$79.6 million.
- Governmental Fund expenditures were \$100.5 million in fiscal 2005, an increase of \$10.1 million from fiscal 2004's level of \$90.4 million.
- General Fund revenues of \$46.3 million represented an increase of \$9.4 million from fiscal 2004's revenues of \$36.9 million.
- Net transfers into the General Fund were \$13.9 million in fiscal 2005, \$1.2 million less than fiscal 2004's transfers of \$15.1 million.
- General Fund balance of \$28 million at the fiscal 2005 year-end represented a decline of \$5 million from fiscal 2004's fund balance of \$33 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) Supplemental 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, 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 2005 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 net assets and activities with fiscal 2004 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

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

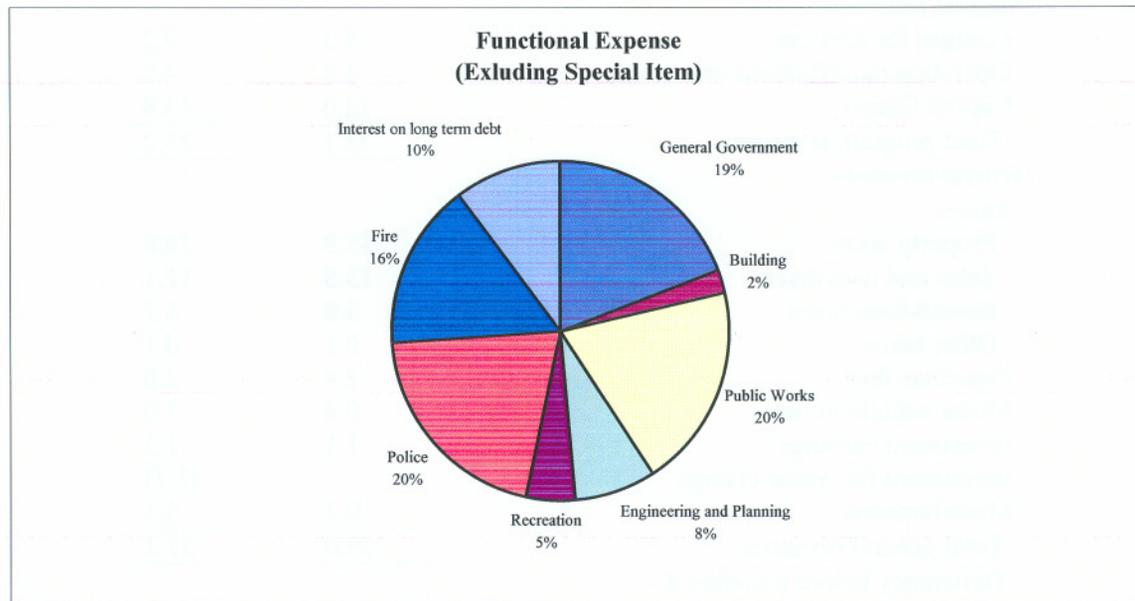
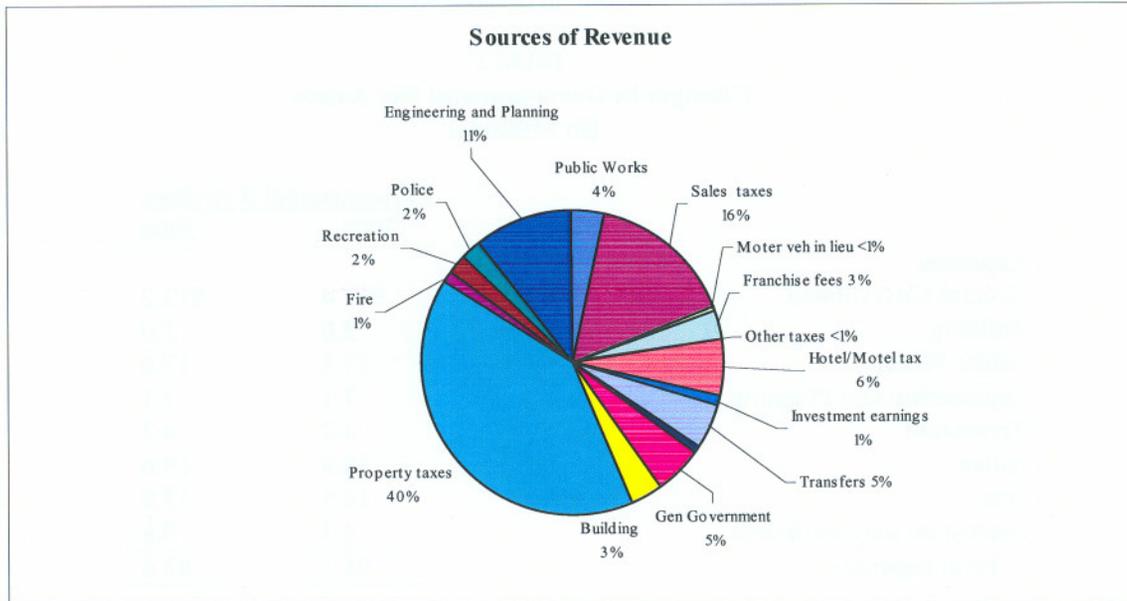
	Governmental Activities	
	2005	2004
Cash and investments	\$214.2	\$251.4
Other assets	42.5	46.7
Capital assets	265.7	263.8
Total assets	522.4	561.9
Long-term debt outstanding	253.4	205.7
Other liabilities	51.9	34.5
Total liabilities	305.3	240.2
Net assets:		
Invested in capital assets, net of related debt	225.1	192.4
Restricted	(27.0)	130.1
Unrestricted	19.0	(0.8)
Total net assets	\$217.1	\$321.7

The City's governmental net assets were \$217.1 million at June 30, 2005, a decrease of \$104.6 million from 2004. 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 \$37.2 million principally due to payments for land acquisition, capital project construction as well as installment payments to the County of Santa Clara under the Purchase Agreement as explained in Note 7E of the Notes to Basic Financial Statements.
- Capital assets increased \$1.9 million from last year, as a result of \$17.1 million asset addition in fiscal 2005, reduced by \$15.2 million depreciation of the capital assets.
- Long-term debt increased \$47.7 million due to an Installment Purchase Agreement entered with the County of Santa Clara to purchase two parcels of land for redevelopment. The purchase value of the land was \$102.3 million of which \$48 million were paid in prior and current fiscal years.
- Other liabilities increased \$17.4 million due to the obligation to remit the resale value of the land to the County of Santa Clara under the Installment Purchase Agreement.

- Net assets invested in capital assets net of related debt increased \$32.7 million primarily due to the land acquisition under the Installment Purchase Agreement. The Redevelopment Agency was obligated to sell the land for redevelopment with sale proceeds to go to the County.

Fiscal Year 2005 Government Activities



As the Sources of Revenue Chart above shows, \$35.9 million or 40% of the City's fiscal 2005 governmental activities revenue came from property taxes, while \$13.8 million or 16% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, motor vehicle in lieu fees, investment earnings and others.

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 2005, the City added \$17.1 million in capital assets. The composition of Fiscal 2005'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)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Expenses		
General Government	\$17.4	\$13.2
Building	2.0	2.0
Public Works	17.8	17.6
Engineering and Planning	7.1	7.1
Recreation	4.2	4.2
Police	18.8	19.6
Fire	14.5	13.9
Interest on long term debt	9.3	9.8
Total expenses	91.1	87.4
Revenues		
Program revenues:		
Charges for services	9.3	7.2
Operating contributions and grants	3.8	4.2
Capital Grants	12.0	13.8
Total program revenues:	25.1	25.2
General revenues:		
Taxes:		
Property taxes	35.9	34.8
Sales and uses taxes	13.8	12.1
Hotel/Motel taxes	5.0	4.7
Other taxes	0.1	0.1
Franchise fees	2.8	2.6
Motor vehicle in lieu	0.4	3.0
Investment earnings	1.1	1.3
Investment fair value change		(3.7)
Miscellaneous	0.3	0.3
Total general revenues	59.4	55.2
Deficiency before transfers & special item	(6.6)	(7.0)
Special Item	(102.3)	
Transfers	4.3	8.2
Changes in net assets	\$(104.6)	\$1.2

Table 2 compares fiscal 2005 expenses and revenues with those of fiscal 2004. Expenses increased \$3.7 million in total in fiscal 2005 due to increased general government administration for midtown developments and increased employer's contribution to retirement benefits. Depreciation expense for capital assets also increased \$1.4 million. Other functional expenses were at approximately the level as fiscal 2004 despite increased pension expense and health insurance premiums, primarily due to delayed hiring of vacant positions. Fiscal 2005 expense included a special item of redevelopment expense of \$102.3 million. Detail for this item is explained in Note 7E of the Notes to the Basic Financial Statements.

Table 2 shows that total government revenues increased \$4.1 million in fiscal 2005. Program revenues decreased \$0.1 million while general revenues increased \$4.2 million. The biggest contributor to the increase in program revenues was charges for services which increased \$2 million in fiscal 2005, due to increased development that require plan checks and building permits. However, lower capital grants and contributions from other agencies offset some of the service charges increase.

The increase of sales tax revenue by \$1.7 million and hotel/motel tax revenue by \$0.3 million reflect moderate recovery of economic activity in Silicon Valley last year. Property tax revenue increased \$1.1 million due to the allocation of more property tax revenue from the State to offset the permanent reduction of motor vehicle license tax. However, the additional allocation was offset by contributions to the Education Revenue Augmentation Fund (ERAF) as mandated by the State to help balance the State budget. In fiscal 2005, the City and RDA contributed \$1 million and \$3 million respectively.

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, engineering and planning, 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 \$3.8 million primarily due to decreased capital grants and contributions received by the Engineering for capital projects and increased general government administrative expense.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2005	2004
General Government	\$(12.6)	\$(9.0)
Building	0.8	(0.5)
Public Works	(14.6)	(16.1)
Engineering and Planning	2.3	5.8
Recreation	(2.3)	(1.8)
Police	(16.8)	(17.7)
Fire	(13.5)	(13.1)
Interest on long term debt	(9.3)	(9.8)
Totals	\$(66.0)	\$(62.2)

Business-type Activities

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

	Business-Type Activities	
	2005	2004
Cash and investments	\$28.5	\$29.5
Other assets	1.9	2.1
Capital assets	97.6	94.6
Total assets	128.0	126.2
Other liabilities	2.6	3.5
Total liabilities	2.6	3.5
Net assets:		
Invested in capital assets	97.5	94.7
Restricted	6.8	4.9
Unrestricted	21.1	23.1
Total net assets	\$125.4	\$122.7

The net assets of business-type activities were \$125.4 million in fiscal 2005, a net increase of \$2.7 million from fiscal 2004. Total assets increased \$1.8 million while total liabilities decreased \$0.9 million. The increase in net assets are explained by the \$6.3 million net revenues from the Water, Sewer and Recycled Water Funds offset by the non-operating expenses of \$3.6 million.

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

	Business-Type Activities	
	2005	2004
Expenses		
Water Utility	\$9.7	\$9.9
Recycled Water Utility	0.2	0.2
Sewer Utility	6.0	6.2
Total expenses	<u>15.9</u>	<u>16.3</u>
Revenues		
Program revenues:		
Charges for services	21.7	20.6
Capital Grants	0.6	1.6
Total program revenues:	<u>22.3</u>	<u>22.2</u>
General revenues:		
Investment earnings	0.6	1.0
Total general revenues	<u>0.6</u>	<u>1.0</u>
Excess before transfers	7.0	6.9
Transfers	<u>(4.3)</u>	<u>(8.2)</u>
Changes in net assets	<u>\$2.7</u>	<u>\$(1.3)</u>

Table 5 compares fiscal 2005 expenses and revenues with those of fiscal year 2004. Expenses decreased \$0.4 million in total in fiscal 2005 due to a decrease in the amount of purchased water. Total program revenue maintained a similar level as last year. Increase in charges for services was offset by decreased capital contributions received from other agencies to fund their share of the construction cost of capital improvement projects. Total general revenue shows a decrease of \$0.4 million from last year entirely due to investment earnings decrease. 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)

	2005	2004
Total assets	\$251.4	\$292.0
Total liabilities	39.1	19.1
Total fund balances	212.3	272.9
Total revenues	83.6	79.6
Total expenditures	100.5	90.4
Total other financing sources	4.3	147.2
Total special item expenditure	48.0	0.0

At June 30, 2005, the City's governmental funds reported combined fund balances of \$212.3 million, a decrease of \$60.6 million from last year. However, the fund balances of the Housing Reserve Fund and Other Governmental Funds increased \$4 million and \$1.6 million respectively while the fund balances of the General Fund, Redevelopment Project Fund and Street Improvement Fund decreased \$4.9 million, \$58.7 million and \$2.6 million respectively.

Revenues at the fund level totaled \$83.6 million, an increase of \$4 million. Revenues for the General Fund increased \$9.4 million while the Housing Reserve Fund, Redevelopment Project Fund, Street Improvement Fund and Other Governmental Funds declined \$0.5 million, \$0.7 million, \$3.8 million and \$0.4 million respectively.

Expenditures increased \$10.1 million this year to \$100.5 million from last year's \$90.4 million. The expenditures of General Fund, Housing Reserve Fund, Redevelopment Project Fund and Street Fund increased \$7.2 million, \$0.3 million, \$12.3 million and \$2 million respectively, but expenditures of Other Governmental Funds declined \$11.7 million.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to \$46.3 million this fiscal year, up \$9.4 million from the prior fiscal year. Increases came from property tax, sales tax, license and permits, and charges for services categories. Property tax revenue increased \$3.1 million due to the "triple flip" budget balancing strategy of the State whereby the state would offset the impact of reduced motor vehicle license tax by an increased allocation of property tax revenues to local agencies. In addition, General Fund contributed approximately \$1 million property tax revenue into the Education Revenue Augmentation Fund to help balance the State budget. Sales tax revenue increased \$3.6 million partly due to defeasance of the Great Mall Sales Tax Bonds which released the sales tax revenue pledged for the bonds to the General Fund and partly due to improved economic activities in this region. Licenses and permits were up \$1.3 million as the volume of new construction permits increased due to increased development activities. Charges for

Services were up \$0.6 million due to increases in recreation services and private developer planning review services. Intergovernmental revenue declined \$2.5 million due to reduction of motor vehicle tax. In fiscal 2004, there was a downward adjustment to the market value of the City's investment portfolio to comply with Governmental Accounting Standard Board Statement No. 31. In fiscal 2005, the fair value adjustment was relatively insignificant and not separately stated.

General Fund expenditures increased \$7.2 million, as General Government expenditures increased \$2.4 million, Police expenditures increased \$1.3 million and Fire expenditures increased \$2.5 million. The increases were due to increased employer's retirement contributions to CalPERS and renewed contributions to the Equipment Replacement fund. In fiscal 2004, contributions to the Equipment Replacement Fund were suspended to help balance that fiscal year's budget. The increase in Fire expenditures also included the purchase of two fire engines suitable for rescue efforts in high-density housing areas. Net transfers into the General Fund decreased \$1.2 million in fiscal 2005. Compared to the final budget, expenditures were below the final budgeted amount by \$5 million. The variances are explained by reductions in services and supplies expenditures, and additional savings in personnel due to retirements in various functions. The differences between the original budget and final budget were primarily due to the purchase of two fire engines and litigation expense for a construction lawsuit.

At June 30, 2005, the fund balance of the General Fund was \$28 million, of which \$1.3 million was reserved for encumbrances and other items; \$5.4 million was designated for the Library Project, \$4.4 million was designated for employee sick leave and medical benefits, \$5.4 million for possible future PERS rate increases, \$0.7 million for capital contingencies, and \$10.8 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 2005, the balances of loans to developers increased from \$5.4 million to \$5.8 million, due to new loans provided to first time homebuyers.

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

Revenues decreased to \$0.6 million in fiscal 2005, from \$1.1 million in fiscal 2004, due to a loan repayment of approximately \$0.9 million from a developer in fiscal 2004. The net transfers of \$3.9 million from the Redevelopment Project Fund comprised of \$5.2 million tax increment revenue for the 20% set-aside housing reserve requirement, offset by the Housing Reserve Fund's share of the administrative costs and debt service payments.

The Fund's fiscal year end fund balance of \$22.2 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 \$27.1 million in fiscal 2005, a decrease of \$0.7 million from fiscal 2004. Property tax increment revenues decreased to \$22.2 million in fiscal 2004, a decrease of \$2 million or 8% from fiscal 2004. Many of the developments in the Project Area were completed as the demand for research and development and other high technology space bottomed out. As a result, the County Assessor reduced the assessed valuation for a number of newly completed developments pursuant to Proposition 8 to their current market value. Furthermore, as mandated by the State, the Agency contributed \$3 million from fiscal 2005 tax increment revenues to ERAF. In fiscal 2004, the contribution to ERAF was \$2 million. Sales tax revenue declined \$0.3 million due to termination of a sales tax reimbursement agreement with a development. Any remaining sales tax revenue after the termination of the agreement was released to the General Fund. Revenue from the use of assets increased \$1 million due to investment of unspent bond proceeds for the full year as opposed to only 7 months in fiscal 2004.

Fund expenditures were \$24.4 million in fiscal 2005, an increase of \$12.3 million. Interest and principal payments totaling \$14.7 million for the 2003 Tax Allocation Bonds were consolidated to the Redevelopment Project Fund in fiscal 2005. Capital outlay increased \$4 million due to construction in progress for many Midtown related infrastructure projects. Fund expenditures also included a special item of redevelopment expense to account for the payments to the County of Santa Clara under an Installment Purchase Agreement. Detail for that transaction is explained in Note 7E of the Notes to Basic Financial Statements.

The Fund's fiscal year end fund balance of \$136.1 million may be used only for redevelopment purposes. Of this amount, \$8.5 million was reserved for outstanding encumbrances and prepaids, \$7.0 million was reserved for property held for resale or redevelopment, \$92.6 million was designated for committed capital projects and \$28 million was undesignated.

Street Improvement Capital Project

This Capital Project Fund accounts for majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were \$2.9 million in fiscal 2005, a decrease of \$3.9 million from fiscal 2004. Intergovernmental revenues decreased to \$1.1 million in fiscal 2005 from \$3.1 million in fiscal 2004. Developer contributions were \$1.4 million in fiscal 2005, down from \$3.5 million in the prior year.

Fund expenditures were \$7.1 million in fiscal 2005, an increase of \$2 million from fiscal 2004 due to increased capital outlay.

The fund ended fiscal 2005 with \$10.5 million in fund balance, of which \$1.8 million was reserved for encumbrances outstanding, \$3 million was designated for capital projects and \$5.7 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 \$1.1 million from last year, while operating expenses decreased \$0.4 million. Total revenues and total operating expenses were \$21.7 million and \$15.9 million respectively. Non-operating revenues of \$1.2 million in fiscal 2005 were \$0.2 million lower than the prior year primarily due to lower interest income. Developer contributions to the proprietary funds decreased \$1.3 million in fiscal 2005. Transfers in to Business-type Activities increased \$0.9 million in fiscal 2005, while transfers to Government-type Activities were \$3 million less than the prior year.

Water Utility

Water fund revenues were \$12.4 million in fiscal 2005, up \$0.2 million from the prior year. The increase in revenues is primarily due to a rate increase implemented at the beginning of the fiscal year but the increased in rate was partly offset by lower usage of water services. Expenses were \$9.7 million in fiscal 2005, down \$0.2 million from the prior year due to less purchased water expense. Net assets of the Water Utility Fund increased \$0.3 million in the current year to a total of \$48.1 million. The increase comprised \$2.7 million in operating income for the current year, \$0.2 million in non-operating revenues, offset by net transfers out of \$2.6 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 \$3 million were for reimbursements of administration costs incurred by the General Fund and return of unused funding to the Redevelopment Project Fund due to completion of certain water capital improvement projects.

This Fund's Net Assets includes \$41.6 million invested in capital assets, \$0.3 million in restricted net assets, and \$6.2 million in unrestricted net assets.

Recycled Water Utility

Recycled Water fund revenues were \$1 million in fiscal 2005, up \$0.1 million from the prior year. Expenses were \$0.3 million in fiscal 2005, at the same level as last fiscal year. Net assets of the Fund increased \$0.5 million in the current year to a total of \$2 million. This increase included \$0.8 million in operating income and \$0.1 million in non-operating income, offset by transfers out totaling \$0.4 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 \$0.4 million invested in capital assets and \$1.6 million in unrestricted net assets, with a small amount of restricted net assets.

Sewer Utility

Sewer fund revenues were \$8.3 million in fiscal 2005, up \$0.8 million from the prior year due to a rate increase implemented at the beginning of the fiscal year. Expenses were \$6 million in fiscal 2005, down \$0.1 million from the prior year due to decreased expenses in purchased sewer capacity. Non-operating revenues in fiscal year 2005 consists of \$0.4 million interest income and \$0.5 million of subsidy from other agencies to fund their share of the construction cost of capital improvement projects. Net assets of the Sewer Utility Fund increased \$1.9 million in the current year to a total of \$75.4 million. This increase comprised of \$2.2 million in operating income, \$0.9 million in non-operating revenues, offset by net transfers out totaling \$1.2 million. Transfers in of \$1 million represent reimbursements for the cost of capital assets constructed by the Sewer Enterprise Fund for other funds. Transfers out of \$2.2 million represent reimbursements for administration costs incurred by the General Fund and return of unused

funding to the Redevelopment Project Fund due to completion of certain sewer capital improvement projects.

\$13.4 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, \$55.6 million was invested in capital assets and \$6.4 million was restricted as to use.

CAPITAL ASSETS

The City has 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 2005 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)

	2005	2004
<i>Governmental Activities:</i>		
Land	\$32.9	\$30.4
Construction in progress	22.6	21.8
Buildings and improvements	90.7	88.1
Other improvements	20.3	19.0
Machinery and equipment	19.3	16.0
Landscape system	29.6	29.6
Storm system	72.6	72.5
Street system	200.1	195.2
Traffic system	14.6	13.0
Less accumulated depreciation	(237.1)	(221.8)
Totals	\$265.6	\$263.8
<i>Business-type Activities:</i>		
Land	\$1.1	\$1.1
Construction in progress	16.3	14.2
Distribution facilities	67.3	67.3
Service lines	5.8	5.6
Sewer lines	50.2	50.2
Capacity rights	32.0	29.3
Less accumulated depreciation	(75.2)	(73.0)
Totals	\$97.5	\$94.7

The principal additions in fiscal 2005 were construction in progress, most of which are expenditures on Midtown infrastructure projects and Library related projects. Other additions included street system, and

sewer capacity rights. Further detail on capital assets, current year additions and construction in progress can be found in Note 8.

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

DEBT ADMINISTRATION

Substantially all of the City's debt was issued to finance redevelopment projects and technological capital outlays. These debt issues are secured by the property tax increment revenue of the Redevelopment Agency and lease payments of the General Fund. In fiscal 2005, the Redevelopment Agency entered into an Installment Purchase Agreement with the County of Santa Clara to acquire land for redevelopment purposes. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2005 the City's debt comprised:

**Table 8
Outstanding Debt
(in Millions)**

Governmental Activity Debt:	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
Redevelopment Agency 2003 Tax Allocation Bonds 2% - 5.25%, due September 1, 2032	\$194.4	\$200.0
Technology Certificates of Participation, Series 2000 4% - 4.25%, due November 1, 2009	4.6	5.7
Installment Purchase Agreement with the County Of Santa Clara, due June 30, 2023	<u>54.3</u>	<u>0.0</u>
Total Governmental Activity Debt	<u>\$253.3</u>	<u>\$205.7</u>

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2005, a total of \$31.7 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.

Table 2
Outstanding Debt
(in Millions)

Balance June 30, 2004	Change June 30, 2005	Governmental Activity Debt
1,000	210	Industrial Revenue Bonds 2004 Tax Allocation Bonds 1997-2001 and 2002-2003 Technology Facilities of Transportation Parks 2000 1997-2001 and 2002-2003
100	10	Industrial Revenue Bonds with the County 2000 (with the June 30, 2003)
1,100	220	Total Governmental Activity Debt

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and other improvements within their districts. As of June 30, 2005, a total of \$117.1 million in local improvement district debt was outstanding against their local improvement districts. The City is required to pay special assessments on the real property in the district during the debt term and the City's responsibility. The City does not have district debt as these districts report to the collection and maintenance of the management of their own affairs. Further detail on these districts can be found in Note 12 to the financial statements.

CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	\$110,498,554	\$28,481,995	\$138,980,549	\$15,065
Restricted investments (Note 3)	103,749,588		103,749,588	1,030,476
Receivables:				
Accounts	2,001,447	1,488,461	3,489,908	3,759
Due from other governments	2,839,527	40,357	2,879,884	
Interest	1,753,584	204,666	1,958,250	
Developer (Note 7E)	17,750,000		17,750,000	
Loans receivable (Note 5)	8,848,394		8,848,394	
Prepays, materials, supplies and deposits	2,334,021	234,212	2,568,233	45,903
Property held for resale (Note 6)	6,988,800		6,988,800	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	55,511,786	17,478,529	72,990,315	1,565,277
Depreciable capital assets, net	210,141,441	80,074,099	290,215,540	7,943,360
Total assets	522,417,142	128,002,319	650,419,461	10,603,840
LIABILITIES				
Accounts payable	4,268,087	1,158,807	5,426,894	69,300
Accrued payroll	2,853,496	121,983	2,975,479	13,897
Interest payable	3,049,337		3,049,337	
Uninsured claims payable (Note 13)	4,057,632	50,000	4,107,632	
Refundable deposits	1,917,250	80,200	1,997,450	76,312
Advance from other governments (Note 8E)		747,407	747,407	
Unearned revenue	143,330		143,330	
Due to the County (Note 7E)	17,750,000		17,750,000	
Accrued vacation (Note 12):				
Due within one year	1,353,411		1,353,411	
Due in more than one year	2,848,121	226,109	3,074,230	
Sick leave payable (Note 12):				
Due within one year	854,656		854,656	
Due in more than one year	4,503,711	166,291	4,670,002	
Retiree medical benefits (Note 12):				
Due within one year	481,974		481,974	
Due in more than one year	7,849,949		7,849,949	
Long term debt (Note 9):				
Due within one year	8,750,000		8,750,000	
Due in more than one year	244,600,736		244,600,736	
Total liabilities	305,281,690	2,550,797	307,832,487	159,509
NET ASSETS (Note 10)				
Invested in capital assets and capacity rights, net of related debt	225,140,169	97,552,628	322,692,797	
Restricted for:				
Capital projects	21,756,245	6,773,850	28,530,095	
Redevelopment and community development activities	(48,730,310)		(48,730,310)	
Total restricted net assets	(26,974,065)	6,773,850	(20,200,215)	
Unrestricted	18,969,348	21,125,044	40,094,392	10,444,331
Total net assets	\$217,135,452	\$125,451,522	\$342,586,974	\$10,444,331

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$17,412,109	\$905,738	\$631,345	\$3,219,201	(\$12,655,825)	
Building	2,047,798	2,898,854			851,056	
Public Works	17,794,591	311,151	12,238	2,853,763	(14,617,439)	
Engineering and Planning	7,115,725	1,677,492	1,953,376	5,779,077	2,294,220	
Recreation	4,169,978	1,482,468	245,758	159,915	(2,281,837)	
Police	18,772,592	1,109,754	866,882		(16,795,956)	
Fire	14,448,368	888,091	70,296		(13,489,981)	
Interest on long term debt	9,337,693				(9,337,693)	
Total Governmental Activities	91,098,854	9,273,548	3,779,895	12,011,956	(66,033,455)	
Business-type Activities:						
Water Utility	9,667,874	12,430,082		15,000		\$2,777,208
Recycled Water Utility	247,297	1,016,889		69,125		838,717
Sewer Utility	6,039,578	8,252,762		520,374		2,733,558
Total Business-type Activities	15,954,749	21,699,733		604,499		6,349,483
Total Primary Government	\$107,053,603	\$30,973,281	\$3,779,895	\$12,616,455	(66,033,455)	6,349,483
Component Unit:						
Terrace Gardens Inc.	\$1,443,218	\$1,219,475				
General revenues:						
Taxes:						
Property taxes					38,912,960	
Less: Educational Revenue Augmentation						
Fund payment (Note 16)					(2,992,506)	
Sales and use taxes					13,816,170	
Hotel/Motel taxes					4,985,854	
Other taxes					131,925	
Franchise fees					2,771,467	
Motor vehicle in lieu					420,823	
Investment earnings					1,069,010	626,601
Miscellaneous					331,972	
Special item (Notes 7E and 9):						
Redevelopment expense					(102,280,736)	
Transfers (Note 4)					4,294,392	(4,294,392)
Total general revenues, special item and transfers					(38,538,669)	(3,667,791)
Change in Net Assets					(104,572,124)	2,681,692
Net Assets-Beginning					321,707,576	122,769,830
Net assets-Ending					\$217,135,452	\$125,451,522

See accompanying notes to financial statements

Total	Net (Expense) Revenue and Changes in Net Assets Component Unit Terrace Gardens Inc.
(\$12,655,825)	
851,056	
(14,617,439)	
2,294,220	
(2,281,837)	
(16,795,956)	
(13,489,981)	
(9,337,693)	
<u>(66,033,455)</u>	
2,777,208	
838,717	
<u>2,733,558</u>	
6,349,483	
<u>(59,683,972)</u>	
	<u>(\$223,743)</u>
38,912,960	
(2,992,506)	
13,816,170	
4,985,854	
131,925	
2,771,467	
420,823	
1,695,611	4,547
331,972	2,729
(102,280,736)	
<u>(42,206,460)</u>	<u>7,276</u>
(101,890,432)	(216,467)
444,477,406	10,660,798
<u>\$342,586,974</u>	<u>\$10,444,331</u>



City of Milpitas
City Manager
City Clerk
City Treasurer
City Attorney

City of Milpitas
City Council
City Manager
City Clerk
City Treasurer
City Attorney

City of Milpitas
City Council
City Manager
City Clerk
City Treasurer
City Attorney

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City Council
City Manager
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City Attorney

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City Council
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City Treasurer
City Attorney

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments available for operations (Note 3)	\$35,324,529	\$15,947,894	\$30,131,300	\$11,050,755	\$12,621,596	\$105,076,074
Restricted investments (Note 3)		6,134,667	97,219,619		395,302	103,749,588
Receivables:						
Accounts	1,329,214	35,808		553,832	79,269	1,998,123
Due from other governments	1,138,925		36,041	664,279	1,000,282	2,839,527
Interest	310,143	123,870	1,141,043	90,429	88,099	1,753,584
Developer (Note 7E)			17,750,000			17,750,000
Due from other funds (Note 4B)	98,478					98,478
Loans receivable (Note 5)	174,327	5,850,733			2,823,334	8,848,394
Prepays, materials, supplies and deposits	458,532		1,586,142	184,888	3,548	2,233,110
Property held for resale (Note 6)			6,988,800			6,988,800
Total Assets	\$38,834,148	\$28,092,972	\$154,852,945	\$12,544,183	\$17,011,430	\$251,335,678
LIABILITIES						
Accounts payable	\$1,235,467		\$898,386	\$1,307,617	\$760,399	\$4,201,869
Accrued payroll	2,679,528		71,761	35,206	40,200	2,826,695
Uninsured claims payable (Note 13)	2,270,707					2,270,707
Refundable deposits	1,898,407				18,843	1,917,250
Deferred revenue	117,561	\$5,850,733		660,717	730,700	7,359,711
Due to other funds (Note 4B)					98,478	98,478
Due to the County (Note 7E)			17,750,000			17,750,000
Accrued vacation (Note 12)	1,263,339		60,782	8,624		1,332,745
Sick leave payable (Note 12)	844,515					844,515
Retiree medical benefits (Note 12)	481,974					481,974
Total Liabilities	10,791,498	5,850,733	18,780,929	2,012,164	1,648,620	39,083,944
FUND BALANCES						
Fund balances (Note 10)						
Reserved for:						
Encumbrances	711,362	1,378,360	6,953,777	1,634,143	1,496,001	12,173,643
Loans	174,327				2,823,334	2,997,661
Prepays, materials, supplies and deposits	458,532		1,586,142	184,888	3,548	2,233,110
Property held for resale			6,988,800			6,988,800
Unreserved, designated for:						
Long-term portion of:						
Sick leave payable	2,627,171			14,793		2,641,964
Retiree medical benefits	1,740,884					1,740,884
PERS stabilization	5,432,703					5,432,703
Library project	5,388,552					5,388,552
Projects, reported in Capital Projects Funds			92,534,334	3,038,400	1,024,728	96,597,462
Capital contingency	700,000					700,000
Unreserved, undesignated						
Reported in:						
General Fund	10,809,119					10,809,119
Special Revenue Funds		20,863,879			2,880,747	23,744,626
Capital Projects Funds			28,008,963	5,659,795	7,134,452	40,803,210
TOTAL FUND BALANCES	28,042,650	22,242,239	136,072,016	10,532,019	15,362,810	212,251,734
Total Liabilities and Fund Balances	\$38,834,148	\$28,092,972	\$154,852,945	\$12,544,183	\$17,011,430	

Amounts reported for Governmental Activities in the Statement of Activities
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. 265,653,227

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. 5,402,889

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. 7,216,381

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	(253,350,736)
Interest payable	(3,049,337)
Non-current portion of accrued vacation, sick leave and retiree medical benefits	(15,201,781)
Non-current portion of uninsured claims payable	(1,786,925)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$217,135,452

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	General	Housing Reserve	Redevelopment Project	Street Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$13,121,765		\$25,215,408			\$38,337,173
Less: Educational Revenue						
Augmentation Fund payment (Note 16)			(2,992,506)			(2,992,506)
Sales taxes	14,270,542		138,813			14,409,355
Other taxes	8,607,569				\$458,701	9,066,270
Licenses and fines	4,327,666					4,327,666
Interest and others	1,069,010	\$582,989	3,797,870	\$352,404	346,401	6,148,674
Intergovernmental	971,726		273,330	1,074,915	2,593,460	4,913,431
Charges for services	3,804,800				37,526	3,842,326
Developer contributions				1,439,356		1,439,356
Other	163,236		710,580		3,223,512	4,097,328
Total Revenues	46,336,314	582,989	27,143,495	2,866,675	6,659,600	83,589,073
EXPENDITURES						
Current:						
General Government	12,079,611	401,963	334,360	174,065	35,749	13,025,748
Building	2,025,585				49,803	2,075,388
Public Works	7,105,664			102,804	527,969	7,736,437
Engineering and Planning	3,653,106		1,334,706	488,648	967,382	6,443,842
Recreation	4,198,701					4,198,701
Police	19,474,969				248,260	19,723,229
Fire	15,363,198					15,363,198
Capital outlay			8,016,429	6,352,571	1,629,303	15,998,303
Debt service:						
Principal	1,045,000		5,560,000			6,605,000
Interest and fees	214,810		9,163,896			9,378,706
Total Expenditures	65,160,644	401,963	24,409,391	7,118,088	3,458,466	100,548,552
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,824,330)	181,026	2,734,104	(4,251,413)	3,201,134	(16,959,479)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	13,869,691	5,160,555	1,294,101	2,605,000	165,513	23,094,860
Transfers (out) (Note 4)	(4,881)	(1,294,026)	(14,726,776)	(1,019,348)	(1,755,437)	(18,800,468)
Total Other Financing Sources (Uses)	13,864,810	3,866,529	(13,432,675)	1,585,652	(1,589,924)	4,294,392
SPECIAL ITEM (Notes 7E and 9):						
Redevelopment expense			(48,000,000)			(48,000,000)
NET CHANGE IN FUND BALANCES	(4,959,520)	4,047,555	(58,698,571)	(2,665,761)	1,611,210	(60,665,087)
Fund balances at beginning of period	33,002,170	18,194,684	194,770,587	13,197,780	13,751,600	272,916,821
FUND BALANCES AT END OF PERIOD	\$28,042,650	\$22,242,239	\$136,072,016	\$10,532,019	\$15,362,810	\$212,251,734

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, 2005

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 (\$60,665,087)

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 \$1,525,408 have already been added to capital assets) 15,998,303

Donated assets from developers 32,776

Loss on retirement of capital assets (Internal service fund retirement of \$6,813 has already been deducted from capital assets) 6,835

Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$1,019,447 which has already been allocated to serviced funds.) (14,691,795)

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 6,605,000

Redevelopment expense - installment purchase agreement with the County (102,280,736)

Installment payment to the County is added back to fund balance 48,000,000

ACCRUAL OF NON-CURRENT ITEMS

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

Due from other governments (176,713)

Non-current portion of accrued vacation, sick leave and retiree medical benefits (766,002)

Non-current portion of uninsured claims payable 1,869,052

Interest payable 41,013

Deferred revenue 1,361,938

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 93,292

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$104,572,124)

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$9,360,232	\$9,360,232	\$13,121,765	\$3,761,533
Sales taxes	12,404,622	12,404,622	14,270,542	1,865,920
Other taxes	8,164,000	8,164,000	8,607,569	443,569
Licenses and fines	2,917,000	2,917,000	4,327,666	1,410,666
Interest and other	1,861,000	1,861,000	1,069,010	(791,990)
Intergovernmental	3,912,000	3,928,985	971,726	(2,957,259)
Charges for services	2,929,963	2,929,963	3,804,800	874,837
Other	47,000	74,290	163,236	88,946
Total Revenues	41,595,817	41,640,092	46,336,314	4,696,222
Expenditures				
Current:				
Policy, Planning and Implementation	6,149,016	6,263,556	5,739,337	524,219
City Attorney	827,487	1,627,487	1,546,986	80,501
Finance	2,889,289	2,889,289	2,864,236	25,053
Public Works	8,143,818	8,212,818	7,207,158	1,005,660
Planning, Recreation and Neighborhood Services	6,958,864	7,158,804	6,331,413	827,391
Police	21,066,190	21,064,633	19,477,481	1,587,152
Fire	14,195,063	15,374,802	15,374,406	396
Information Services	2,487,826	2,487,826	2,470,632	17,194
Human Resources	1,208,782	1,279,782	1,263,565	16,217
Non-departmental	3,193,544	3,254,965	2,336,982	917,983
Debt service:				
Principal	1,045,250	1,045,000	1,045,000	
Interest and fees	214,310	214,810	214,810	
Total Expenditures	68,379,439	70,873,772	65,872,006	5,001,766
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(26,783,622)	(29,233,680)	(19,535,692)	9,697,988
OTHER FINANCING SOURCES (USES)				
Transfers in	24,706,586	20,471,586	13,869,691	(6,601,895)
Transfers (out)		(1,557)	(4,881)	(3,324)
Total Other Financing Sources (Uses)	24,706,586	20,470,029	13,864,810	(6,605,219)
Net change in fund balance	(\$2,077,036)	(\$8,763,651)	(5,670,882)	\$3,092,769
Adjustment to budgetary basis:				
Encumbrance expenditures			711,362	
Budgetary fund balance, July 1			33,002,170	
Budgetary fund balance, June 30			\$28,042,650	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Interest and others	\$283,800	\$457,000	\$582,989	\$125,989
Total Revenues	283,800	457,000	582,989	125,989
Expenditures				
Current:				
General Government		10,963	10,963	
Non-departmental		1,858,355	1,769,360	88,995
Total Expenditures		1,869,318	1,780,323	88,995
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	283,800	(1,412,318)	(1,197,334)	214,984
OTHER FINANCING SOURCES (USES)				
Transfers in	5,547,600	5,547,600	5,160,555	(387,045)
Transfers (out)	(1,134,428)	(1,134,428)	(1,294,026)	(159,598)
Total Other Financing Sources (Uses)	4,413,172	4,413,172	3,866,529	(546,643)
Net change in fund balance	\$4,696,972	\$3,000,854	2,669,195	(\$331,659)
Budgetary fund balance, July 1			18,194,684	
Adjustment to budgetary basis:				
Encumbrance expenditures			1,378,360	
Budgetary fund balance, June 30			\$22,242,239	

See accompanying notes to financial statements



CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled		Totals	
		Water Utility	Sewer Utility		
ASSETS					
Current Assets					
Cash and investments available for operations (Note 3)	\$6,684,807	\$1,656,178	\$20,141,010	\$28,481,995	\$5,422,480
Receivables:					
Accounts	849,142	39,737	599,582	1,488,461	3,324
Due from other governments	2,741		37,616	40,357	
Due from other funds (Note 4B)			74,282	74,282	
Interest	50,565	11,680	142,421	204,666	
Total current assets	7,587,255	1,707,595	20,994,911	30,289,761	5,425,804
Noncurrent assets:					
Advance to other funds (Note 4C)			74,282	74,282	
Prepays, materials, supplies and deposits	227,270	313	6,629	234,212	100,911
Capital assets and capacity rights (Note 8):					
Land and construction in progress	6,918,131		10,560,398	17,478,529	
Depreciable capital assets, net	34,682,587	351,871	45,039,641	80,074,099	4,489,543
Total noncurrent assets	41,827,988	352,184	55,680,950	97,861,122	4,590,454
Total assets	49,415,243	2,059,779	76,675,861	128,150,883	10,016,258
LIABILITIES					
Current liabilities:					
Accounts payable	827,458		331,349	1,158,807	66,218
Accrued payroll	72,616	1,528	47,839	121,983	26,801
Due to other funds (Note 4B)	74,282			74,282	
Uninsured claims payable (Note 13)			50,000	50,000	
Refundable deposits	38,000	42,200		80,200	
Accrued vacation (Note 12)					20,666
Sick leave payable (Note 12)					10,141
Total noncurrent liabilities	1,012,356	43,728	429,188	1,485,272	123,826
Non-current liabilities:					
Advances from other funds (Note 4C)	74,282			74,282	
Advances from other governments (Note 8E)			747,407	747,407	
Accrued vacation (Note 12)	140,449		85,660	226,109	
Sick leave payable (Note 12)	115,928		50,363	166,291	
Total liabilities	1,343,015	43,728	1,312,618	2,699,361	123,826
NET ASSETS					
Invested in capital assets and capacity rights	41,600,718	351,871	55,600,039	97,552,628	4,489,543
Restricted for capital projects	313,770	60,618	6,399,462	6,773,850	
Unrestricted	6,157,740	1,603,562	13,363,742	21,125,044	5,402,889
Total net assets	\$48,072,228	\$2,016,051	\$75,363,243	\$125,451,522	\$9,892,432

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, 2005

	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	\$12,253,605	\$1,016,889	\$8,252,762	\$21,523,256	\$1,575,717
Other operating revenue	176,477			176,477	30,734
Total Operating Revenues	12,430,082	1,016,889	8,252,762	21,699,733	1,606,451
OPERATING EXPENSES					
Purchased water	5,680,524	169,582		5,850,106	
Purchased sewer capacity			3,207,786	3,207,786	
Personnel services	1,706,388	57,429	1,058,193	2,822,010	618,871
Services and supplies	708,092	69	463,392	1,171,553	937,779
Claims					
Depreciation	1,277,924	20,217	969,263	2,267,404	1,019,447
Repairs and maintenance	294,946		340,944	635,890	15,269
Total Operating Expenses	9,667,874	247,297	6,039,578	15,954,749	2,591,366
Operating Income (Loss)	2,762,208	769,592	2,213,184	5,744,984	(984,915)
NONOPERATING REVENUES					
Interest income	176,081	44,889	405,631	626,601	
Taxes and subsidies		69,125	488,699	557,824	
Total Nonoperating Revenues	176,081	114,014	894,330	1,184,425	
Income Before Contributions and Transfers	2,938,289	883,606	3,107,514	6,929,409	(984,915)
Contributions	15,000		31,675	46,675	1,078,207
Transfers in (Note 4)	360,000		1,000,000	1,360,000	
Transfers (out) (Note 4)	(3,021,241)	(411,680)	(2,221,471)	(5,654,392)	
Change in net assets	292,048	471,926	1,917,718	2,681,692	93,292
Total net assets-beginning	47,780,180	1,544,125	73,445,525	122,769,830	9,799,140
Total net assets-ending	\$48,072,228	\$2,016,051	\$75,363,243	\$125,451,522	\$9,892,432

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds			Totals	Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$12,649,154	\$1,048,461	\$8,245,479	\$21,943,094	\$1,603,127
Payments to suppliers	(6,849,512)	(195,966)	(4,836,901)	(11,882,379)	(922,020)
Payments to employees	(1,704,854)	(61,382)	(1,046,712)	(2,812,948)	(613,248)
Net cash provided by operating activities	<u>4,094,788</u>	<u>791,113</u>	<u>2,361,866</u>	<u>7,247,767</u>	<u>67,859</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances to other funds			74,283	74,283	
Advances from other funds	(74,283)			(74,283)	
Taxes and subsidies		69,125	488,699	557,824	
Transfers in	360,000		1,000,000	1,360,000	
Transfers (out)	(3,021,241)	(411,680)	(2,221,471)	(5,654,392)	
Cash Flows from Noncapital Financing Activities	<u>(2,735,524)</u>	<u>(342,555)</u>	<u>(658,489)</u>	<u>(3,736,568)</u>	
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Acquisition of capital assets, net of retirement	(812,748)		(4,267,352)	(5,080,100)	(440,388)
Advances from other governments			(63,855)	(63,855)	
Cash Flows from Capital and Related Financing Activities	<u>(812,748)</u>		<u>(4,331,207)</u>	<u>(5,143,955)</u>	<u>(440,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	174,045	42,095	402,347	618,487	
Cash Flows from Investing Activities	<u>174,045</u>	<u>42,095</u>	<u>402,347</u>	<u>618,487</u>	
Net increase in cash and cash equivalents	720,561	490,653	(2,225,483)	(1,014,269)	(372,529)
Cash and investments at beginning of period	5,964,246	1,165,525	22,366,493	29,496,264	5,795,009
Cash and investments at end of period	<u>\$6,684,807</u>	<u>\$1,656,178</u>	<u>\$20,141,010</u>	<u>\$28,481,995</u>	<u>\$5,422,480</u>
NONCASH TRANSACTIONS:					
Contributions and transfers of capital assets, net	<u>\$15,000</u>		<u>\$31,675</u>	<u>\$46,675</u>	<u>\$1,078,207</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$2,762,208	\$769,592	\$2,213,184	\$5,744,984	(\$984,915)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,277,924	20,217	969,263	2,267,404	1,019,447
Change in assets and liabilities:					
Receivables, net	220,572	(970)	(7,283)	212,319	(3,324)
Materials, supplies and deposits	(89,654)	(45)	607	(89,092)	18,043
Accounts and other payables	(76,262)	2,319	(813,905)	(887,848)	18,608
Net cash provided by operating activities	<u>\$4,094,788</u>	<u>\$791,113</u>	<u>\$2,361,866</u>	<u>\$7,247,767</u>	<u>\$67,859</u>

See accompanying notes to financial statements

CITY OF MILPITAS
MILPITAS PUBLIC
DEPARTMENT OF CITY PLANNING
THE 1954 YEAR BOOK



(The following table contains extremely faint and illegible text, likely bleed-through from the reverse side of the page. It appears to be a multi-column table with various data points.)

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 3)	\$8,283,596
Accounts receivable	2,501
Due from other governments	5,436
Interest receivable	<u>16,093</u>
Total Assets	<u><u>\$8,307,626</u></u>
LIABILITIES	
Refundable deposits	\$502,839
Due to Local Improvement Districts	<u>7,804,787</u>
Total Liabilities	<u><u>\$8,307,626</u></u>

See accompanying notes to financial statements

EXHIBIT TO THE
GENERAL PLAN
OF THE CITY OF MILPITAS
1954



CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

PRIMARY GOVERNMENT

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

Blended Component Units

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

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City, principally the Redevelopment Project Area. 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. During fiscal year 2005, there were no financial activities to report.

Financial statements for the Milpitas Redevelopment Agency and Milpitas Public Financing Authority may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035.

CITY OF MILPITAS
Notes to Basic Financial Statements

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. During fiscal year 2005 the City Council began to exercise control over the Board of Terrace Gardens. The financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2004 are therefore 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.

CITY OF MILPITAS
Notes to Basic Financial Statements

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.

CITY OF MILPITAS
Notes to Basic Financial Statements

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 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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *Property Tax*

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

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

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

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

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

H. *Closed and New Funds*

The Hetch-Hetchy Ground Lease Special Revenue Funds were established as of July 1, 2004. The LID#14 Agency Fund was closed as of June 30, 2005.

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 all funds providing the total increase does not exceed 1% of the original total General Fund budget. All additional appropriations 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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Adjustments to GAAP Basis from Budgetary Basis

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements.

C. Expenditures in Excess of Appropriations

The funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each fund to finance these expenditures.

Fund / Department	Amount
Special Revenue Funds	
Housing and Community Development Planning & Neighborhood Services	\$2,638
Gas Tax Public Works	1,885

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	\$138,980,549
Restricted investments	<u>103,749,588</u>
Total Primary Government cash and investments	<u>242,730,137</u>
Cash and investments available for operations	15,065
Restricted investments	<u>1,030,476</u>
Total Component Unit cash and investments	<u>1,045,541</u>
Cash and investments in Fiduciary Funds (separate statement)	<u>8,283,596</u>
Total cash and investments	<u><u>\$252,059,274</u></u>

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

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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
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	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 Mutual Funds	Upon Demand	Aaa	20%	10%

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

E. Investments Authorized for Terrace Gardens Inc.

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

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

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
City:					
U.S. Government Agency Issues	\$43,119,085	\$39,012,771	\$19,667,849	\$142,608	\$101,942,313
Corporate Notes	3,976,827	4,030,318	1,954,487		9,961,632
U.S. Treasury Notes	7,979,688	8,936,875	2,998,125		19,914,688
California Local Agency Investment Fund	28,929,991				28,929,991
Mutual Funds (U.S. Securities)	1,404,081				1,404,081
Investment Repurchase Agreement			86,294,318		86,294,318
Terrace Gardens, Inc.:					
Certificates of Deposit	917,104				917,104
Total Investments	86,326,776	\$51,979,964	\$110,914,779	\$142,608	249,364,127
Demand Deposits-City of Milpitas	2,566,710				2,566,710
Demand Deposits - Terrace Gardens	128,617				128,617
Total Cash and Investments	\$89,022,103				\$252,059,454

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, 2005 these investments matured in an average of 151 days.

Mutual funds are available for withdrawal on demand and at June 30, 2005 matured in an average of 22 days.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2005 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA	AA/AA-	Total
U.S. Government Agency Issues	\$101,942,313		\$101,942,313
Corporate Notes	6,932,887	\$3,028,745	9,961,632
Mutual Funds (U.S. Securities)	1,404,081		1,404,081
Investment Repurchase Agreement	86,294,318		86,294,318
Totals	<u>\$196,573,599</u>	<u>\$3,028,745</u>	<u>199,602,344</u>
<i>Not rated:</i>			
California Local Agency Investment Fund			28,929,991
<i>Exempt from credit rate disclosure:</i>			
U.S. Treasury Notes			19,914,688
Total Investments			<u>\$248,447,023</u>

Terrace Gardens Inc invests only in Time Certificates of Deposit. At June 30, 2005, 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, 2005:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal agency securities	\$20,728,110
Federal Home Loan Bank	Federal agency securities	53,086,293
Federal Farm Credit Bank	Federal agency securities	20,101,240
Citigroup Global Markets Inc.	Investment repurchase agreement	86,294,318

Investments in the securities of any individual issuers that represent 5% or more of total investments by individual funds were as follows at June 30, 2005:

Fund	Issuer	Investment Type	Amount
Major Fund:			
Redevelopment Project Fund	Citigroup Global Markets Inc.	Investment repurchase agreement	\$86,294,318
Fiduciary Funds	Federal Home Loan Bank	Federal agency securities	3,208,408

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

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

Transfers between funds during the fiscal year ended June 30, 2005 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Housing Reserve Special Revenue Fund	\$702,868 (A)
	Redevelopment Project Capital Projects Fund	6,958,452 (A)
	Redevelopment Project Capital Projects Fund	138,813 (B)
	Street Improvement Capital Projects Fund	780,000 (A)
	Water Utility Enterprise Fund	3,016,241 (A)
	Recycled Water Utility Enterprise Fund	51,680 (A)
	Sewer Utility Enterprise Fund	2,216,471 (A)
	Law Enforcement Services Special Revenue Fund	496 (A)
	Solid Waste Reduction and Services Special Revenue Fund	4,000 (A)
	General Government Project Capital Projects Fund	670 (A)
Special Revenue Funds:		
Housing Reserve	Redevelopment Project Capital Projects Fund	5,160,555 (C)
Law Enforcement Services	General Fund	1,557 (D)
Capital Projects Funds:		
Redevelopment Project	General Fund	3,324 (A)
Redevelopment Project	Housing Reserve Special Revenue Fund	410,797 (A)
Redevelopment Project	Housing Reserve Special Revenue Fund	180,361 (E)
Redevelopment Project	Street Improvement Capital Projects Fund	35,000 (E)
Redevelopment Project	Street Improvement Capital Projects Fund	204,348 (F)
Redevelopment Project	Water Utility	5,000 (F)
Redevelopment Project	Sewer Utility	5,000 (F)
Redevelopment Project	General Government Project Capital Projects Fund	450,271 (F)
Street Improvement	Redevelopment Project Capital Projects Fund	1,305,000 (E)
Street Improvement	Gas Tax Special Revenue Fund	1,300,000 (E)
Park Improvement	Redevelopment Project Capital Projects Fund	163,956 (E)
Enterprise Funds:		
Water Utility	Recycled Water Utility Enterprise Fund	360,000 (E)
Sewer Utility	Redevelopment Project Capital Projects Fund	1,000,000 (E)
Total Interfund Transfers		<u>\$24,454,860</u>

The reasons for these transfers are set forth below:

- (A) Reimbursement of costs incurred
- (B) Transfer of sales tax
- (C) State-required set-aside of Low and Moderate Income Housing portion of property tax increment
- (D) Transfer to fulfill grant agreement matching requirements
- (E) Transfer of capital projects amounts
- (F) Return of unused capital projects funds

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. *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, 2005 the Housing and Community Development Special Revenue and Water Utility Enterprise Funds owed \$98,478 and \$74,282 to the General and Sewer Utility Enterprise Funds, respectively.

C. *Long Term Interfund Balance*

The Water Utility Enterprise Fund has a \$74,282 advance from the Sewer Utility Enterprise Fund which does not bear interest. A payment of \$74,282 was made in fiscal year 2005.

NOTE 5 - LOANS RECEIVABLE

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

A. *Rehabilitation Loans*

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. Federal funds received by the City are deposited with a commercial bank. Upon approval of loans, the bank disburses the funds and arranges for and collects repayments.

At June 30, 2005 the City had outstanding rehabilitation loans of \$2,823,334 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2005, the City received \$130,245 from all participants, and made new loans totaling \$406,620.

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 \$7,813 and as of June 30, 2005, principal and accrued interest totaled \$3,863,153.

C. *PWA Associates, LLC Loan*

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. As of June 30, 2005, there were \$500,000 in loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 5 - LOANS RECEIVABLE (Continued)

D. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, \$1,193,580 in fiscal 2001 to develop 468 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; interest of \$35,807 was accrued and paid in fiscal 2005. Principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. As of June 30, 2005, the outstanding balance totaled \$1,193,580.

E. Parc North Associates LLC Loan

In fiscal year 2004, Parc North Associates LLC started construction on 285 town homes and condominiums. Twenty-four of the units were made available to low income households, and thirty-four units were made available to moderate income households. The Redevelopment Agency is providing loans to eligible low-income families for the purchase of these town homes and condominium. As of June 30, 2005, there were \$294,000 in such loans outstanding.

F. Home Loan

As of June 30, 2005 a former employee had a loan in the amount of \$174,327 due to the City. The loan is secured by a first deed of trust and must be repaid by October 2005. In addition, the City paid \$499,010 of the cost of the employee's residence and holds title to the property in common with the employee under a shared equity financing agreement.

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% 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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

B. *Shapell Industries*

In June 2004, the Agency entered into an Owner Participation 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 exchange for the development of housing units, the Agency will provide total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, the Agency will assist in the rehabilitation of four existing very low-income units in conjunction with a non-profit housing developer or independently. At June 30, 2005, the Agency had not expended any funds on the rehabilitation or silent second loans.

C. *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, of which fifty-eight units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of \$1,823,480 for permits, fees, and infrastructure. As of June 30, 2005, the Agency expended \$212,450 of this amount. The Agency also will provide a total of \$1,974,000 for silent-second loans as disclosed in Note 5E above.

D. *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 apartment complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. In exchange, the Agency will provide a grant of \$852,560 for permits, fees and infrastructure, and a \$378,000 developer loan upon completion of the nineteen affordable housing units. As of June 2005, the Agency had not expended any funds on the grant and no money had been disbursed on the developer loan.

E. *Installment Purchase Agreement*

The Redevelopment Agency has 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 has 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 is expected to be 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; therefore the difference between the purchase and sale prices has been accounted for as redevelopment expense, and the transaction has been disclosed as a Special Item because of its size and unusual nature.

Redevelopment expense at the City-wide level was calculated by determining that the present value of the remaining payments due at June 30, 2005 under the Installment Purchase Agreement was \$54,280,736 using a discount rate of 5%. This amount was added to the cash payments above and the \$48,000,000 already paid under that Agreement net of proceeds from re-sale to developers, to arrive at City-wide expense of \$102,280,736.

At the Fund level, the \$48,000,000 amount reported as redevelopment expense includes only the cash actually paid in fiscal 2005. Because of the size and complexity of this transaction, those portions of the transaction occurring in fiscal 2006 have been included in the fiscal 2005 financial statements.

CITY OF MILPITAS
Notes to Basic Financial Statements

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.

NOTE 8 - CAPITAL ASSETS

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

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

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

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

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

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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

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, 2004	Additions	Retirements	Transfers	Balance at June 30, 2005
Capital assets not being depreciated:					
Land	\$30,453,158	\$2,427,144			\$32,880,302
Construction in progress	21,786,672	7,318,267		(\$6,473,455)	22,631,484
Total capital assets not being depreciated	<u>52,239,830</u>	<u>9,745,411</u>		<u>(6,473,455)</u>	<u>55,511,786</u>
Capital assets being depreciated:					
Buildings and improvements	88,157,333			2,568,263	90,725,596
Other improvements	18,975,401		(\$5)	1,361,249	20,336,645
Machinery and equipment	16,009,121	1,525,408	(432,785)	2,218,942	19,320,686
Landscape system	29,620,261				29,620,261
Storm system	72,537,640	50,693			72,588,333
Street system	195,161,655	4,831,777		115,534	200,108,966
Traffic system	12,954,015	1,403,198		209,467	14,566,680
Total capital assets being depreciated	<u>433,415,426</u>	<u>7,811,076</u>	<u>(432,790)</u>	<u>6,473,455</u>	<u>447,267,167</u>
Less accumulated depreciation for:					
Buildings and improvements	(14,795,878)	(3,474,588)			(18,270,466)
Other improvements	(8,514,523)	(993,288)			(9,507,811)
Machinery and equipment	(10,513,660)	(1,382,194)	425,973		(11,469,881)
Landscape system	(6,373,831)	(592,405)			(6,966,236)
Storm system	(61,785,297)	(1,012,952)			(62,798,249)
Street system	(114,144,198)	(7,673,689)			(121,817,887)
Traffic system	(5,719,909)	(582,126)	6,839		(6,295,196)
Total accumulated depreciation	<u>(221,847,296)</u>	<u>(15,711,242)</u>	<u>432,812</u>		<u>(237,125,726)</u>
Net capital assets being depreciated	<u>211,568,130</u>	<u>(7,900,166)</u>	<u>22</u>	<u>6,473,455</u>	<u>210,141,441</u>
Governmental activity capital assets, net	<u>\$263,807,960</u>	<u>\$1,845,245</u>	<u>\$22</u>		<u>\$265,653,227</u>

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2005:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Public Works Yard Parking Lot Expansion	\$250,000	\$176,365	\$73,635
Telecommunications Infrastructure	4,502,437	271,314	4,231,123
Community Center Renovations	460,000	236,484	223,516
Storm Water Pump Station Improvement	75,000	13,811	61,189
New Finance System	3,056,500	2,835,674	220,826
Department Hardware	2,575,617	2,365,820	209,797
Computer Aided Draft	2,985,000	2,731,936	253,064
Radio Replacement Plan	1,083,245	997,430	85,815
Information Management System	700,000	488,888	211,112
Miscellaneous City Building Improvement Projects	652,866	421,812	231,054
Berryessa Pump Station Engine	385,000	60,080	324,920
Oakcreek Pump Station Engine	837,000	207,065	629,935
Miscellaneous Master Plan Improvement (Phase 1)	1,526,378	1,015,872	510,506
Main Street Precise Plan	376,400	368,982	7,418
Milpitas Library Offsite Utility Improvements	2,169,910	956,723	1,213,187
Midtown Parking Structure Right of Way	335,000	243,237	91,763
Calaveras/Abel Dual Left Turn Lanes	173,500	64,369	109,131
Abel Street Midtown Improvements	1,230,000	1,118,901	111,099
Evidence Freezer	65,000	11,433	53,567
Sports Center Large Gym Improvement	150,000	13,980	136,020
Midtown Parking Garage Design	3,900,000	92,640	3,807,360
Library Design	4,000,000	1,058,285	2,941,715
Sports Center Underwater Pool	80,000	5,843	74,157
Bart Extension Coordination & Plan	100,000	49,662	50,338
Main Street Midtown Improvement	850,000	199,199	650,801
Traffic Signal Preemption	60,000	60,000	-
Main/Great Mall Dr Sewer Replacement	160,000	655	159,345
Curtis Avenue Improvements	490,000	2,854	487,146
Midtown Parking Garage West	1,300,000	55,905	1,244,095
Miscellaneous Minor Storm Drain Project	445,000	426,442	18,558
Manor Storm Pump Station Backup Generator	190,000	189,033	967
Public Safety Technology	3,471,014	3,017,526	453,488
Abbot Pump Replacement	85,000	2,269	82,731
Park Renovation Plan	789,744	739,771	49,973
Hetch-Hetchy R/W Landscape Renovation	248,600	94,919	153,681
Alviso Adobe Renovation	2,046,435	452,449	1,593,986
Hall Park Safety Fence & Walkway	441,612	258,047	183,565
Ball Park Fence Field Extension	275,000	68,831	206,169
Athletic Court Resurfacing	917,160	451,763	465,397
Berryessa Creek Trail Reach 3	1,015,000	805,215	209,785
	<u>\$44,453,418</u>	<u>\$22,631,484</u>	<u>\$21,821,934</u>
Total construction in progress			

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2004	Additions	Retirements	Transfers	Balance at June 30, 2005
Capital assets not being depreciated:					
Land	\$1,133,079				\$1,133,079
Construction in progress	14,234,061	\$2,328,114		(\$216,725)	16,345,450
Total capital assets not being depreciated	15,367,140	2,328,114		(216,725)	17,478,529
Capital assets being depreciated:					
Distribution facilities	67,261,796				67,261,796
Service lines	5,616,928	15,000		216,725	5,848,653
Sewer lines	50,136,129	31,675			50,167,804
Capacity rights	29,284,232	2,868,005	(\$116,019)		32,036,218
Total capital assets being depreciated	152,299,085	2,914,680	(116,019)	216,725	155,314,471
Less accumulated depreciation for:					
Distribution facilities	(33,387,549)	(1,170,766)			(34,558,315)
Service lines	(3,390,301)	(127,375)			(3,517,676)
Sewer lines	(30,438,563)	(969,263)			(31,407,826)
Capacity rights	(5,756,555)				(5,756,555)
Total accumulated depreciation	(72,972,968)	(2,267,404)			(75,240,372)
Net capital assets being depreciated	79,326,117	647,276	(116,019)	216,725	80,074,099
Business-type activity capital assets, net	\$94,693,257	\$2,975,390	(116,019)		\$97,552,628

Business-type activities construction in progress comprised the following at June 30, 2005:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Miscellaneous Minor Projects	\$393,000	\$369,492	\$23,508
Sewer deficiency and Structural Correction Program	1,592,027	942,909	649,118
San Jose Parallel Forcemain	8,194,300	7,762,794	431,506
Main SPS Site Improvements	1,750,000	1,483,223	266,777
Venus Pump Station	52,000	480	51,520
Cathodic Protection System	1,866,300	1,679,650	186,650
Water System Monitoring and Control	665,500	166,486	499,014
Water Misc. Minor Projects	145,000	100,084	44,916
Pressure Reducing Valve	120,000	35,595	84,405
Well Upgrade Program	2,320,000	918,829	1,401,171
Hillside Water System Improvements	2,637,768	2,577,236	60,532
Los Coches Water Valve Replacement	84,100	3,172	80,928
City Reservoir Evaluation/Study	310,000	75,096	234,904
South Milpitas Water Line Replacement	400,000	190,045	209,955
Water Sample Station Improvement	26,000	609	25,391
Gibraltar Reservoir & Pump	55,000	39,750	15,250
Total construction in progress	\$20,610,995	\$16,345,450	\$4,265,545

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended June 30, 2005:

	Balance December 31, 2003	Additions	Balance December 31, 2004
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Capital assets being depreciated:			
Buildings	11,400,858		11,400,858
Furniture	217,149		217,149
Office equipment	60,710		60,710
Improvements	200,423		200,423
Total capital assets being depreciated	11,879,140		11,879,140
Less accumulated depreciation	(3,682,460)	(\$253,320)	(3,935,780)
Net capital assets being depreciated	8,196,680	(253,320)	7,943,360
Total capital assets, net	\$9,761,957	(\$253,320)	\$9,508,637

D. Depreciation Allocation

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

Governmental Activities

General Government	\$3,043,839
Public Works	9,975,786
Engineering and Planning	765,090
Police	502,085
Fire	404,995
Internal Service Fund	1,019,447

Total Governmental Activities \$15,711,242

Business-Type Activities

Water Utility	\$1,277,924
Recycled Water Utility	20,217
Sewer Utility	969,263

Total Business-Type Activities \$2,267,404

Discretely Presented Component Unit:

Terrace Gardens, Inc.	\$253,320
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CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

The City has a contract with the Cities of San Jose and Santa Clara which gives Milpitas 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 debt service on the treatment plant. The City also pays costs based on 1) allocated flow capacity rights of 12.5 million gallons per day or about 7.5% of the total plant capacity and 2) Operation and Maintenance share based upon actual sewage flow and strengths. In fiscal year 2005 the City's operation and maintenance share was about 6% of the total cost.

Under a plan approved by the Regional Water Resources Control Board, the City is responsible for approximately 7.5% of the costs to be incurred by the treatment plant to mitigate damage to an endangered species habitat. Construction of a water recycling distribution system to reduce the volume of wastewater discharged into the San Francisco Bay by the treatment plant is 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 7.5%. At June 30, 2005, Phase I and Phase II construction have been completed. Completion of this program will allow the City to retain the capacity rights above without interruption or diminution. As of June 30, 2005 the City capitalized its' share of the Project in the amount of \$32,036,218.

At June 30, 2005, these other cities had contributed \$10,830,628 to fund their share of Phase II construction costs, of which \$10,083,221 was expended to date.

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. The City's long-term debt is recorded only in the government-wide financial statements.

In governmental fund types, debt discounts and issuance costs are recognized in the current period.

A. Current Year Transactions and Balances

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

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
Redevelopment Agency 2003 Tax Allocation Bonds 2%-5.25%, due September 1, 2032	\$200,000,000		\$5,560,000	\$194,440,000	\$3,660,000
Technology Certificates of Participation, Series 2000 4% - 4.250%, due November 1, 2009	5,675,000		1,045,000	4,630,000	1,090,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023		\$102,280,736	48,000,000	54,280,736	4,000,000
Total	<u>\$205,675,000</u>	<u>\$102,280,736</u>	<u>\$54,605,000</u>	<u>\$253,350,736</u>	<u>\$8,750,000</u>

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 9 - LONG TERM DEBT (Continued)

B. 2003 Redevelopment Agency Tax Allocation Bonds

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

C. Certificates of Participation

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

D. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 7E above. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of \$54,280,736, at June 30, 2005, representing the present value of future payments due under this Agreement.

E. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Total Principal	Total Interest
2006	\$8,559,524	\$9,423,951
2007	8,508,118	9,462,258
2008	8,490,350	9,482,371
2009	8,480,810	9,463,787
2010	8,169,105	9,414,454
2011-2015	43,017,555	46,819,410
2016-2020	49,825,701	44,688,982
2021-2025	53,479,573	31,823,498
2026-2030	47,915,000	9,617,415
2031-2033	16,905,000	1,085,659
	\$253,350,736	\$181,281,785

F. Defeased Bonds

As of June 30, 2005, outstanding balances for defeased debt were \$32,410,000 for the Redevelopment Agency 1997 Tax Allocation Bonds, \$20,145,000 for the Redevelopment Agency 2000 Tax Allocation Bonds, and \$6,830,000 for the Sales Tax Revenue Bonds, Series 2000.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 10 – NET ASSETS AND FUND BALANCES

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

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

A. *Net Assets*

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

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

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

Unrestricted describes the portion of Net Assets which is not restricted as to use. GASB 34 requires that unrestricted net assets be reduced by the balance of any outstanding debt issued to finance the construction of assets that were transferred to another government.

B. *Reservations of Governmental Fund Balances*

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

Reserves for loans, 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.

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 sick leave payable benefits is the portion of fund balance to be used for repayment of the long term portion of sick leave payable.

Designated for retiree medical benefits is the portion of fund balance to be used for repayment of the long term portion of the retiree medical benefit liability.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

Designated for library project is the portion of the fund balance to be used for the construction and operation of a new library as approved by Measure H.

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 capital contingency is the portion of the fund balance to be used for construction, renovation and/or rehabilitation of City facilities.

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, 2005, are summarized as follows:

	Safety		Miscellaneous
	Police	Fire	
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age	50	50	50
Monthly benefits, as a % of annual salary	3%	3%	2.0%-2.7%
Required employee contribution rates	9%	9%	8%
Required employer contribution rates	25.335%	26.092%	11.571%
Actuarially required contribution	\$2,407,256	\$2,643,795	\$2,108,242

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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. 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 closeu basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

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

Safety Plan:

Actuarial						Unfunded
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2001	\$102,948,588	\$102,553,782	(\$394,806)	100.4%	\$8,203,208	(4.813%)
2002	98,703,321	112,445,432	13,742,111	87.8%	8,508,222	161.516%
2003	102,624,141	122,040,990	19,416,849	84.1%	17,862,170	108.704%

Miscellaneous Plan:

Actuarial						Unfunded
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2001	\$67,811,944	\$60,622,326	(\$7,189,618)	111.9%	\$18,947,083	(37.946%)
2002	64,819,733	67,156,651	2,336,918	96.5%	20,459,866	11.422%
2003	68,311,915	78,939,997	10,628,082	86.5%	20,868,463	50.929%

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

PERS has reported that the value of the net assets in the Plan held for pension benefits changed during the year ended June 30, 2003 (the most recent available) as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Beginning Balance 6/30/02	(A)	\$64,819,733
Contributions received	(A)	3,101,578
Benefits and Refunds Paid	(A)	(2,136,716)
Miscellaneous Adjustments	(A)	12,439
Expected Investment Earnings Credited	(A)	<u>5,387,143</u>
Expected Actuarial Value of Assets 6/30/03	<u>(A)</u>	<u>\$71,184,177</u>
Market Value of Assets 6/30/03	<u>\$93,294,674</u>	<u>\$62,101,741</u>
Actuarial Value of Assets 6/30/03	<u>\$102,624,141</u>	<u>\$68,311,915</u>

(A) Police and Fire Plans were combined into one Safety Plan in fiscal year 2005. Data not yet available.

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2005, 2004, and 2003 were \$7,159,293, \$3,405,511, and \$1,751,787 respectively. The City made these contributions as required.

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), 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 \$19,098 and the employee's required contributions of \$76,389 were made during the fiscal year ending June 30, 2005.

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.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

B. Retiree Medical Benefits

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. The City pays up to 100% of the medical premiums for eligible retirees on a pay-as-you-go basis. During the fiscal year ended June 30, 2005 the City expended \$435,367 on benefits for 102 retirees.

The City has estimated its future liability for these benefits based on life expectancies obtained from PERS and certain assumptions regarding the increases in future medical costs. During the year ended June 30, 2005 the City increased its liability for these benefits by \$1,154,138; the balance at June 30, 2005 was \$8,331,923, of which \$481,974 was due in one year.

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, 2005, sick leave benefits payable decreased \$347,772 and vacation benefits payable decreased \$67,998. 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:

	<u>Accrued Vacation</u>	<u>Sick Leave</u>
Balance as of June 30, 2004	\$4,495,639	\$5,872,429
Additions	4,265,665	1,775,580
Payments and adjustments	<u>(4,333,663)</u>	<u>(2,123,351)</u>
Balance as of June 30, 2005	<u>\$4,427,641</u>	<u>\$5,524,658</u>
General Government	\$383,565	\$194,935
Building	124,212	88,800
Public Works	412,575	313,097
Engineering and Planning	325,126	211,352
Recreation	115,965	68,648
Police	2,026,710	1,869,758
Fire	813,379	2,611,777
Water Utility	140,449	115,928
Sewer Utility	<u>85,660</u>	<u>50,363</u>
Total	<u>4,427,641</u>	<u>5,524,658</u>
Long-Term Portion:		
Governmental activities	2,848,121	4,503,711
Business-type activities	<u>226,109</u>	<u>166,291</u>
Current Portion	<u>\$1,353,411</u>	<u>\$854,656</u>

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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, the Redevelopment Project Capital Projects Fund and the Street Improvement Capital Projects 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 coverage and \$5,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. During the fiscal year ended June 30, 2005 the City contributed \$282,897 for current year coverage.

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

The City's contributions to ABAG Plan equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

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

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$1,000,000. 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, 2005 the City paid \$619,162 in dental claims.

D. Liability for Uninsured Claims

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

CITY OF MILPITAS
Notes to Basic Financial Statements

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:

	2005			2004
	Worker's Compensation	General Liability	Total	
Beginning balance	\$5,259,901	\$225,298	\$5,485,199	\$5,407,288
Liability for current fiscal year claims	239,294	56,432	295,726	1,286,479
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(431,155)	100,650	(330,505)	344,543
Claims paid	(1,153,048)	(189,740)	(1,342,788)	(1,553,111)
Ending balance	<u>\$3,914,992</u>	<u>\$192,640</u>	<u>\$4,107,632</u>	<u>\$5,485,199</u>

The City's insurance coverage remains the same as the prior year. Furthermore, 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 2005, the Agency made pass-thru payments in the amount of \$418,506.

Construction commitments are discussed in Notes 7 and 8.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 15 - LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2005 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2005
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$180,000-365,000	2006-2017	\$3,135,000
LID #18	1999	5.15-5.85%	140,000-290,000	2006-2019	2,885,000
LID #19	1998	5.25-5.35%	565,000-645,000	2006-2007	1,210,000
LID #18 Refunding	1998	5.20-5.65%	460,000-750,000	2006-2015	5,935,000
LID #20	1999	5.25-5.70%	680,000-1,365,000	2006-2019	13,720,000
LID #9R and 12R	1999	5.00-5.625%	375,000-1,150,000	2006-2013	4,845,000
Total					<u>\$31,730,000</u>

NOTE 16 – TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The State of California has directed that a portion of the incremental property tax received by redevelopment agencies be shifted to local educational agencies. During the fiscal year ended June 30, 2005, \$2,992,506 was shifted as a result of the State directive.

CITY OF MILPITAS
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance with Budget Positive (Negative)
Revenues			
Property taxes	\$27,715,500	\$25,215,408	(\$2,500,092)
Less: Educational Revenue			
Augmentation Fund payment	(2,992,506)	(2,992,506)	
Sales taxes	716,073	138,813	(577,260)
Interest and others	3,482,000	3,797,870	315,870
Decrease in fair value of investments			
Intergovernmental	100,000	273,330	173,330
Other	289,910	710,580	420,670
	<u>29,310,977</u>	<u>27,143,495</u>	<u>(2,167,482)</u>
Total Revenues			
Expenditures			
Current:			
Policy, Planning and Implementation	1,385,393	1,385,335	58
Finance	195,225	121,448	73,777
Planning, Recreation and Neighborhood Services	125,000	107,030	17,970
Non-departmental	562,502	161,344	401,158
Debt service:			
Principal	5,560,000	5,560,000	
Interest and fiscal charges	9,172,496	9,163,896	8,600
	<u>17,000,616</u>	<u>16,499,053</u>	<u>501,563</u>
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>12,310,361</u>	<u>10,644,442</u>	<u>(1,665,919)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,251,410	1,294,101	42,691
Transfers (out)	(21,977,052)	(14,726,776)	7,250,276
	<u>(20,725,642)</u>	<u>(13,432,675)</u>	<u>7,292,967</u>
Total Other Financing Sources (Uses)			
SPECIAL ITEM:			
Redevelopment expense	(48,000,000)	(48,000,000)	
Net change in fund balance	<u>(\$56,415,281)</u>	<u>(50,788,233)</u>	<u>\$5,627,048</u>
Adjustment to budgetary basis:			
Capital outlay		(14,864,115)	
Encumbrance adjustments		6,953,777	
Budgetary fund balance, July 1		<u>194,770,587</u>	
Budgetary fund balance, June 30		<u>\$136,072,016</u>	

CITY OF MILPITAS
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2005

	Budget	Actual	Variance with Budget Positive (Negative)
Revenues			
Interest and others	\$328,000	\$352,404	\$24,404
Intergovernmental	973,660	1,074,915	101,255
Developer contributions	206,987	1,439,356	1,232,369
Total Revenues	1,508,647	2,866,675	1,358,028
Expenditures			
Current:			
General Government	488,648	488,648	
Public Works	102,804	102,804	
Non-departmental	228,590	176,415	52,175
Total Expenditures	820,042	767,867	52,175
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	688,605	2,098,808	1,410,203
OTHER FINANCING SOURCES (USES)			
Transfers in	2,280,000	2,605,000	325,000
Transfers (out)	(895,000)	(1,019,348)	(124,348)
Total Other Financing Sources (Uses)	1,385,000	1,585,652	200,652
Net change in fund balance	\$2,073,605	3,684,460	\$1,610,855
Adjustment to budgetary basis:			
Capital outlay		(7,984,364)	
Encumbrance adjustments		1,634,143	
Budgetary fund balance, July 1		13,197,780	
Budgetary fund balance, June 30		\$10,532,019	



CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2005

	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	\$206,643		\$211,522	\$767,434	\$167,939	\$85,355
Restricted investments						
Receivables:						
Accounts				72,251		
Due from other governments	111,250	\$152,628	20,000			10,807
Interest			1,866	5,379	350	749
Loans receivable		2,823,334				
Prepays, materials, supplies and deposits		1,512		308	220	1,508
Total Assets	<u>\$317,893</u>	<u>\$2,977,474</u>	<u>\$233,388</u>	<u>\$845,372</u>	<u>\$168,509</u>	<u>\$98,419</u>
LIABILITIES						
Accounts payable		\$54,008	\$9,829	\$31,720	\$53,766	
Accrued payroll		7,898		9,118	1,250	\$8,349
Deferred revenue			25,769			
Refundable deposits				18,843		
Due to other funds		98,478				
Total Liabilities		<u>160,384</u>	<u>35,598</u>	<u>59,681</u>	<u>55,016</u>	<u>8,349</u>
FUND BALANCE/NET ASSETS						
Fund Balances:						
Reserved for:						
Encumbrances		2,474	19,598	50,336	42,088	
Loans		2,823,334				
Prepays, materials, supplies and deposits		1,512		308	220	1,508
Unreserved, Designated for:						
Projects						
Unreserved, Undesignated	\$317,893	(10,230)	178,192	735,047	71,185	88,562
Total Fund Balances	<u>317,893</u>	<u>2,817,090</u>	<u>197,790</u>	<u>785,691</u>	<u>113,493</u>	<u>90,070</u>
Total Liabilities and Fund Balances	<u>\$317,893</u>	<u>\$2,977,474</u>	<u>\$233,388</u>	<u>\$845,372</u>	<u>\$168,509</u>	<u>\$98,419</u>

CAPITAL PROJECTS FUNDS

<u>Hetch-Hetchy Ground Lease</u>	<u>Park Improvement</u>	<u>General Government Project</u>	<u>Storm Drain Development</u>	<u>Total Nonmajor Governmental Funds</u>
\$1,501,711	\$8,494,220	\$1,146,785 395,302	\$39,987	\$12,621,596 395,302
		7,018		79,269
4,459	705,597 61,691	13,319	286	1,000,282 88,099 2,823,334 3,548
<u>\$1,506,170</u>	<u>\$9,261,508</u>	<u>\$1,562,424</u>	<u>\$40,273</u>	<u>\$17,011,430</u>
\$6,072	\$411,141 8,254 704,931	\$193,863 5,331		\$760,399 40,200 730,700 18,843 98,478
<u>6,072</u>	<u>1,124,326</u>	<u>199,194</u>		<u>1,648,620</u>
	1,142,984	238,521		1,496,001 2,823,334 3,548
1,500,098	1,024,728 5,969,470	1,124,709	\$40,273	1,024,728 10,015,199
<u>1,500,098</u>	<u>8,137,182</u>	<u>1,363,230</u>	<u>40,273</u>	<u>15,362,810</u>
<u>\$1,506,170</u>	<u>\$9,261,508</u>	<u>\$1,562,424</u>	<u>\$40,273</u>	<u>\$17,011,430</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

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				\$458,701		
Other taxes				21,258	\$2,021	\$3,355
Interest and others		\$1,226	\$7,487	18,052		61,781
Intergovernmental	\$1,220,472	853,920	156,672	37,526		
Charges for services				5,925		
Other					280,719	
TOTAL REVENUES	1,220,472	855,146	164,159	541,462	282,740	65,136
EXPENDITURES:						
Current:						
General Government		25,630				
Building		49,803				
Public Works	1,885				189,089	
Engineering and Planning		481,812		395,524	57,969	31,664
Police			153,130			95,130
Capital outlay						
TOTAL EXPENDITURES	1,885	557,245	153,130	395,524	247,058	126,794
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,218,587	297,901	11,029	145,938	35,682	(61,658)
OTHER FINANCING SOURCES (USES)						
Transfers in			1,557			
Transfers (out)	(1,300,000)		(496)	(4,000)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,300,000)		1,061	(4,000)		
NET CHANGE IN FUND BALANCES	(81,413)	297,901	12,090	141,938	35,682	(61,658)
FUND BALANCES AT BEGINNING OF YEAR	399,306	2,519,189	185,700	643,753	77,811	151,728
FUND BALANCES AT END OF YEAR	\$317,893	\$2,817,090	\$197,790	\$785,691	\$113,493	\$90,070

CAPITAL PROJECTS FUNDS

<u>Hetch-Hetchy Ground Lease</u>	<u>Park Improvement</u>	<u>General Government Project</u>	<u>Storm Drain Development</u>	<u>Total Nonmajor Governmental Funds</u>
				\$458,701
\$10,217	\$249,468 112,917	\$50,172 169,646	\$1,197	346,401 2,593,460
<u>1,500,000</u>	<u>1,436,868</u>			<u>37,526</u> <u>3,223,512</u>
<u>1,510,217</u>	<u>1,799,253</u>	<u>219,818</u>	<u>1,197</u>	<u>6,659,600</u>
10,119				35,749
	336,995			49,803
	413			527,969
	825,317	803,986		967,382
				248,260
				<u>1,629,303</u>
<u>10,119</u>	<u>1,162,725</u>	<u>803,986</u>		<u>3,458,466</u>
<u>1,500,098</u>	<u>636,528</u>	<u>(584,168)</u>	<u>1,197</u>	<u>3,201,134</u>
	163,956			165,513
		(450,941)		<u>(1,755,437)</u>
	<u>163,956</u>	<u>(450,941)</u>		<u>(1,589,924)</u>
1,500,098	800,484	(1,035,109)	1,197	1,611,210
	<u>7,336,698</u>	<u>2,398,339</u>	<u>39,076</u>	<u>13,751,600</u>
<u>\$1,500,098</u>	<u>\$8,137,182</u>	<u>\$1,363,230</u>	<u>\$40,273</u>	<u>\$15,362,810</u>

CITY OF MILPITAS
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others				\$2,000	\$1,226	(\$774)
Intergovernmental	\$1,236,500	\$1,220,472	(\$16,028)	927,009	853,920	(73,089)
Charges for services						
Other						
Total Revenues	<u>1,236,500</u>	<u>1,220,472</u>	<u>(16,028)</u>	<u>929,009</u>	<u>855,146</u>	<u>(73,863)</u>
EXPENDITURES						
Current:						
Policy, planning and implementation				53,849	49,803	4,046
Finance				21,500	21,271	229
Public Works		1,885	(1,885)			
Planning, Recreation & Neighborhood Services				852,210	854,848	(2,638)
Police						
Non-departmental				6,833	6,833	
Total Expenditures		<u>1,885</u>	<u>(1,885)</u>	<u>934,392</u>	<u>932,755</u>	<u>1,637</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,236,500</u>	<u>1,218,587</u>	<u>(17,913)</u>	<u>(5,383)</u>	<u>(77,609)</u>	<u>(72,226)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,300,000)	(1,300,000)				
Total Other Financing Sources (Uses)	<u>(1,300,000)</u>	<u>(1,300,000)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$63,500)</u>	<u>(81,413)</u>	<u>(\$17,913)</u>	<u>(\$5,383)</u>	<u>(77,609)</u>	<u>(\$72,226)</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					373,036	
Capital outlay						
Encumbrance adjustments					2,474	
Fund balances at beginning of year		<u>399,306</u>			<u>2,519,189</u>	
Fund balances at end of year		<u>\$317,893</u>			<u>\$2,817,090</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$11,000	\$7,487	(\$3,513)	\$265,000	\$458,701	\$193,701	\$3,000	\$2,021	(\$979)
144,362	156,672	12,310	21,000	21,258	258			
			18,052	18,052				
			30,000	37,526	7,526			
				5,925	5,925	288,000	280,719	(7,281)
<u>155,362</u>	<u>164,159</u>	<u>8,797</u>	<u>334,052</u>	<u>541,462</u>	<u>207,410</u>	<u>291,000</u>	<u>282,740</u>	<u>(8,260)</u>
			602,059	445,860	156,199	89,354	85,528	3,826
						214,730	203,618	11,112
207,462	172,728	34,734						
<u>207,462</u>	<u>172,728</u>	<u>34,734</u>	<u>602,059</u>	<u>445,860</u>	<u>156,199</u>	<u>304,084</u>	<u>289,146</u>	<u>14,938</u>
(52,100)	(8,569)	43,531	(268,007)	95,602	363,609	(13,084)	(6,406)	6,678
	1,557	1,557						
	(496)	(496)	(4,000)	(4,000)				
	1,061	1,061	(4,000)	(4,000)				
<u>(\$52,100)</u>	<u>(7,508)</u>	<u>\$44,592</u>	<u>(\$272,007)</u>	<u>91,602</u>	<u>\$363,609</u>	<u>(\$13,084)</u>	<u>(6,406)</u>	<u>\$6,678</u>
	19,598			50,336			42,088	
	<u>185,700</u>			<u>643,753</u>			<u>77,811</u>	
	<u>\$197,790</u>			<u>\$785,691</u>			<u>\$113,493</u>	

(Continued)

CITY OF MILPITAS
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	ABANDONED VEHICLE ABATEMENT			PARK IMPROVEMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Sales taxes						
Other taxes						
Interest and others	\$5,000	\$3,355	(\$1,645)	\$249,000	\$249,468	\$468
Intergovernmental	80,000	61,781	(18,219)	468,761	112,917	(355,844)
Charges for services						
Other						
				<u>1,700,000</u>	<u>1,436,868</u>	<u>(263,132)</u>
Total Revenues	<u>85,000</u>	<u>65,136</u>	<u>(19,864)</u>	<u>2,417,761</u>	<u>1,799,253</u>	<u>(618,508)</u>
EXPENDITURES						
Current:						
Policy, planning and implementation				413	413	
Finance						
Public Works				336,995	336,995	
Planning, Recreation & Neighborhood Services	32,500	31,664	836			
Police	95,500	95,130	370			
Non-departmental						
Total Expenditures	<u>128,000</u>	<u>126,794</u>	<u>1,206</u>	<u>337,408</u>	<u>337,408</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(43,000)</u>	<u>(61,658)</u>	<u>(18,658)</u>	<u>2,080,353</u>	<u>1,461,845</u>	<u>(618,508)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in				150,000	163,956	13,956
Transfers (out)						
Total Other Financing Sources (Uses)				<u>150,000</u>	<u>163,956</u>	<u>13,956</u>
NET CHANGE IN FUND BALANCES	<u>(\$43,000)</u>	<u>(61,658)</u>	<u>(\$18,658)</u>	<u>\$2,230,353</u>	<u>1,625,801</u>	<u>(\$604,552)</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay					(1,968,301)	
Encumbrance adjustments					1,142,984	
Fund balances at beginning of year		<u>151,728</u>			<u>7,336,698</u>	
Fund balances at end of year		<u>\$90,070</u>			<u>\$8,137,182</u>	

GENERAL GOVERNMENT			TOTALS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			\$265,000	\$458,701	\$193,701
\$86,000	\$50,172	(\$35,828)	377,000	334,987	(42,013)
(15,000)	169,646	184,646	2,859,684	2,593,460	(266,224)
			30,000	37,526	7,526
			1,988,000	1,723,512	(264,488)
<u>71,000</u>	<u>219,818</u>	<u>148,818</u>	<u>5,519,684</u>	<u>5,148,186</u>	<u>(371,498)</u>
			745,675	581,604	164,071
			21,500	21,271	229
			551,725	542,498	9,227
			884,710	886,512	(1,802)
			302,962	267,858	35,104
			6,833	6,833	
			<u>2,513,405</u>	<u>2,306,576</u>	<u>206,829</u>
<u>71,000</u>	<u>219,818</u>	<u>148,818</u>	<u>3,006,279</u>	<u>2,841,610</u>	<u>(164,669)</u>
145,000		(145,000)	295,000	165,513	(129,487)
(175,000)	(450,941)	(275,941)	(1,479,000)	(1,755,437)	(276,437)
(30,000)	(450,941)	(420,941)	(1,184,000)	(1,589,924)	(405,924)
<u>\$41,000</u>	<u>(231,123)</u>	<u>(\$272,123)</u>	<u>\$1,822,279</u>	<u>1,251,686</u>	<u>(\$570,593)</u>
				373,036	
	(1,042,507)			(3,010,808)	
	238,521			1,496,001	
	<u>2,398,339</u>			<u>13,712,524</u>	
	<u>\$1,363,230</u>			<u>\$13,822,439</u>	



CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$329,811	\$840,042	\$676,300	\$493,553
Receivables:				
Accounts	1,921	31,145	30,565	2,501
Interest	2,511	3,548	2,511	3,548
Total Assets	<u>\$334,243</u>	<u>\$874,735</u>	<u>\$709,376</u>	<u>\$499,602</u>
<u>Liabilities</u>				
Refundable deposits	\$334,243	\$874,735	\$709,376	\$499,602
Total Liabilities	<u>\$334,243</u>	<u>\$874,735</u>	<u>\$709,376</u>	<u>\$499,602</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$3,139	\$96	\$21	\$3,214
Receivables:				
Interest	24	23	24	23
Total Assets	<u>\$3,163</u>	<u>\$119</u>	<u>\$45</u>	<u>\$3,237</u>
<u>Liabilities</u>				
Refundable deposits	\$3,163	\$119	\$45	\$3,237
Total Liabilities	<u>\$3,163</u>	<u>\$119</u>	<u>\$45</u>	<u>\$3,237</u>
<u>LID #14</u>				
<u>Assets</u>				
Cash and investments available for operations	\$44,209	\$101,624	\$145,833	
Receivable:				
Due from other governments	183		183	
Interest	336		336	
Total Assets	<u>\$44,728</u>	<u>\$101,624</u>	<u>\$146,352</u>	
<u>Liabilities</u>				
Due to Local Improvement Districts	\$44,728	\$101,624	\$146,352	
Total Liabilities	<u>\$44,728</u>	<u>\$101,624</u>	<u>\$146,352</u>	

CITY OF MILPITAS
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,258,319	\$1,547,429	\$1,573,661	\$1,232,087
Cash and investments held by trustees	1,071,395	1,515	2	1,072,908
Receivable:				
Due from other governments	990		330	660
Interest	3,978	4,114	3,978	4,114
Total Assets	<u>\$2,334,682</u>	<u>\$1,553,058</u>	<u>\$1,577,971</u>	<u>\$2,309,769</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,334,682</u>	<u>\$1,553,058</u>	<u>\$1,577,971</u>	<u>\$2,309,769</u>
Total Liabilities	<u>\$2,334,682</u>	<u>\$1,553,058</u>	<u>\$1,577,971</u>	<u>\$2,309,769</u>

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>LID #19</u>				
<u>Assets</u>				
Cash and investments available for operations	\$789,878	\$796,818	\$828,101	\$758,595
Cash and investments held by trustees	303,435	426		303,861
Receivable:				
Interest	3,319	2,411	3,319	2,411
Total Assets	<u>\$1,096,632</u>	<u>\$799,655</u>	<u>\$831,420</u>	<u>\$1,064,867</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$1,096,632</u>	<u>\$799,655</u>	<u>\$831,420</u>	<u>\$1,064,867</u>
Total Liabilities	<u>\$1,096,632</u>	<u>\$799,655</u>	<u>\$831,420</u>	<u>\$1,064,867</u>

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>LID #20</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,132,971	\$1,485,122	\$1,527,097	\$1,090,996
Cash and investments held by trustees	1,040,386	1,440		1,041,826
Receivables:				
Interest	2,988	2,568	2,988	2,568
Total Assets	<u>\$2,176,345</u>	<u>\$1,489,130</u>	<u>\$1,530,085</u>	<u>\$2,135,390</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,176,345</u>	<u>\$1,489,130</u>	<u>\$1,530,085</u>	<u>\$2,135,390</u>
Total Liabilities	<u>\$2,176,345</u>	<u>\$1,489,130</u>	<u>\$1,530,085</u>	<u>\$2,135,390</u>

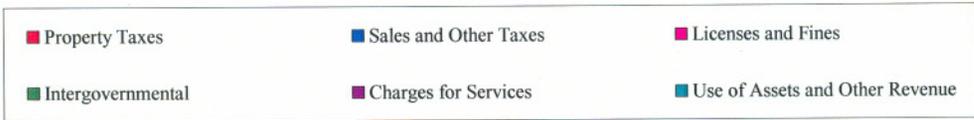
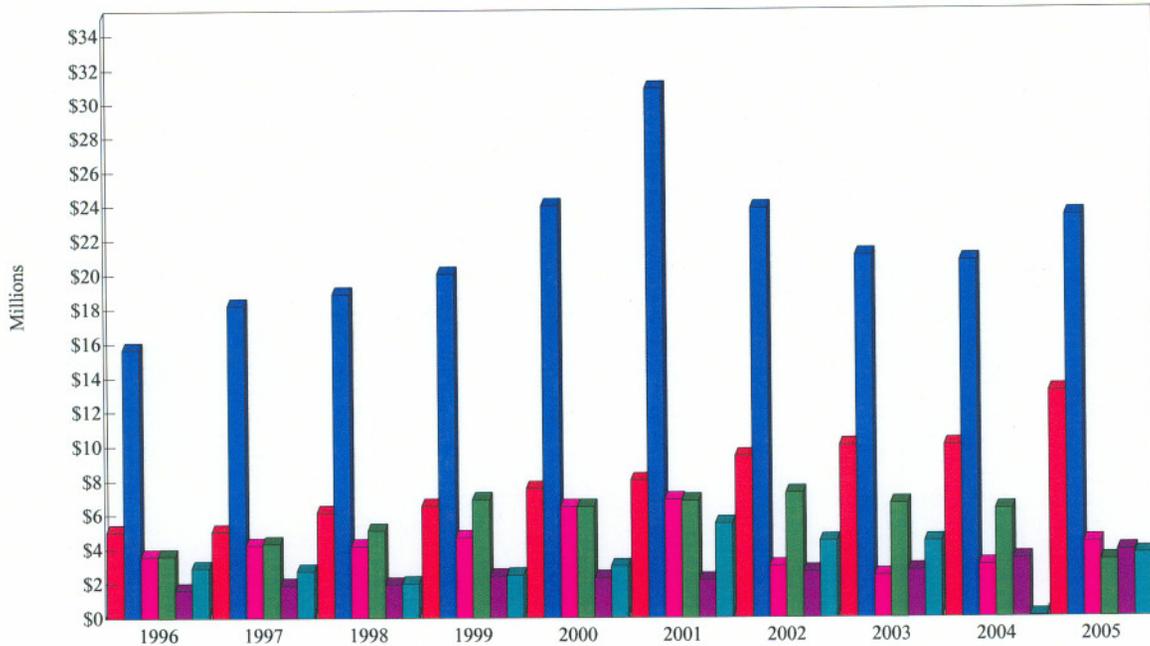
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CITY OF MILPITAS
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<hr/>				
LID #9R and #12R				
<hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,393,915	\$1,531,410	\$1,694,219	\$1,231,106
Cash and investments held by trustees	1,052,815	2,635		1,055,450
Receivables:				
Due from other governments	17,869	2,600	15,693	4,776
Interest	4,941	3,429	4,941	3,429
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$2,469,540</u>	<u>\$1,540,074</u>	<u>\$1,714,853</u>	<u>\$2,294,761</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,469,540</u>	<u>\$1,540,074</u>	<u>\$1,714,853</u>	<u>\$2,294,761</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$2,469,540</u>	<u>\$1,540,074</u>	<u>\$1,714,853</u>	<u>\$2,294,761</u>
<hr/>				
TOTAL AGENCY FUNDS				
<hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$4,952,242	\$6,302,541	\$6,445,232	\$4,809,551
Cash and investments held by trustees	3,468,031	6,016	2	3,474,045
Receivables:				
Accounts	1,921	31,145	30,565	2,501
Due from other governments	19,042	2,600	16,206	5,436
Interest	18,097	16,093	18,097	16,093
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$8,459,333</u>	<u>\$6,358,395</u>	<u>\$6,510,102</u>	<u>\$8,307,626</u>
<u>Liabilities</u>				
Refundable deposits	\$337,406	\$874,854	\$709,421	\$502,839
Due to Local Improvement Districts	8,121,927	5,483,541	5,800,681	7,804,787
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$8,459,333</u>	<u>\$6,358,395</u>	<u>\$6,510,102</u>	<u>\$8,307,626</u>



CITY OF MILPITAS
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

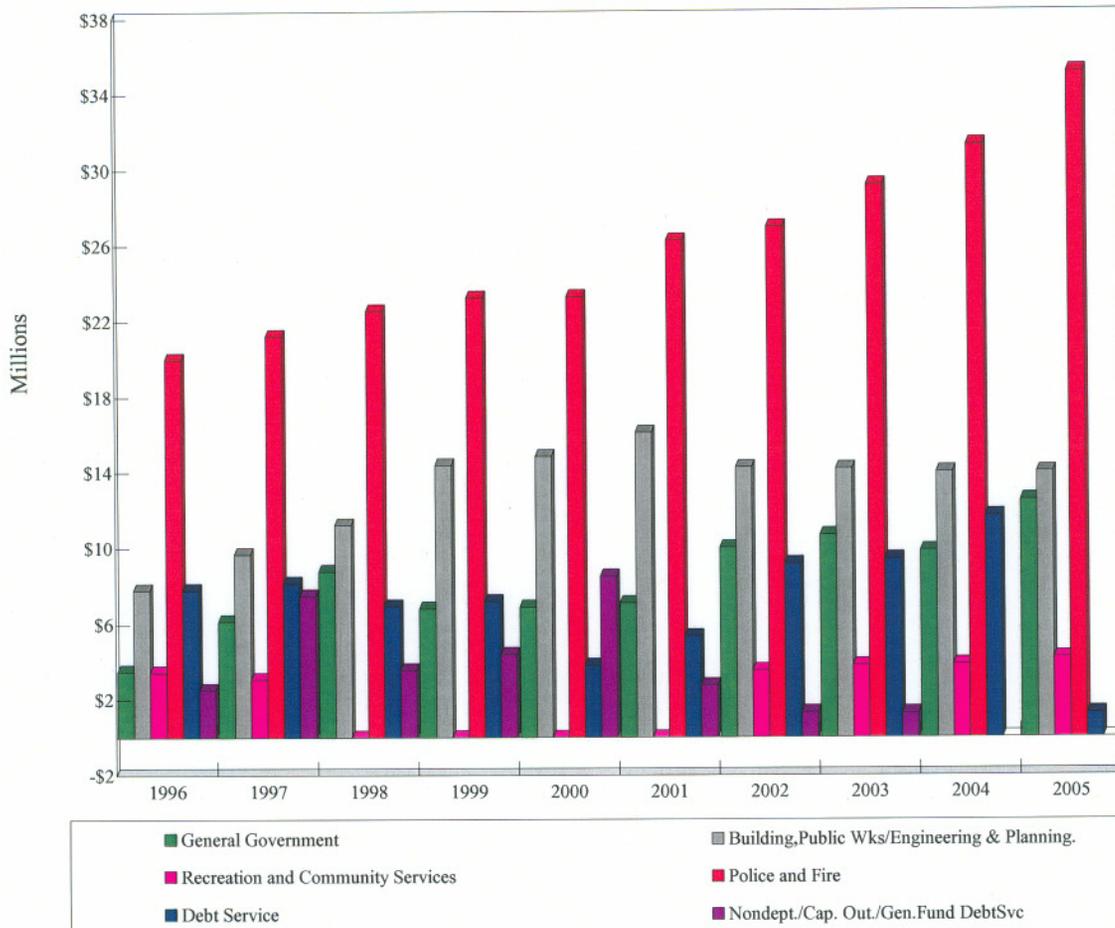


Fiscal Year	Property Taxes	Sales and Other Taxes	Licenses and Fines	Intergovernmental	Charges for Services	Interest and Others	Total
1996	\$5,014,460	\$15,644,863	\$3,588,430	\$3,597,580	\$1,599,341	\$2,899,059	\$32,343,733
1997	5,029,439	18,200,917	4,241,504	4,325,247	1,892,626	2,713,522	36,403,255
1998	6,140,023	18,866,295	4,172,448	5,080,946	1,939,407	2,002,666	38,201,785
1999	6,531,734	20,040,229	4,677,595	6,907,914	2,426,194	2,487,827	43,071,493
2000	7,548,769	23,971,668	6,475,727	6,479,799	2,320,301	2,997,516	49,793,780
2001	8,013,134	30,836,037	6,886,130	6,815,748	2,180,348	5,478,282	60,209,679
2002	9,395,144	23,809,891	2,973,964	7,256,567	2,656,762	4,438,976	50,531,304
2003	10,008,699	21,072,287	2,430,931	6,625,292	2,721,135	4,418,052	47,276,396
2004	10,015,238	20,759,561	3,019,613	6,294,353	3,376,239	41,179	43,506,183
2005	13,121,765	23,336,812	4,327,666	3,282,623	3,842,326	3,647,443	51,558,635

Data includes General, Special Revenue.

Note: Property taxes levied equal those collected.

CITY OF MILPITAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS



Fiscal Year	General Government	Building, Public Works, Engineering & Planning	Recreation and Community Services	Police and Fire	Debt Service	Non-Departmental, Capital Outlay and General Fund Debt Service	Total
1996	\$3,482,436	\$7,801,932	\$3,432,733	\$19,962,720	\$7,790,019	\$2,502,888	\$44,972,728
1997	6,160,141	9,677,149	3,065,857	21,203,125	8,139,856	7,493,567	55,739,695
1998	8,769,604	11,232,799	0	22,522,651	6,957,095	3,561,403	53,043,552
1999	6,832,289	14,366,007	0	23,222,956	7,202,856	4,407,208	56,031,316
2000	6,911,625	14,841,660	0	23,260,936	3,810,596	8,500,001	57,324,818
2001	7,114,139	16,099,201	0	26,233,632	5,358,677	2,740,648	57,546,297
2002	10,013,046	14,242,630	3,532,243	26,958,371	9,151,556	1,306,273	65,204,119
2003	10,680,850	14,177,626	3,805,896	29,154,266	9,402,301	1,261,466	68,482,405
2004	9,849,442	14,002,143	3,860,290	31,248,015	11,673,158		70,633,048
2005	12,517,223	13,992,101	4,198,701	35,086,427	1,259,810		67,054,262

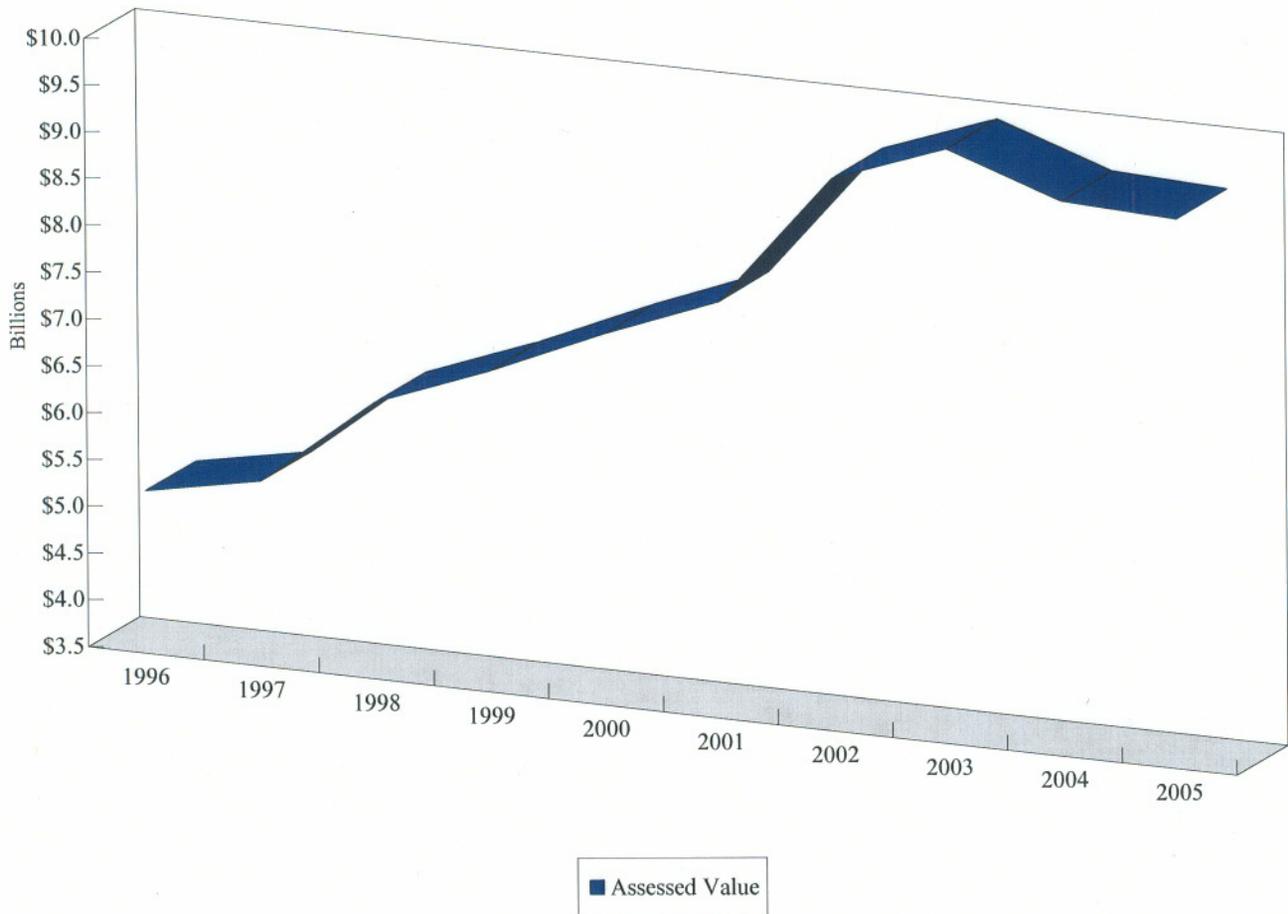
Includes General, Special Revenue and Debt Service Funds.

Recreation and Community Services were consolidated into Policy, Planning and Implementation in 1998.

Public Works, Community Development, and Neighborhood Services were consolidated into Assistant City Manager in 2000.

Non-Departmental was consolidated into General Government in 2002.

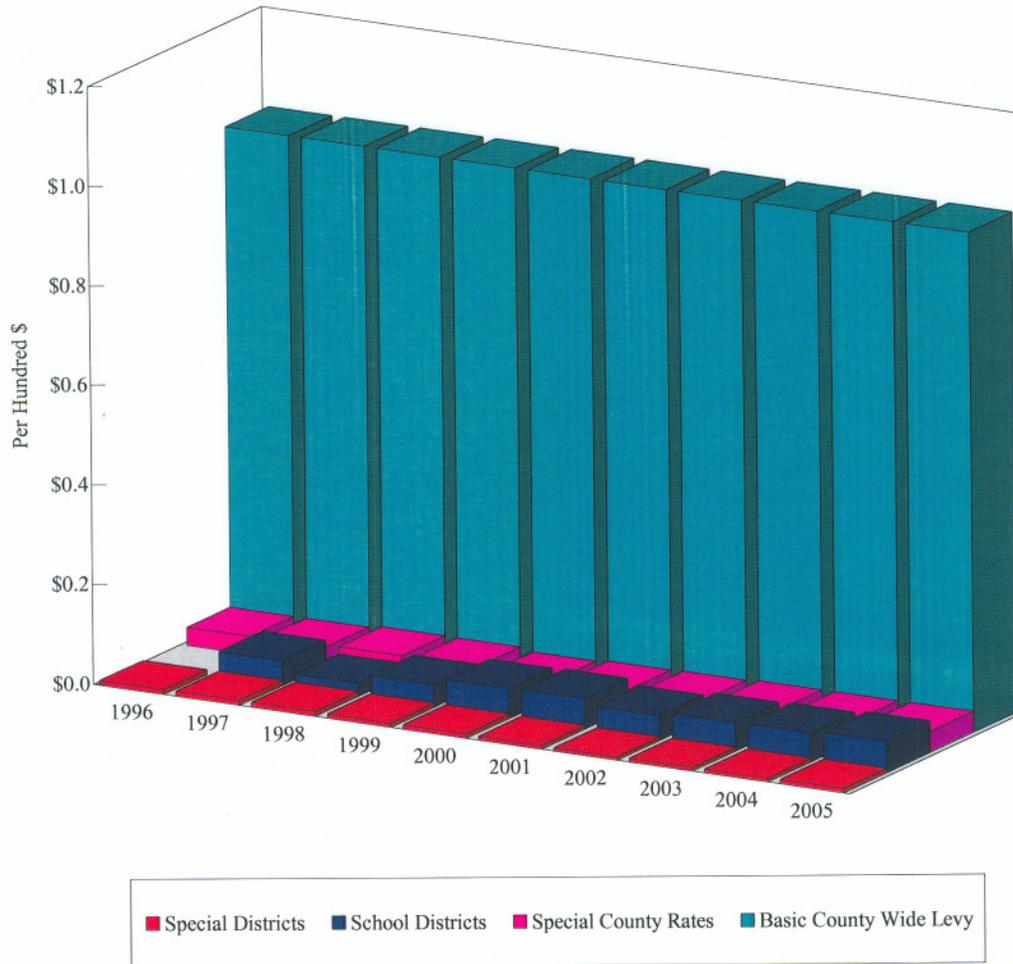
CITY OF MILPITAS
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS



Fiscal Year	Assessed Value	Valuation Increase (Decrease)	
		Amount	Percent
1996	\$5,230,488,039	\$226,488,644	4.5%
1997	5,471,124,740	240,636,701	4.6%
1998	6,452,227,183	981,102,443	17.9%
1999	6,919,759,225	467,532,042	7.2%
2000	7,455,656,487	535,897,262	7.7%
2001	7,933,130,135	477,473,648	6.4%
2002	9,376,419,929	1,443,289,794	18.2%
2003	9,822,837,665	446,417,736	4.8%
2004	9,397,563,471	(425,274,194)	-4.3%
2005	9,338,956,876	(58,606,595)	-0.6%

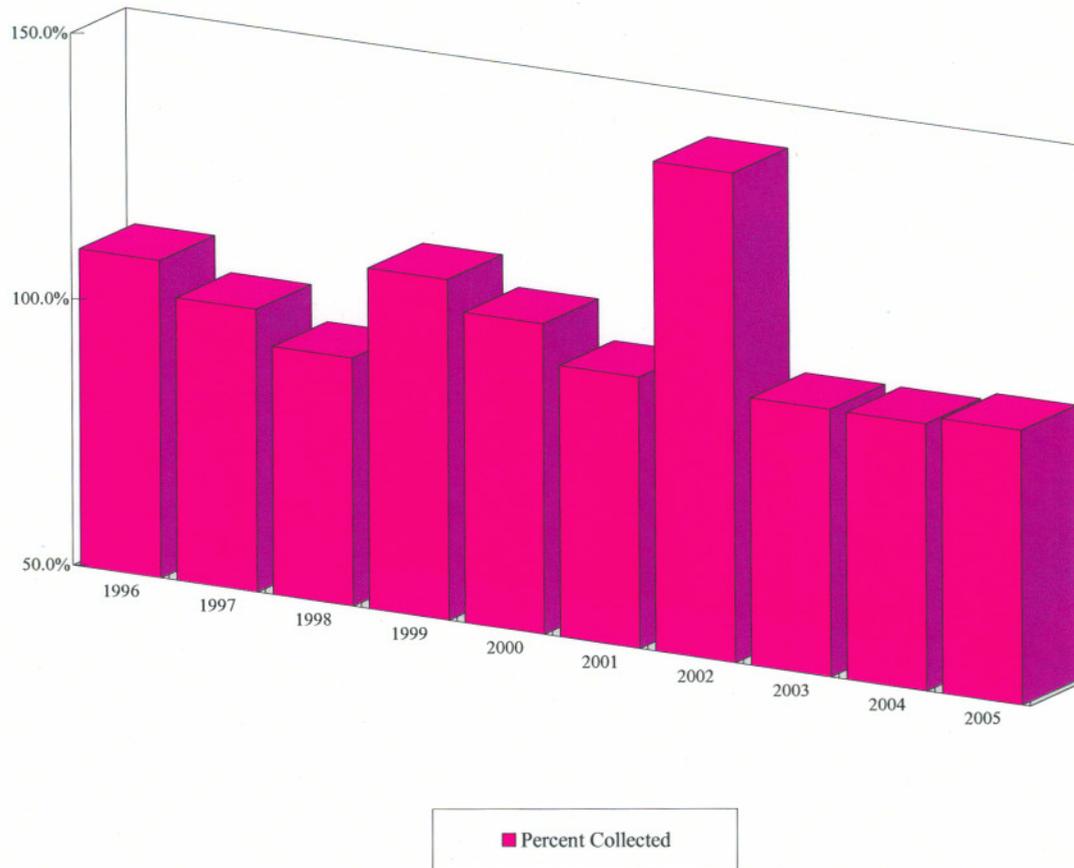
Source: County of Santa Clara Tax Rates and Information

CITY OF MILPITAS
PROPERTY TAX RATES
ALL DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS



Fiscal Year	Basic County Wide Levy	Special County Rates	School Districts	Special Districts	Total
1996	\$1.0000	\$0.0362		\$0.0098	\$1.0460
1997	1.0000	0.0365	\$0.0501	0.0102	1.0968
1998	1.0000	0.0412	0.0266	0.0098	1.0776
1999	1.0000	0.0405	0.0464	0.0082	1.0951
2000	1.0000	0.0343	0.0601	0.0085	1.1029
2001	1.0000	0.0380	0.0615	0.0075	1.1070
2002	1.0000	0.0388	0.0496	0.0062	1.0946
2003	1.0000	0.0412	0.0567	0.0072	1.1051
2004	1.0000	0.0412	0.0582	0.0075	1.1069
2005	1.0000	0.0412	0.0624	0.0086	1.1122

CITY OF MILPITAS
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS



<u>Fiscal Year</u>	<u>Assessment Levied</u>	<u>Assessment Collections</u>	<u>Percent Collected</u>
1996	\$4,493,905	\$4,927,517	109.6%
1997	4,295,924	4,428,416	103.1%
1998	5,075,322	4,897,760	96.5%
1999	5,706,023	6,498,808	113.9%
2000	6,253,633	6,766,147	108.2%
2001	6,118,836	6,166,844	100.8%
2002	5,882,358	8,331,973	141.6%
2003	5,371,297	5,371,378	100.0%
2004	5,278,141	5,273,894	99.9%
2005	5,200,428	5,267,589	101.3%

Source: County of Santa Clara Bond Assessment Maintenance Schedule and Finance Department Reports

CITY OF MILPITAS
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 JUNE 30, 2005

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS	AMOUNT APPLICABLE TO CITY OF MILPITAS
2004-05 Assessed Valuation, Direct and Overlapping Bonded Debt		<u>\$6,939,518,708</u>
Santa Clara County Flood Control and Water Conservation District, Zone W-1	3.557%	133,743
San Jose Community College District	10.087%	17,394,747
Milpitas Unified School District	98.513%	58,378,804
East Side Union High School District	0.497%	1,879,726
Berryessa Union School District	2.921%	1,426,705
Santa Clara Valley Water District Benefit Assessment District	3.499%	6,671,193
City of Milpitas, 1915 Act Bonds	100.000%	31,730,000
Santa Clara County General Fund Obligations	3.499%	28,174,998
Santa Clara County Board of Education Certificates of Participation	3.499%	629,295
TOTAL GROSS DIRECT & OVERLAPPING BONDS DEBT		<u><u>\$146,419,211 (1)</u></u>

(1) 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 %	0.07%
Total Gross Debt %	2.14%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
 COMPUTATION OF LEGAL BONDED DEBT MARGIN
 JUNE 30, 2005

ASSESSED VALUATION:

Secured property assessed value, net of exempt real property	<u>\$9,338,956,876</u>
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BONDED DEBT LIMIT (3.75% OF ASSESSED VALUE) (a)	<u>\$350,210,883</u>
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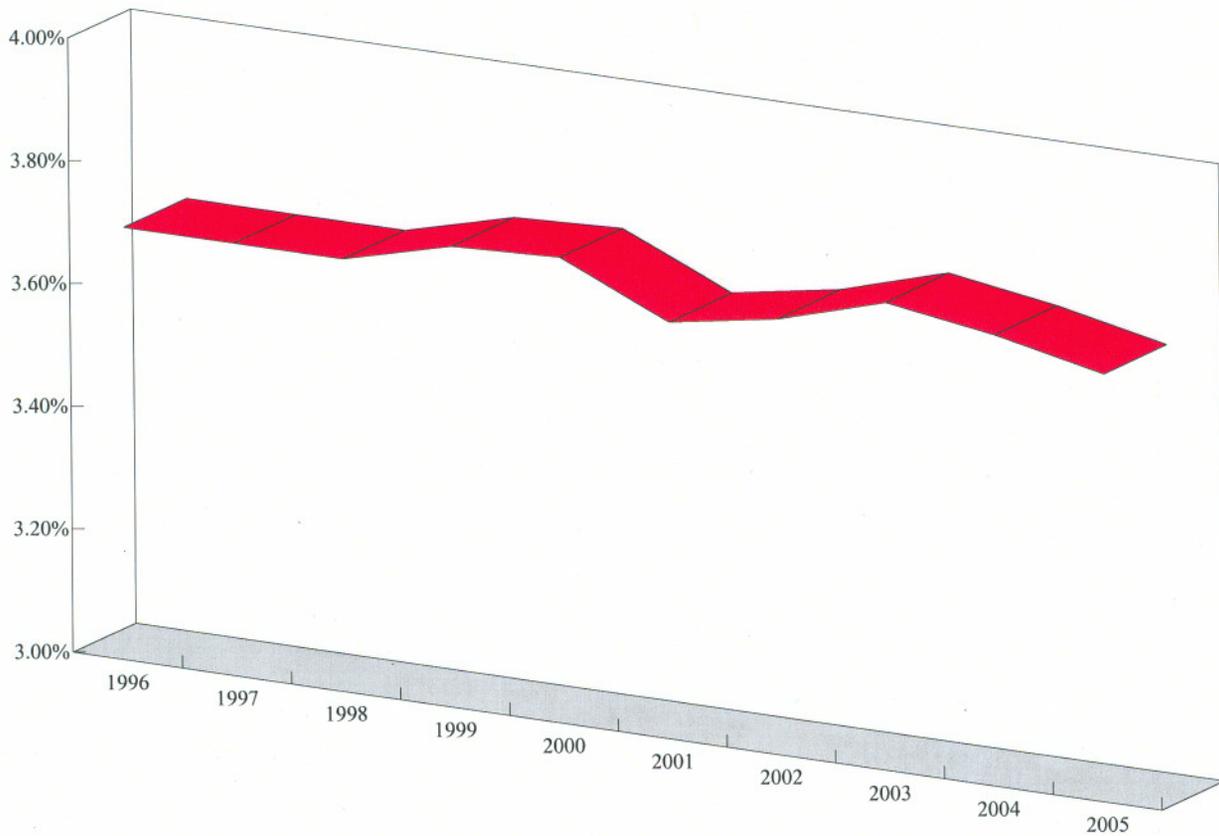
AMOUNT OF DEBT SUBJECT TO LIMIT:

Total Bonded Debt	\$199,070,000
Less Tax Allocation Bonds and Sales Tax Revenue Bonds, Certificate of Participation not subject to limit	<u>199,070,000</u>
Amount of debt subject to limit	<u>0</u>

LEGAL BONDED DEBT MARGIN	<u><u>\$350,210,883</u></u>
--------------------------	-----------------------------

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing 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.

CITY OF MILPITAS
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

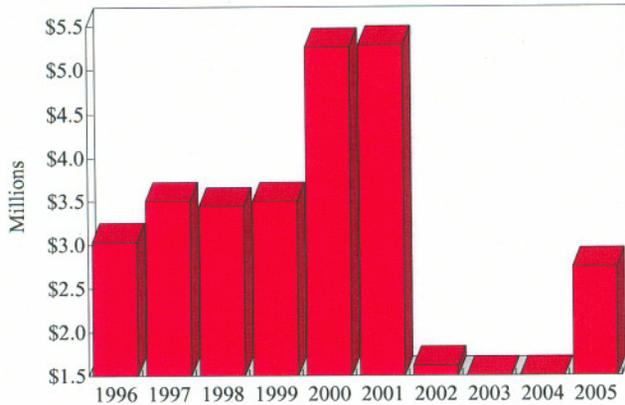


■ City Population as a % of County Population

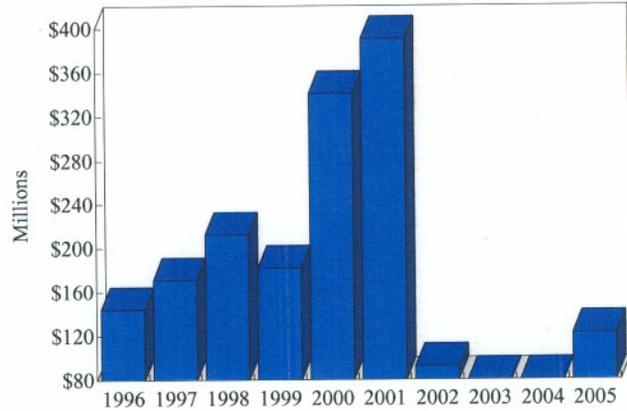
<u>Fiscal Year</u>	<u>City Population</u>	<u>Santa Clara County Population</u>	<u>City Population % of County</u>
1996	59,725	1,612,258	3.70%
1997	61,229	1,653,061	3.70%
1998	62,588	1,689,908	3.70%
1999	64,325	1,715,374	3.75%
2000	65,254	1,736,722	3.76%
2001	63,395	1,723,680	3.68%
2002	63,768	1,719,565	3.71%
2003	65,049	1,729,917	3.76%
2004	64,629	1,731,422	3.73%
2005	64,998	1,759,585	3.69%

Source: California State Department of Finance

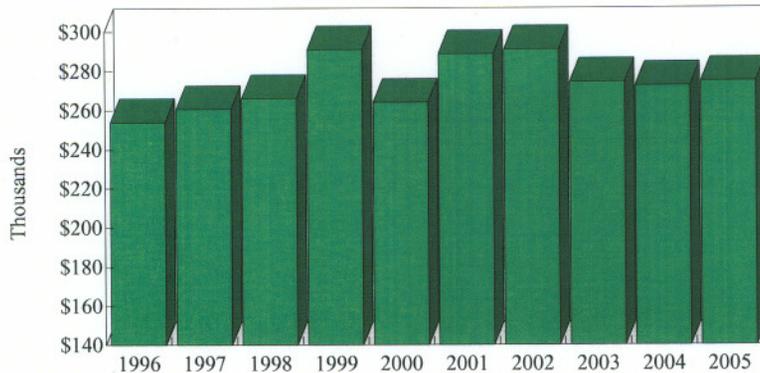
**CITY OF MILPITAS
CONSTRUCTION AND BUSINESS ACTIVITY
LAST TEN FISCAL YEARS**



■ Building Permit Revenue



■ Estimated Construction Value



■ Business License Revenue

Fiscal Year	Building Permit Revenue	Estimated Construction Value	Business License Revenue
1996	\$3,031,094	\$143,960,449	\$253,949
1997	3,503,302	170,600,000	260,554
1998	3,438,100	211,859,437	265,988
1999	3,496,053	181,604,619	290,715
2000	5,252,758	340,307,254	263,830
2001	5,278,252	390,318,202	288,461
2002	1,618,690	92,367,236	290,694
2003	1,160,417	45,086,363	274,168
2004	1,404,144	58,709,321	272,269
2005	2,738,492	122,051,634	274,461

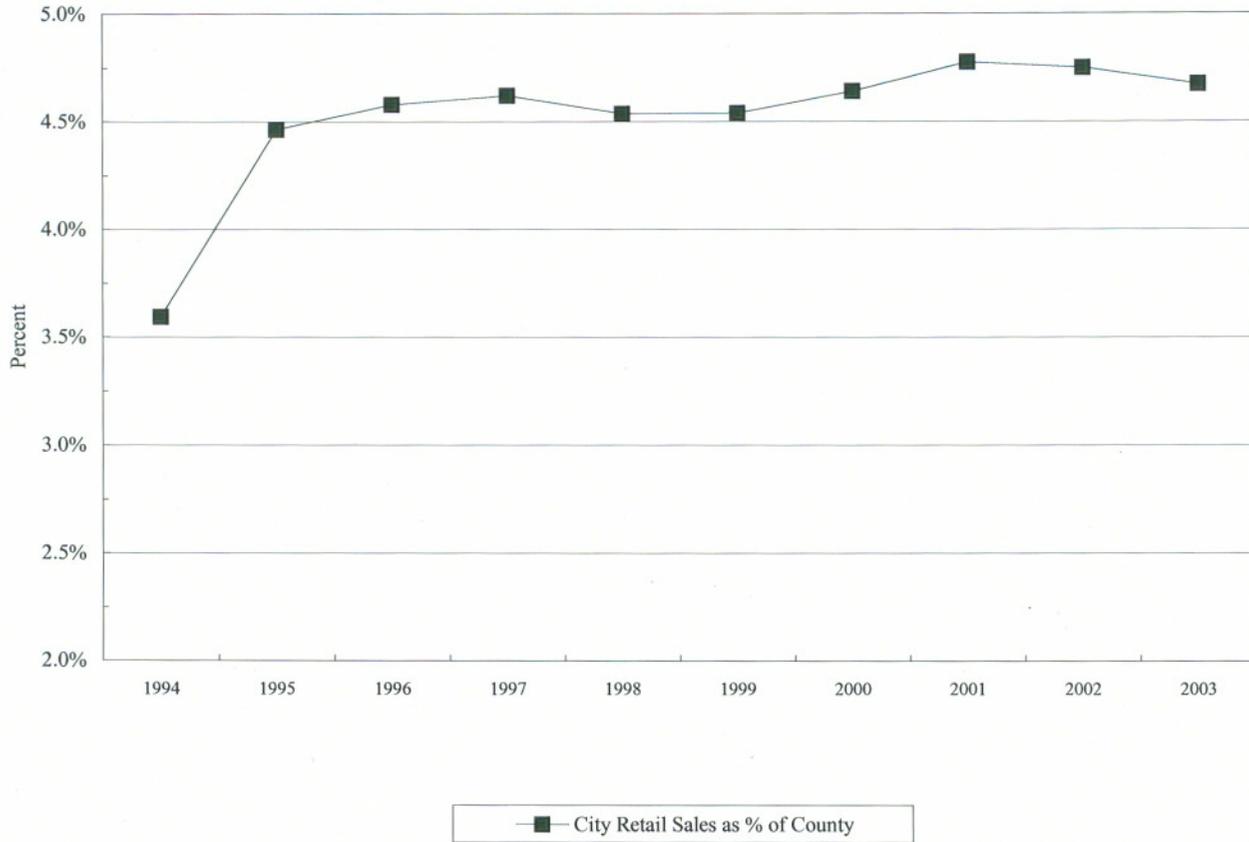
Source: City of Milpitas Finance and Public Works Departments

CITY OF MILPITAS
 PRINCIPAL PROPERTY TAXPAYERS
 JUNE 30, 2005

Assessed Name	Assessed Value	Percent of Total Assessed Value
Milpitas Mills Limited Partnership	\$274,123,789	2.90%
Richard T. Peery Trustee & Et. Al.	188,618,732	2.00%
KLA Tencor Corporation	170,942,454	1.81%
Seagate Technology LLC	141,802,084	1.50%
Cisco Technology Inc	121,344,300	1.28%
Trinet Milpitas Associates LLC	102,167,115	1.08%
Linear Technology Corporation	82,333,263	0.87%
Cisco Systems Inc	75,832,970	0.80%
Shapell Industries Inc	54,765,416	0.58%
Prudential Insurance Company	49,075,464	0.52%
Milpitas Housing Associates	47,266,164	0.50%
Limar Realty Corporation	43,417,649	0.46%
LSI Logic Corporation	41,815,951	0.44%
ABN AMRO Leasing Inc	39,430,500	0.42%
Milpitas Square 880 At 237 LLC	37,214,438	0.39%
Lucent Technologies Inc	27,453,614	0.29%
ND Properties Inc	27,050,700	0.29%
Callahan Pentz Properties Buckeye Company	26,569,705	0.28%
Maxtor Corporation	25,558,676	0.27%
RFS SPE 2 1998 LLC	24,554,893	0.26%
	<u>\$1,601,337,877</u>	<u>16.95%</u>
Total Assessed Valuation	<u>\$9,449,333,944</u>	<u>100.00%</u>

Source: HdL Coren & Cone, Santa Clara County Assessor 2004/05 Combined Tax Rolls

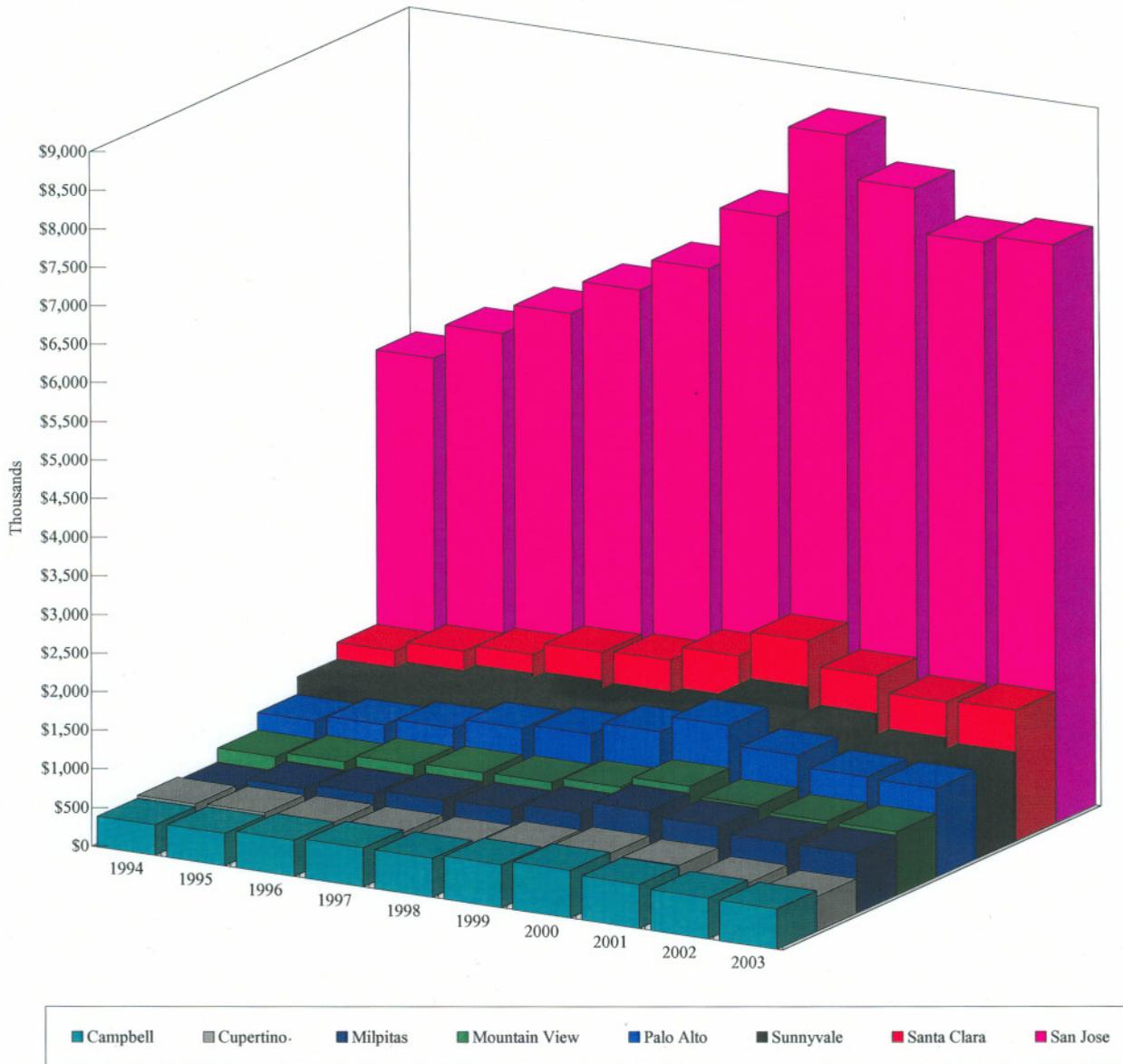
CITY OF MILPITAS
CITY AND COUNTY TAXABLE RETAIL SALES
IN (000's)
LAST TEN CALENDAR YEARS



Calendar Year	Retail Sales (000)		City Retail Sales as a Percent of County
	County	City	
1994	\$11,065,421	\$397,770	3.59%
1995	12,175,280	543,470	4.46%
1996	13,309,699	609,581	4.58%
1997	14,363,950	663,798	4.62%
1998	15,000,747	680,598	4.54%
1999	16,781,972	762,084	4.54%
2000	19,773,484	917,651	4.64%
2001	17,936,704	856,303	4.77%
2002	16,425,184	779,775	4.75%
2003	16,515,094	771,593	4.67%

Source: Statistical Research and Consulting Division California State Board of Equalization Taxable Sales in California (Annual Report)

CITY OF MILPITAS
 TAXABLE RETAIL SALES COMPARED WITH NEIGHBORING CITIES
 IN (000's)
 LAST TEN CALENDAR YEARS



Year	Campbell	Cupertino	Milpitas	Mountain View	Palo Alto	San Jose	Santa Clara	Sunnyvale
1994	\$398,456	\$439,064	\$397,770	\$582,373	\$813,513	\$4,810,884	\$1,262,611	\$1,041,468
1995	420,785	458,176	543,470	648,881	897,212	5,261,184	1,391,331	1,131,286
1996	470,088	469,232	609,581	745,496	986,020	5,653,230	1,479,236	1,230,921
1997	502,790	467,702	663,798	776,799	1,116,041	6,090,190	1,641,841	1,271,415
1998	499,937	467,063	680,598	788,659	1,175,798	6,502,377	1,671,563	1,259,356
1999	552,301	540,902	762,084	863,201	1,341,869	7,304,879	1,860,653	1,328,311
2000	615,047	601,362	917,651	1,006,374	1,557,881	8,487,210	2,195,053	1,586,350
2001	566,810	578,299	856,303	889,671	1,303,785	7,927,868	1,866,198	1,379,050
2002	525,961	485,675	779,775	823,978	1,161,302	7,358,770	1,657,584	1,200,063
2003	521,113	445,017	771,593	819,816	1,142,677	7,458,070	1,684,476	1,143,178

Source: Statistical Research and Consulting Division California State Board of Equalization Taxable Sales in California (Annual Report)

CITY OF MILPITAS
TAXABLE RETAIL SALES COMPARED WITH NEIGHBORING CITIES
IN (000's)
LAST TEN CALENDAR YEARS
(Continued)

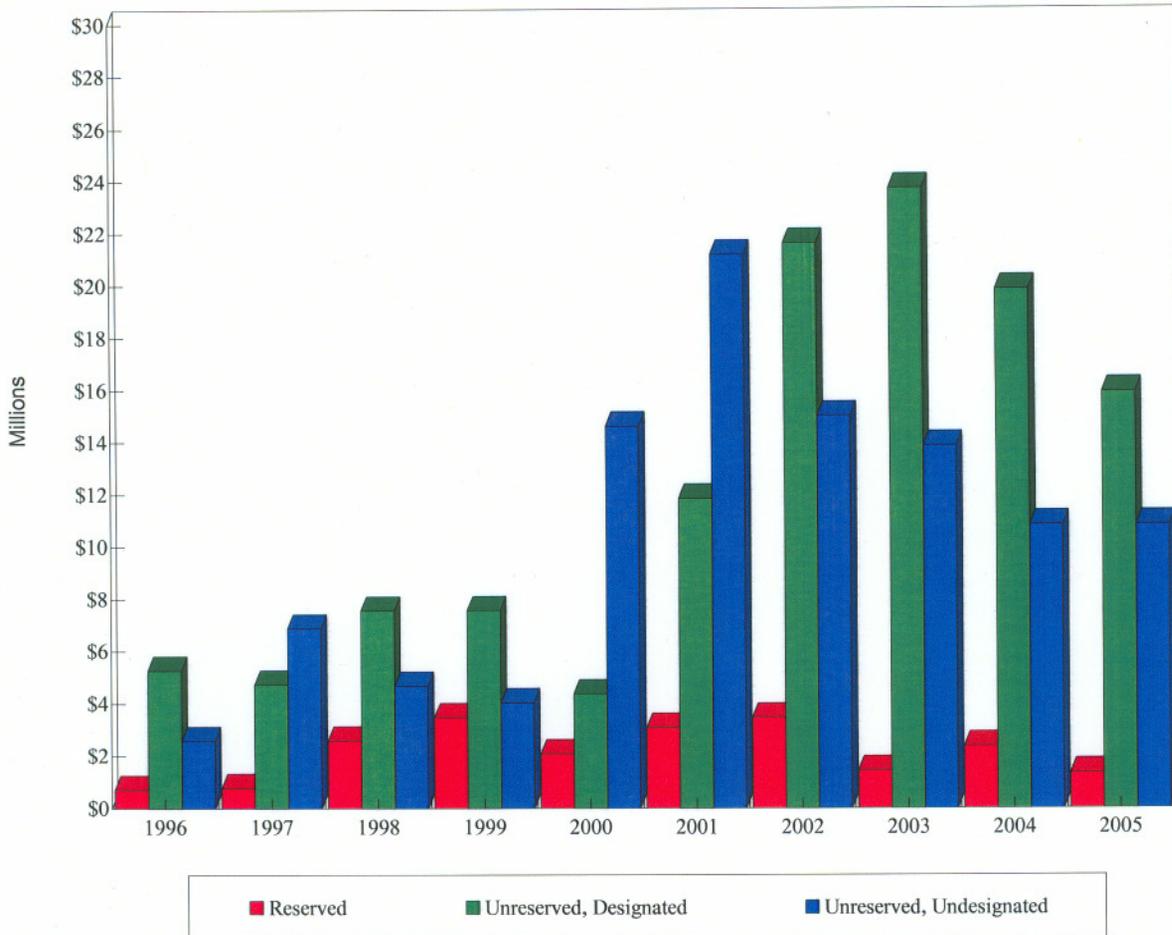
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Campbell	\$398,456	\$420,785	\$470,088	\$502,790	\$499,937	\$552,301	\$615,047	\$566,810	\$525,961	\$521,113
Cupertino	439,064	458,176	469,232	467,702	467,063	540,902	601,362	578,299	485,675	445,017
MILPITAS	397,770	543,470	609,581	663,798	680,598	762,084	917,651	856,303	779,775	771,593
Mountain View	582,373	648,881	745,496	776,799	788,659	863,201	1,006,374	889,671	823,978	819,816
Palo Alto	813,513	897,212	986,020	1,116,041	1,175,798	1,341,869	1,557,881	1,303,785	1,161,302	1,142,677
San Jose	4,810,884	5,261,184	5,653,230	6,090,190	6,502,377	7,304,879	8,487,210	7,927,868	7,358,770	7,458,070
Santa Clara	1,262,611	1,391,331	1,479,236	1,641,841	1,671,563	1,860,653	2,195,053	1,866,198	1,657,584	1,684,476
Sunnyvale	1,041,468	1,131,286	1,230,921	1,271,415	1,259,356	1,328,311	1,586,350	1,379,050	1,200,063	1,143,178
Total Eight Cities	9,746,139	10,752,325	11,643,804	12,530,576	13,045,351	14,554,200	16,966,928	15,367,984	13,993,108	13,985,940
Other Cities, Areas	1,319,282	1,422,955	1,665,895	1,833,374	1,955,396	2,227,772	2,806,556	2,568,720	13,993,108	13,985,940
Santa Clara County	\$11,065,421	\$12,175,280	\$13,309,699	\$14,363,950	\$15,000,747	\$16,781,972	\$19,773,484	\$17,936,704	\$27,986,216	\$27,971,880
California	\$187,088,022	\$194,378,106	\$205,746,810	\$217,245,483	\$229,406,469	\$255,589,386	\$286,475,687	\$293,444,688	\$301,045,771	\$319,594,940

Source: Statistical Research and Consulting Division California State Board of Equalization Taxable Sales in California (Annual Report)

CISCO Systems, Inc.	Internet Network Supplier	1,000
Lifescan, Inc.	Medical Device Company	2,500
LSI Logic Corporation	Manufacturer of Storage Devices	1,300
Sageer Technology	Manufacturer of Hard Drives	1,100
Selexion Corporation	Contract Manufacturing Services	1,000
KLA-Tencor Corporation	Manufacturer of Semiconductors	1,000
Linear Technology	Semiconductor	900
Milpitas Unified School District	School District	340
Adaptec, Inc.	Controller for Disk Drives	200

Source: Milpitas Chamber of Commerce

CITY OF MILPITAS
HISTORY OF GENERAL FUND BALANCE
LAST TEN FISCAL YEARS



Fiscal Year	Reserved	Unreserved Designated	Unreserved Undesignated	Total
1996	\$707,047	\$5,254,206	\$2,581,179	\$8,542,432
1997	770,076	4,721,872	6,861,716	12,353,664
1998	2,589,047	7,547,980	4,662,470	14,799,497
1999	3,472,429	7,560,792	4,028,339	15,061,560
2000	2,086,383	4,368,055	14,600,781	21,055,219
2001	3,074,676	11,832,869	21,164,758	36,072,303
2002	3,458,243	21,600,148	14,987,700	40,046,091
2003	1,433,997	23,690,126	13,839,375	38,963,498
2004	2,366,088	19,826,963	10,809,119	33,002,170
2005	1,344,221	15,889,310	10,809,119	28,042,650

Source: The City's Comprehensive Annual Financial Reports

Fire Protection:

Number of Stations	4
Number of Firefighters	57
Fire Apparatus	13
Number of Fire Hydrants	1,755

Police Protection:

Number of Stations	2
Number of Officers	95
Number of Crossing Guard Posts	28
Number of Patrol Vehicles	30

Employees:

Full-time Permanent	428
Part-time/Temporary	283

Sewer Utility:

Miles of Sanitary Sewers	172.5
Miles of Storm Drain	99

Public Schools Serving the Community:

Elementary Schools	9
Middle Schools	2
High School	1
Continuation High School	1

Parks and Recreation:

Acres of Parkland	171.55
Number of Parks	26
Number of Swimming Pools	3
Number of Tennis Courts	22

