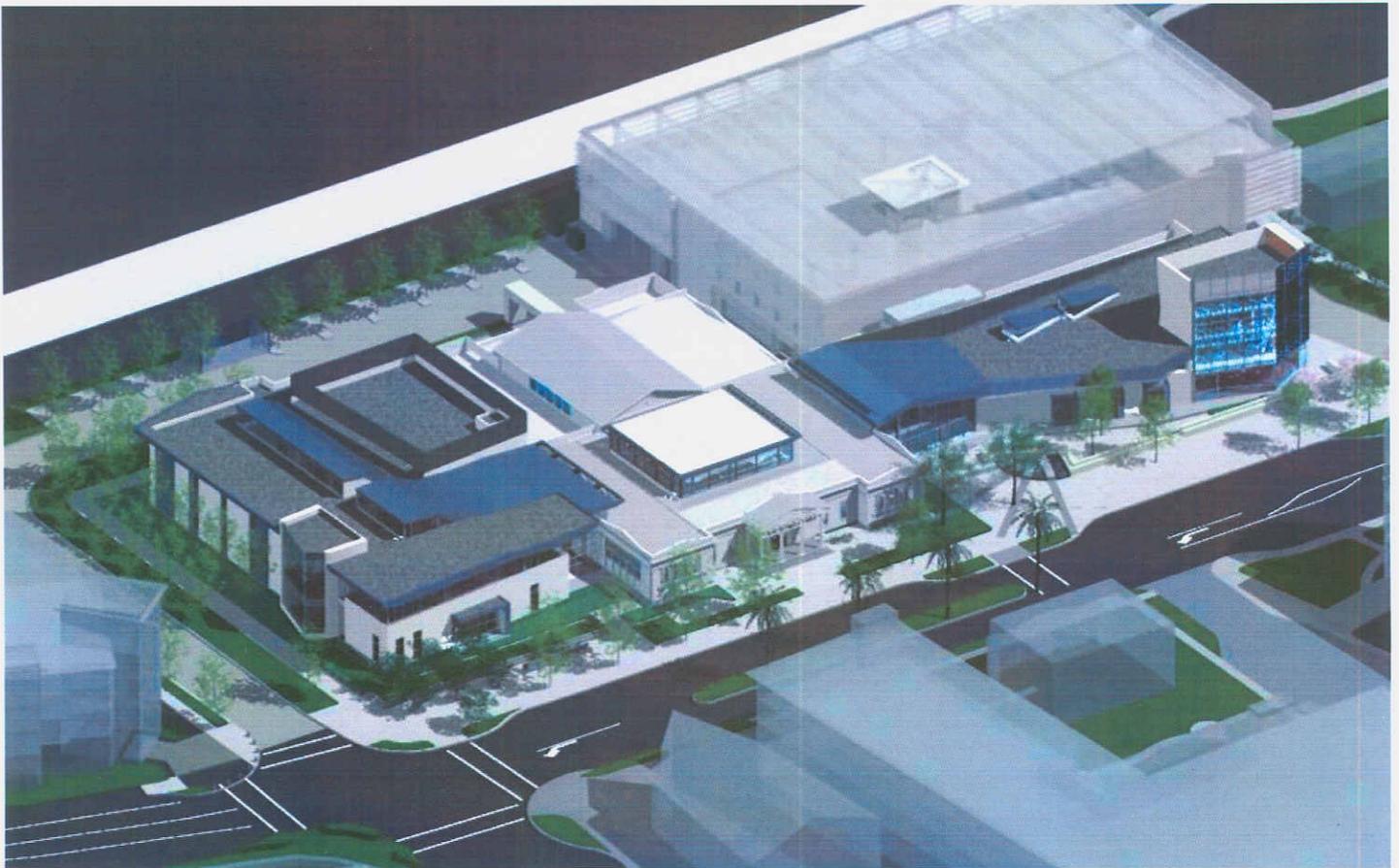




Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



Architect rendering of the new Milpitas Public Library on Main Street

City of Milpitas
CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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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

etc. Planning Commission, Community Advisory Commission, Library Advisory Commission, Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Public Art Committee and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

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

There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks. An estimated 350 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. There are 550 manufacturing plants in Milpitas. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

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

Milpitas Redevelopment Agency (RDA) is one of the top ten RDAs in the State. With the 2003 expansion of the RDA, Redevelopment Area 1 encompasses 2,230 acres or 26% of the City. The Project produces over \$33 million in annual gross tax increment. In November 2003 the RDA issued \$200 million in tax allocations bonds to generate funds for key City and Agency projects including a new library, major infrastructure improvements and a new senior center.

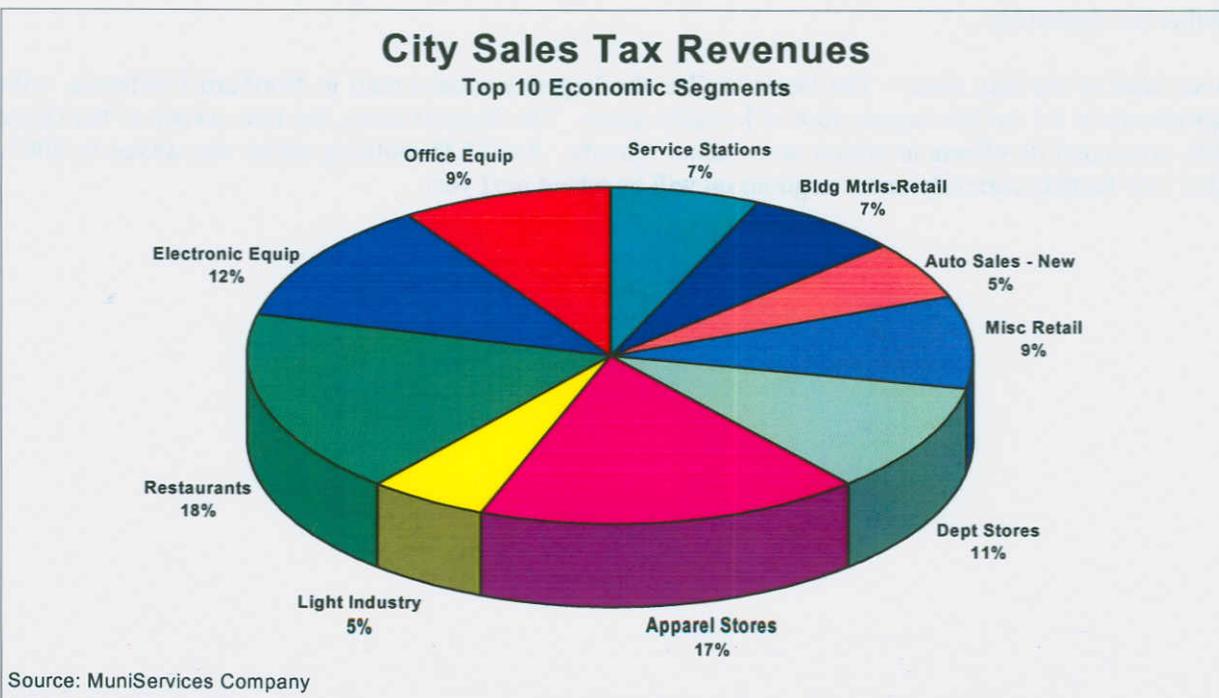
Consumer Confidence Level

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



Top Ten Sales Tax Generators by Economic Segment

The chart below provides an overview of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$13.7 million, with the top ten economic segments generating about \$10.7 million. Sectors such as apparel stores and service stations led the increases but office equipment was the lowest due to the relocation of a major manufacturer.



Many of the major activities initiated in FY07-08 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

Major Activity in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities that are being planned by outside agencies include the construction of a County Health Center, parking garage and a 103-unit Senior Housing project restricted for low-income seniors.

Transit Sub-Area Land Use Plan – The City developed a Transit Sub-Area Land Use Plan which provides a development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, schools, retail and restaurants.

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

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

Great Mall of the Bay Area – The Great Mall is the largest enclosed mall in Northern California, with approximately 1.1 million square foot of leasable space. The Simon Group, the new owner of the Great Mall, continued its efforts to attract new anchor tenants. An H&M clothing outlet was added in 2007. Other new tenants currently under negotiation will be added next year.

CITY ANNUAL PERFORMANCE REPORT

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

Fire

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

Police

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

Engineering

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

Public Works Maintenance

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

Planning/Neighborhood Services

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

- Resolved over 1,500 code violations to advance Neighborhood Beautification and to ensure public health and safety by reducing response time from 8 to 5 days.
- Completed the Community Development Block Grant Five-Year Consolidated Plan.

Parks and Recreation

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

Building Inspection

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

Administration

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

City Attorney

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

Human Resources

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

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

Information Services

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

Finance

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

| | <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 4.17% on the City's month-end average investment balances. This compared with a return of 3.78% in the prior year. Investment income includes appreciation or depreciation in the fair value of investments. Increases or decreases in fair value during the current year do not necessarily represent trends that will continue nor considered an impact to available financial resource, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

CAPITAL IMPROVEMENTS

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

City expenditures by project category for all capital improvements for fiscal year 2007-2008 were as follows:

| <u>Project Category</u> | <u>Amount</u> |
|-------------------------------|---------------------|
| General Government Projects | \$ 220,690 |
| Park Projects | 474,478 |
| Street Projects | 3,100,426 |
| Water Projects | 860,104 |
| Sewer Projects | 8,079,338 |
| Redevelopment Agency Projects | <u>25,102,784</u> |
| Total | <u>\$37,837,820</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, 2007. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for eighteen of the last twenty years (fiscal years ended 1988-2007). The 1992-93 report was not submitted to GFOA due to timing delays.

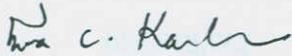
Fiscal Year 2005-06 was the first year the City was not able to participate in the California Society Municipal Finance Officers (CSMFO) Award Program for Outstanding Financing Reporting. The CSMFO Board of Directors determined that beginning with fiscal year 2005-06 only agencies that did not participate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

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

ACKNOWLEDGMENTS

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

Respectfully submitted,



Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2008

City Council

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

City Manager
Thomas C Williams

Police Chief
Dennis Graham

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Clare Frank

City Clerk
Mary Lavelle

City Attorney
Michael Ogaz

Chief Information Officer
William Marion

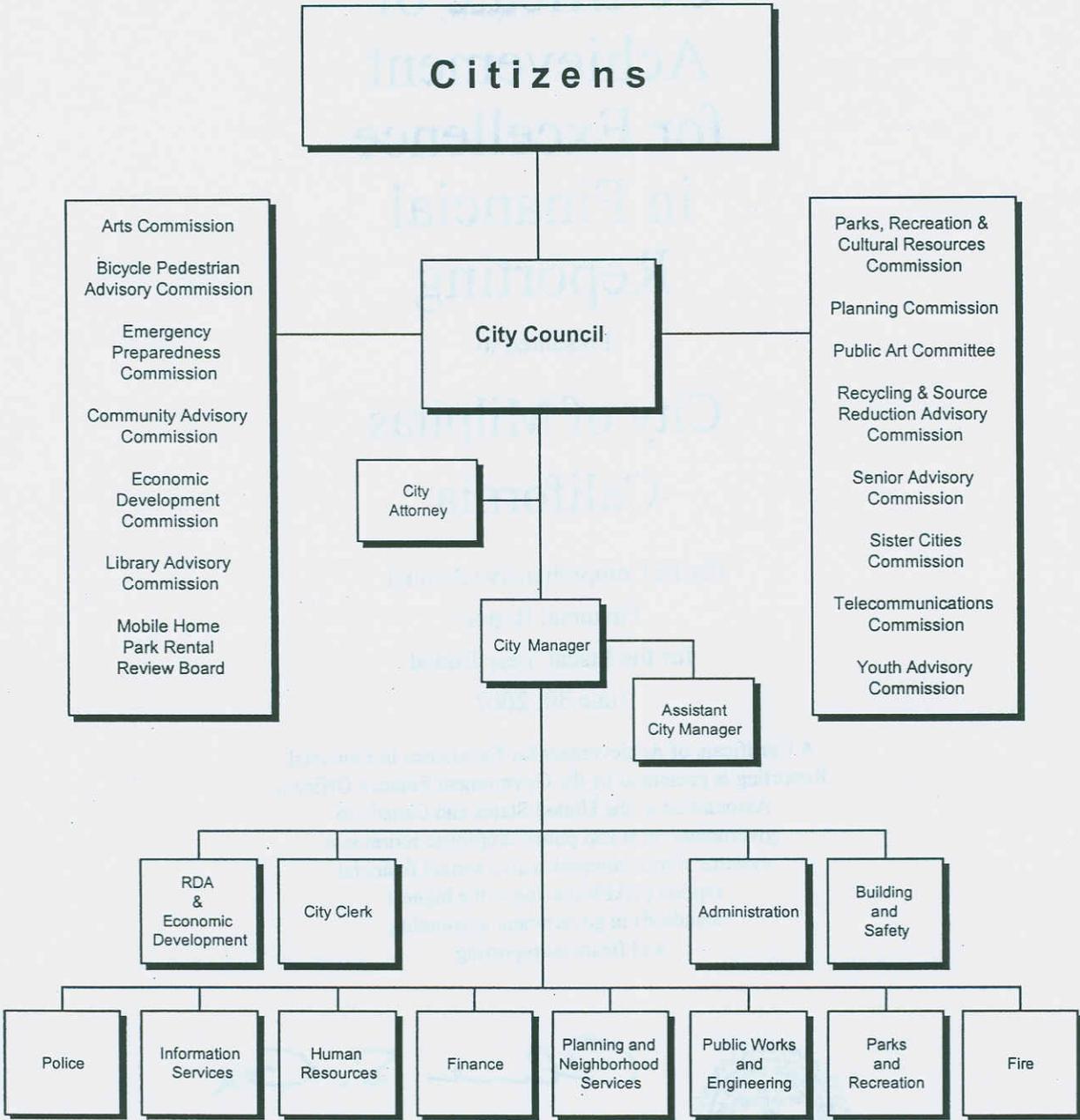
Human Resources Director
Carmen Valdez

Public Works Director/City Engineer
Greg Armendariz

Planning & Neighborhood Svc Director
James Lindsay

Chief Building Officer
Keyvan Irannejad

Parks and Recreation Director
Bonnie Greiner



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milpitas
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2007, which represent 1.53%, 1.09%, and 2.26% of the assets, revenues, and capital assets of the reporting, respectively. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2008 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

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

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

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

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

September 24, 2008 *Maze & Associates*

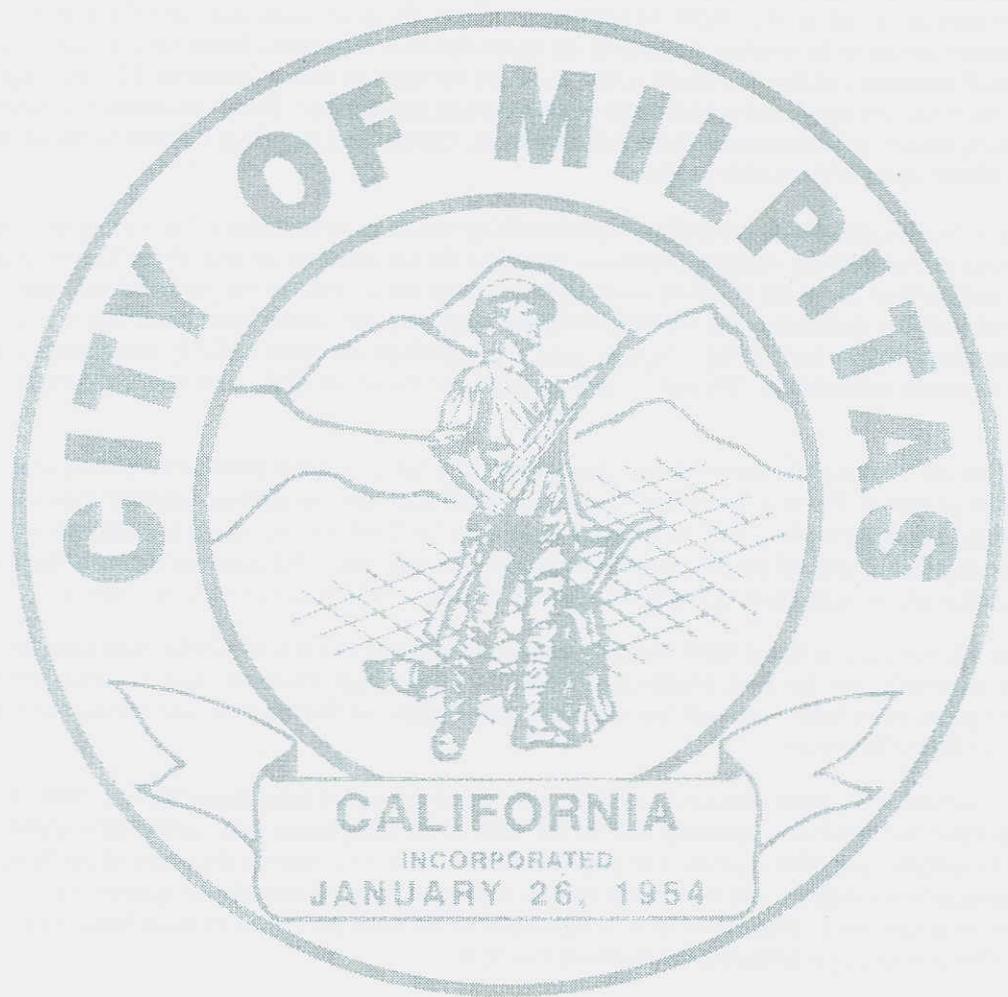
MAKING A TEAM
ASSOCIATION

MEMBERSHIP INFORMATION
Learn more about the
benefits of our program
and how to join today.
Call us at 1-800-555-1234
or visit our website at
www.ourteam.com

OUR ASSOCIATION REPRESENTS
THE BEST OF BUSINESS

For more information, please contact
our office at 1-800-555-1234

Our association is committed to providing our members with the highest quality of service and support. We are proud to be a part of a community that values excellence and innovation. Our members benefit from a wide range of resources and services, including industry news, networking opportunities, and professional development programs. We are dedicated to helping our members succeed in their businesses and careers.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2008. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2007 FINANCIAL HIGHLIGHTS

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

City-wide:

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

Fund Level:

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

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

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

The Basic Financial Statements

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

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

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

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

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

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

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks & recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The basic financial statements can be found in pages 19-21 of this report.

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

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

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

Fund Financial Statements

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

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

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

The City has three Major Governmental Funds in fiscal 2008 in addition to the General Fund. These are the Housing Reserve Fund, the Redevelopment Project Fund and the Street Improvement Fund, each of which is discussed in detail below.

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

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

Fiduciary Statements

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

CITYWIDE FINANCIAL ANALYSIS

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

Governmental Activities

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

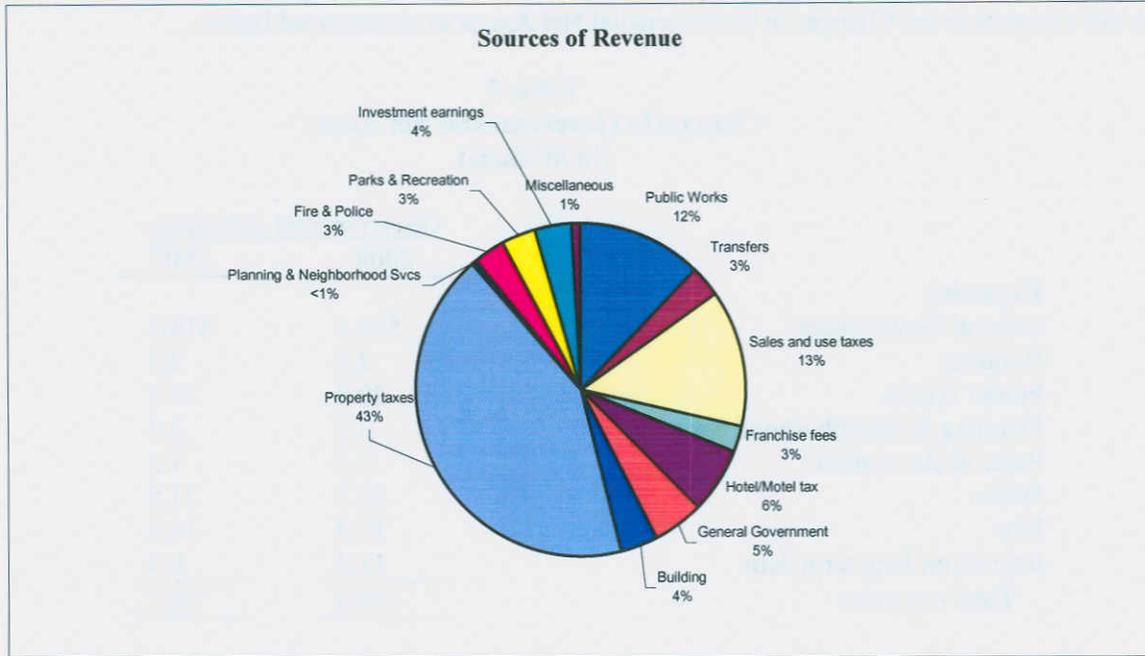
| | Governmental Activities | |
|---|-------------------------|----------------|
| | 2008 | 2007 |
| Cash and investments | \$173.2 | \$201.5 |
| Other assets | 38.9 | 36.8 |
| Capital assets | 320.0 | 299.2 |
| Total assets | 532.1 | 537.5 |
| Long-term debt outstanding | 219.3 | 227.8 |
| Other liabilities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

The City's governmental net assets were \$278 million at June 30, 2008, an increase of \$14.8 million from 2007. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

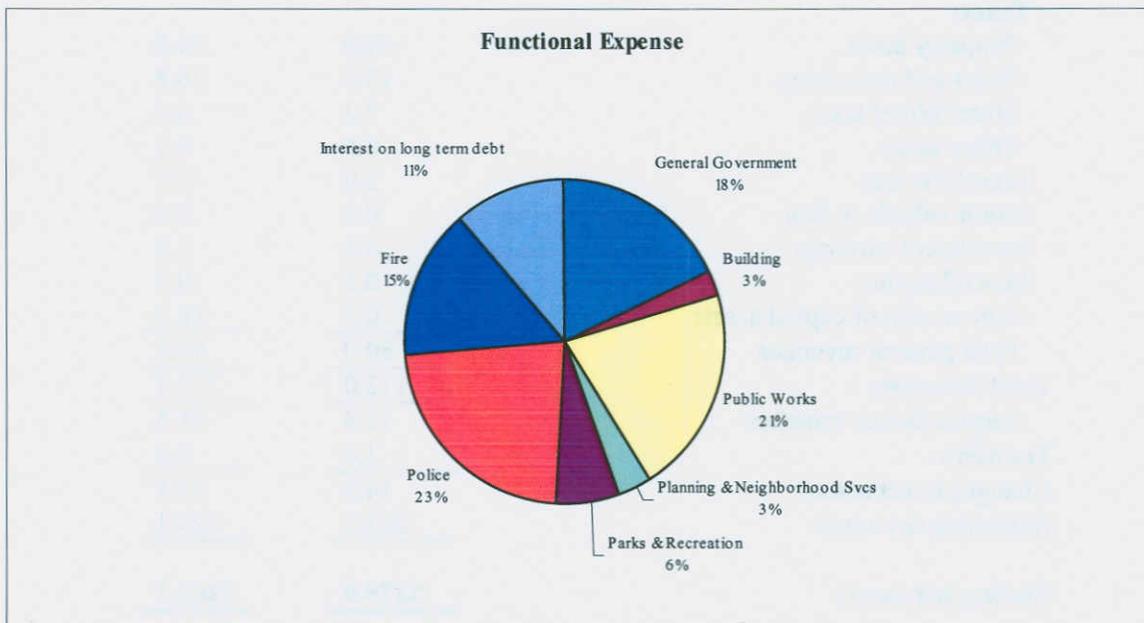
- Cash and investments decreased \$28.3 million principally due to expenditure of bond proceeds for the Midtown Garage, Library and other capital improvement projects.
- Capital assets increased \$20.8 million from last year, as a result of \$35.5 million asset additions net of retirements in fiscal 2008, reduced by \$14.7 million depreciation of the capital assets.
- Long-term debt decreased \$8.5 million due to payments on outstanding bonds and the Installment Purchase Agreement.
- Other liabilities increased \$11.7 million due to decreased accounts payable. In June 2007, the City committed to pre-fund retiree medical benefits by setting up an irrevocable trust with California Public Employees Retirement System (CalPERS). The accounts payable liability in 2007 included approximately \$9.5 million expenditure to CalPERS. Other reason for decreased accounts payable was attributable to less accrued liability from capital improvement expenditures.

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

Fiscal Year 2008 Government Activities



As the Sources of Revenue Chart above shows, \$49 million or 43% of the City's fiscal 2008 governmental activities revenue came from property taxes, while \$15.6 million or 13% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, investment earnings and franchise fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. In fiscal 2008, the City added \$20.8 million in capital assets, net of depreciation. The composition of Fiscal 2008's additions is shown in detail at Table 7.

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

Table 2
Changes in Governmental Net Assets
(in Millions)

| | <u>Governmental Activities</u> | |
|------------------------------------|--------------------------------|-----------------------|
| | <u>2008</u> | <u>2007</u> |
| Expenses | | |
| General Government | \$18.1 | \$16.3 |
| Building | 2.6 | 2.3 |
| Public Works | 20.8 | 20.7 |
| Planning & Neighborhood Svcs | 3.2 | 2.4 |
| Parks & Recreation | 6.5 | 7.3 |
| Police | 22.5 | 21.5 |
| Fire | 15.4 | 14.3 |
| Interest on long term debt | 11.5 | 9.4 |
| Total expenses | <u>100.6</u> | <u>94.2</u> |
| Revenues | | |
| Program revenues: | | |
| Charges for services | 12.2 | 13.1 |
| Operating contributions and grants | 4.6 | 4.6 |
| Capital Grants | 15.2 | 16.0 |
| Total program revenues: | <u>32.0</u> | <u>33.7</u> |
| General revenues: | | |
| Taxes: | | |
| Property taxes | 49.0 | 44.6 |
| Sales and uses taxes | 15.6 | 16.8 |
| Hotel/Motel taxes | 7.2 | 6.4 |
| Other taxes | 0.6 | 0.1 |
| Franchise fees | 3.0 | 2.9 |
| Motor vehicle in lieu | 0.3 | 0.4 |
| Investment earnings | 4.1 | 2.2 |
| Miscellaneous | 0.1 | 0.3 |
| Gain on sale of capital assets | 0.1 | 18.3 |
| Total general revenues | <u>80.0</u> | <u>92.0</u> |
| Total Revenues | <u>112.0</u> | <u>125.7</u> |
| Surplus before transfers | 11.4 | 31.5 |
| Transfers | 3.4 | 2.6 |
| Changes in net assets | 14.8 | 34.1 |
| Beginning net assets | <u>263.2</u> | <u>229.1</u> |
| Ending net assets | <u>\$278.0</u> | <u>\$263.2</u> |

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

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

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

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, planning & neighborhood services, parks & recreation, police, fire, and interest. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs increased \$8.1 million for two reasons. The cost of providing general government and public safety had increased due to negotiated salary increases and health benefits premiums increases while the revenues received such as capital grants and charges for services such as building permits and inspection fees decreased. In addition, during fiscal 2008, RDA provided more grants to fund affordable housing projects and paid a \$2.1 million interest payment to the City.

Table 3
Governmental Activities
(in Millions)

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

Business-type Activities

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

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

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

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

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

Table 5 compares fiscal 2008 expenses and revenues with those of fiscal year 2007. Expenses increased \$1.5 million in total in fiscal 2008 due to increased water purchase costs and increased operating expenses of the Wastewater Treatment Plant for which the City is responsible for its contractual share and increased depreciation expense for utility funds' capital assets. Total program revenue decreased by \$0.6 million due to decreased capital contributions received from other agencies for capital improvement project funding. Total general revenue shows an increase of \$0.9 million from last year primarily due to market value gain on the investment portfolio. The transfers represent reimbursements for administration costs incurred by the General Fund and the cost of capital assets construction by other funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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

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

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

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

Analyses of Major Governmental Funds

General Fund

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

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

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

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

At June 30, 2008, the fund balance of the General Fund was \$51.1 million, of which \$1.3 million was reserved for encumbrances and other items; \$20.5 million was reserved for the advance to the Redevelopment Project Fund related to a property purchase, \$5.3 million was designated for the Library and performance arts programs, \$5.4 million for stabilization of future PERS rate increases, \$2.8 million for uninsured claims payable, \$0.1 million for market value gain on investment, and \$15.7 million was undesignated.

Housing Reserve

This Fund accounts for Redevelopment Agency activities designed to increase the amount of low and moderate-income housing available in the City. In fiscal 2008, the balances of loans to developers increased from \$20.5 million to \$22.9 million, due to new loans provided to first time homebuyers and a non-profit developer for the development of a low-income senior housing project. Total expenditures of \$4.3 million primarily consisted of housing grants and loans for affordable housing.

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

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

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

Redevelopment Project

This Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas. The Fund's revenues were \$37.3 million in fiscal 2008, a decrease of \$3.8 million from fiscal 2007. Property tax increment revenues increased to \$32.2 million in fiscal 2008, an increase of \$3.8 million or 13% from fiscal 2007 due to enrollment of new housing units on the tax roll, primarily in the Midtown area. Interest income increased by \$0.7 million due to market value gains on investments. Other revenue decreased \$8.5 million from fiscal 2007 due to one-time revenues that included \$3.9 million developer contributions and \$4.5 million litigation settlement that did not recur in fiscal 2008.

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

The Fund's fiscal year end fund balance of \$68.3 million may be used only for redevelopment purposes. Of this amount, \$11.1 million was reserved for outstanding encumbrances and prepaids, \$7.0 million was reserved for property held for resale or redevelopment, \$0.7 million for market value gain on investments and \$35.1 million was designated for committed capital projects and \$14.4 million was undesignated.

Street Improvement Capital Project

This Capital Project Fund accounts for majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were \$1.6 million in fiscal 2008, a decrease of \$1.2 million from fiscal 2007. The decrease was due to decreased capital grants received from other agencies.

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

The fund ended fiscal 2008 with \$9.9 million in fund balance, of which \$2.2 million was reserved for encumbrances outstanding, \$4.6 million was designated for capital projects and \$3.1 million was undesignated.

Other Governmental Funds

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

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$0.7 million from last year, while operating expenses increased \$1.3 million. Total revenues and total operating expenses were \$26.3 million and \$20.3 million respectively. Non-operating revenues of \$2.2 million in fiscal 2008 were \$0.6 million higher than the prior year primarily due to increased interest income of \$0.8 million offset by \$0.2 million increased interest expense. Capital contributions decreased by \$1.4 million while net transfers out increased by \$0.8 million.

Water Utility

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

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

Recycled Water Utility

Recycled Water fund revenues were \$1.3 million in fiscal 2008, up \$0.1 million from the prior year. Expenses were \$0.5 million in fiscal 2008, up \$0.2 million from last fiscal year. Net assets of the Fund increased \$0.5 million in the current year to a total of \$3.3 million. This increase included \$0.8 million in operating income and \$0.2 million in non-operating income, offset by transfers out totaling \$0.5 million. Transfers out are primarily reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the Recycled Water Fund.

This Fund's Net Assets includes \$0.3 million invested in capital assets and \$3 million in unrestricted net assets.

Sewer Utility

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

\$11 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, \$52.3 million was invested in capital assets and \$11.4 million was restricted as to use.

CAPITAL ASSETS

The City recorded the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2008, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

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

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

The principal additions in fiscal 2008 was construction in progress. Most of the construction-in-progress were expenditures on Midtown infrastructure projects and Library related projects. Other additions included sports center large gym renovation, senior center design and Transit Area Plan. Further detail on capital assets, current year additions and construction in progress can be found in Note 8.

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

DEBT ADMINISTRATION

Substantially all of the City’s debt was issued to finance redevelopment projects, Sewer infrastructure improvements and technological capital outlays. These debt issues are secured by the tax increment revenue of the Redevelopment Agency, lease payments of the General Fund and sewer revenue. Each of the City’s debt issues is discussed in detail in Note 9 to the financial statements. In fiscal 2008, the ratings for the City’s debt issues were downgraded due to the downgrade of MBIA, the bond insurance company for all three bonds. The ratings for the two Certificates of Participation were downgraded to “A1” and “AA” by Moody’s and S&P respectively. The Agency’s Tax Allocation Bonds were downgraded to “AA” and “AA” by S&P and Fitch respectively. This downgrade applied to all the municipalities insured by MBIA. The impact to the City/Agency is nominal. At June 30, 2008 the City’s debt comprised:

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

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

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2008, a total of \$23.3 million in local improvement district debt was outstanding, issued by three local improvement districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City’s responsibility. The City does act as these Districts’ agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2008

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

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

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

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 319,980,261

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Assets. 7,751,855

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. 28,660,472

LONG TERM ASSETS AND LIABILITIES

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

| | |
|--|---------------|
| Long-term debt | (227,792,744) |
| Interest payable | (2,918,199) |
| Non-current portion of accrued vacation and sick leave | (9,668,011) |
| Non-current portion of uninsured claims payable | (3,779,438) |

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$277,999,934

See accompanying notes to financial statements

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

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

See accompanying notes to financial statements

CITY OF MILPITAS
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$15,670,376)

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

CAPITAL ASSETS TRANSACTIONS

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

| | |
|--|--------------|
| The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$667,919 have already been added to capital assets) | 37,960,138 |
| Retirements are deducted from the fund balance (Internal service fund retirements of \$9,310 have already been deducted from capital assets) | (3,052,586) |
| Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$801,148 which has already been allocated to serviced funds.) | (14,001,930) |

LONG TERM DEBT PAYMENTS

| | |
|---|-----------|
| Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities. Repayment of principal is added back to fund balance | 8,490,350 |
|---|-----------|

ACCRUAL OF NON-CURRENT ITEMS

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

| | |
|--|-------------|
| Non-current portion of accrued vacation and sick leave | (766,480) |
| Non-current portion of uninsured claims payable | (1,193,927) |
| Interest payable | 48,199 |
| Deferred revenue | 2,123,517 |

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.
 Change in Net Assets - All Internal Service Funds 814,625

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$14,751,530

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

OFFICE OF THE CITY CLERK
CITY OF MILPITAS
1000 MILPITAS AVENUE
MILPITAS, CALIFORNIA 95035
TEL. (415) 951-1000



CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2008

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

See accompanying notes to financial statements

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2008

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements



CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

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

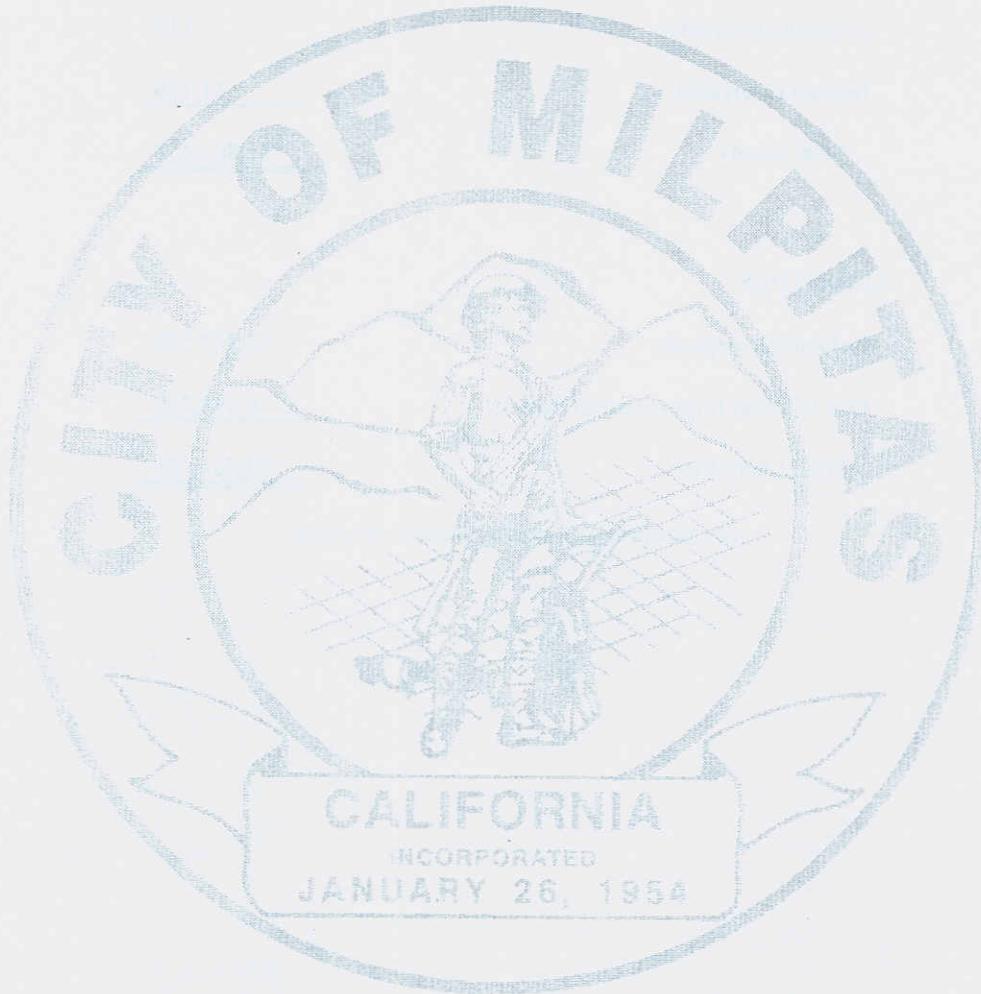
See accompanying notes to financial statements

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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. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

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

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. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2007 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Assets and the Statement of Activities.

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

B. Basis of Presentation

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

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

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

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

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

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 governmental fund inventories are equally offset by fund balance reserves which indicate that they do not constitute available spendable resources even though they are a component of net current assets.

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 Utility, Recycled Water Utility and Sewer Utility*

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

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

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

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

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

B. *Adjustments to GAAP Basis from Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures in the General Fund and the Park Improvement, General Government Project and Storm Drain Development Capital Projects Funds are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS

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

A. Policies

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

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

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

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

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

B. Classification

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|--|------------------|------------------------|---------------------------------|----------------------------------|
| Repurchase Agreements | 1 Year | | 100% | No Limit |
| State of California Local Agency Investment Fund (LAIF Pool) | Upon Demand | | No Limit | \$40,000,000 per account |
| U. S. Treasury Bonds, Notes and Bills | 5 Years | | 100% | No Limit |
| U.S. Government Agency Obligations | 5 Years | | 100% | No Limit |
| Bankers Acceptances | 180 Days | | 20% | \$5 million or 10% |
| Commercial Paper | 270 Days | A1/P1 | 15% | (A) |
| Negotiable Certificates of Deposit | 2 Years | | 30% | No Limit |
| Time Certificates of Deposit – Banks or Savings and Loans | 2 Years | | 10% | No Limit |
| Medium Term Corporate Notes | 5 Years | AA | 30% | (A) |
| Money Market and Mutual Funds of Government Securities | Upon Demand | Top Rating Category | 20% | 10% |
| Security Swaps | N/A | | No Limit | No Limit |

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

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 |
| Time Certificates of Deposit – Banks or Savings and Loans | 1-2 Years | | 10% | No Limit |
| Bankers Acceptances | 180 Days | A | 20% | \$5,000,000 or 10% |
| Commercial Paper | 270 Days | AA, A1 | 15% | (A) |
| Negotiable Certificates of Deposit | 2 Years | | 30% | No Limit |
| Repurchase Agreements | 1 Year | | 100% | No Limit |
| Medium Term Corporate Notes | 5 Years | AA | 30% | (A) |
| State of California Local Agency Investment Fund (LAIF Pool) | Upon Demand | | No Limit | \$40,000,000 per account |
| Money Market and Mutual Funds | Upon Demand | Aaa/AAm | 20% | 10% |
| California Asset Management Program (CAMP) | Upon Demand | | No Limit | No Limit |

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

E. Investments Authorized for Terrace Gardens Inc.

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

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

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2008 these investments matured in an average of 212 days.

Mutual funds are available for withdrawal on demand and at June 30, 2008 matured in an average of 41 days.

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, 2008 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

| Investment Type | AAA | AA+/AA/AA- | Total |
|--|---------------------|---------------------|----------------------|
| U.S. Government Agency Issues | \$77,106,555 | | \$77,106,555 |
| Corporate Notes | 8,099,271 | \$14,182,211 | 22,281,482 |
| Mutual Funds (U.S. Securities) | 5,946,579 | | 5,946,579 |
| Totals | <u>\$91,152,405</u> | <u>\$14,182,211</u> | 105,334,616 |
| <i>Not rated:</i> | | | |
| California Local Agency Investment Fund | | | 106,109,680 |
| <i>Exempt from credit rate disclosure:</i> | | | |
| U.S. Treasury Notes | | | 12,370,000 |
| Total Investments | | | <u>\$223,814,296</u> |

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2008, all of Terrace Gardens' Time Certificate of Deposits were fully insured by Federal Deposit Insurance.

H. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2008:

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

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

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, 2008 were as follows:

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

The reasons for these transfers are set forth below:

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advance

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels is \$20,455,191. The advance is due on September 7, 2044 and bears simple interest of 10% annually. At June 30, 2008 the balance of the advance including principal and accrued interest was \$26,188,680.

C. Current Interfund Balances

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

NOTE 5 - LOANS RECEIVABLE

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

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

A. Rehabilitation Loans

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 5 - LOANS RECEIVABLE (Continued)

B. *Milpitas Housing Associates Loan*

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the fiscal year, the City received a payment of \$196,904 and as of June 30, 2008, principal and accrued interest totaled \$4,141,798.

C. *Parc Metropolitan Housing Development Loans*

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the fiscal year, the Agency received principal payments of \$11,163 and as of June 30, 2008, there were \$482,113 in loans outstanding.

D. *Montague Parkway Associates, LP*

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

E. *Parc North Associates LLC Loan*

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. As of June 30, 2008, there were \$1,974,000 of such loans outstanding.

F. *Mid-Peninsula Milpitas Affordable Housing Associates*

In December 2005, the Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by second deed of trust on the property. Construction began in fiscal year 2006 and the Developer drew down \$1,091,664 of the loan during fiscal year 2008, and interest of \$259,815 was accrued. As of June 30, 2008, principal and accrued interest outstanding totaled \$14,123,181.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 5 - LOANS RECEIVABLE (Continued)

G. KB Home South Bay Inc Loans

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

H. Western Pacific Housing Inc., Loans

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

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

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 7 - DEVELOPMENT AGREEMENTS

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

A. *The Crossing at Montague*

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

B. *Shapell Industries*

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. At June 30, 2008, the Agency had not expended any funds on the silent second loans.

C. *Apton Properties LLC*

In September 2004, the Agency entered into an Owner Participation Agreement with Apton Properties, LLC for the development of a mixed-use project that will include commercial retail and a 93-unit condominium complex, of which nineteen units will be deed-restricted for very low- to moderate- income households. The Owner Participation Agreement was amended in June 2008 to change the deed-restricted units to 12 extremely low-income units, 43 very low-income units, and 38 market rate units. In exchange, the Agency will provide a \$1,230,560 developer loan upon completion of the fifty-five affordable housing units. As of June 30, 2008, the Agency had not expended any funds on the developer loan.

D. *Installment Purchase Agreement*

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

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

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.

E. *Western Pacific Housing, Inc.*

In September 2006, the Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. As of June 30, 2008, the Agency had not expended any funds on the silent-second loans.

F. *County of Santa Clara*

In August 2006, the Agency entered into a Disposition and Development Agreement with the County of Santa Clara to construct a health center and a public parking garage. Under the terms of the Agreement, the Agency will sell a parcel of land to the County for the construction of the health center for \$1,862,360. In addition, the Agency entered into a Ground Lease Agreement to lease a parcel of land to the County for 75 years for constructing and operating a public parking garage adjacent to the health center site. The Agency will construct certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements. The property was sold to the County in fiscal year 2008.

G. *MIL Aspen Associates, Ltd.*

In April 2007, the Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. The Agency will provide a \$2,300,000 loan to the Developer. As of June 30, 2008, the Agency had not expended any funds on the loan.

NOTE 8 - CAPITAL ASSETS

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

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

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

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

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

A. Governmental Capital Asset Additions, Retirements and Balances

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

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

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

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

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

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

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, 2008:

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

D. Depreciation Allocation

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

Governmental Activities

| | |
|--------------------------------------|---------------------|
| General Government | \$2,709,286 |
| Public Works | 9,672,368 |
| Parks and Recreation | 752,016 |
| Police | 513,202 |
| Fire | 355,058 |
| Internal Service Fund | 801,148 |
| Total Governmental Activities | \$14,803,078 |

Business-Type Activities

| | |
|---------------------------------------|--------------------|
| Water Utility | \$1,370,542 |
| Recycled Water Utility | 20,216 |
| Sewer Utility | 2,064,311 |
| Total Business-Type Activities | \$3,455,069 |

Discretely Presented Component Unit:

| | |
|-----------------------|-----------|
| Terrace Gardens, Inc. | \$257,275 |
|-----------------------|-----------|

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 San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 13.5 million gallons per day or about 8.1% of the total plant capacity. The City has capitalized its share in the amount of \$16,147,535. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2008 the City's operation and maintenance share was approximately 6.43% of the total WPCP operations.

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

NOTE 9 - LONG TERM DEBT

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

A. Current Year Transactions and Balances

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

| | Balance June 30, 2007 | Retirements | Balance June 30, 2008 | Current Portion |
|---|--------------------------|--------------------|--------------------------|--------------------|
| Governmental Activity Debt: | | | | |
| 2003 Redevelopment Agency Tax Allocation Bonds 2%-5.25%, due September 1, 2032 | \$187,030,000 | \$3,855,000 | \$183,175,000 | \$3,960,000 |
| Technology Certificates of Participation, Series 2000 4% - 4.25%, due November 1, 2008 | 2,410,000 | 1,180,000 | 1,230,000 | 1,230,000 |
| Installment Purchase Agreement with the County of Santa Clara due June 30, 2023 | 46,843,094 | 3,455,350 | 43,387,744 | 3,290,810 |
| Total Governmental Activity Debt | <u>\$236,283,094</u> | <u>\$8,490,350</u> | <u>\$227,792,744</u> | <u>\$8,480,810</u> |
| Business-type Activity Debt: | | | | |
| Sewer Certificates of Participation, 2006 Series A 3.4% - 4.20%, due November 1, 2026 | \$9,535,000 | \$375,000 | \$9,160,000 | \$345,000 |
| Total Business-type Activity Debt | <u>\$9,535,000</u> | <u>\$375,000</u> | <u>\$9,160,000</u> | <u>\$345,000</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. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a \$13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

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

C. Technology Certificates of Participation, Series 2000

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

D. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 7D above. As discussed in Note 7D, under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Agency has therefore recorded a liability of \$43,387,744 at June 30, 2008, representing the present value of future payments due under this Agreement.

E. Sewer Certificates of Participation, 2006 Series A

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 9 - LONG TERM DEBT (Continued)

F. Debt Service Requirements

Annual debt service requirements are shown below:

| Year Ending June 30 | Governmental Activities | | Business-Type Activities | |
|------------------------|-------------------------|----------------------|--------------------------|--------------------|
| | Total Principal | Total Interest | Total Principal | Total Interest |
| 2009 | \$8,480,810 | \$9,463,786 | \$345,000 | \$343,693 |
| 2010 | 8,169,105 | 9,414,453 | 355,000 | 331,793 |
| 2011 | 8,224,862 | 9,377,846 | 370,000 | 319,468 |
| 2012 | 8,252,725 | 9,340,158 | 380,000 | 306,528 |
| 2013 | 8,302,357 | 9,266,176 | 395,000 | 292,965 |
| 2014-2018 | 46,846,801 | 45,766,014 | 2,180,000 | 1,242,089 |
| 2019-2023 | 55,096,084 | 42,272,048 | 2,625,000 | 789,597 |
| 2024-2028 | 52,645,000 | 14,508,493 | 2,510,000 | 215,102 |
| 2029-2033 | 31,775,000 | 3,504,229 | | |
| | <u>\$227,792,744</u> | <u>\$152,913,203</u> | <u>\$9,160,000</u> | <u>\$3,841,235</u> |

G. Defeased Bonds

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

NOTE 10 – NET ASSETS AND FUND BALANCES

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

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

A. Net Assets

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

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

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

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

B. Reservations of Governmental Fund Balances

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

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

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

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

C. Designations of Governmental Fund Balances

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

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

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

NOTE 11 - PERS PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2008, are summarized as follows:

| | <u>Safety</u> | <u>Miscellaneous</u> |
|---|------------------|----------------------|
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payment | monthly for life | monthly for life |
| Retirement Age | 50 | 50 |
| Monthly benefits, as a % of annual salary | 3% | 2.0%-2.7% |
| Required employee contribution rates | 9% | 8% |
| Required employer contribution rates | 22.932% | 14.928% |
| Actuarially required contribution | \$4,574,696 | \$3,762,511 |

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City does not have a net pension obligation since it pays these actuarially required contributions annually.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately six percent of the net balance is amortized annually.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

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

Safety Plan:

| Actuarial | | | | | | |
|----------------|-----------------|-----------------------------|---------------------------------|--------------|------------------------|---|
| Valuation Date | Value of Assets | Entry Age Accrued Liability | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
| 2004 | \$111,436,817 | \$137,105,190 | \$25,668,373 | 81.3% | \$18,296,030 | 140.295% |
| 2005 | 122,027,882 | 148,258,606 | 26,230,724 | 82.3% | 18,123,752 | 144.731% |
| 2006 | 133,625,518 | 158,393,586 | 24,768,068 | 84.4% | 17,945,091 | 138.021% |

Miscellaneous Plan:

| Actuarial | | | | | | |
|----------------|-----------------|-----------------------------|---------------------------------|--------------|------------------------|---|
| Valuation Date | Value of Assets | Entry Age Accrued Liability | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
| 2004 | \$74,706,971 | \$88,221,388 | \$13,514,417 | 84.7% | \$21,824,238 | 61.924% |
| 2005 | 82,237,103 | 99,488,857 | 17,251,754 | 82.7% | 22,898,895 | 75.339% |
| 2006 | 91,352,176 | 108,397,205 | 17,045,029 | 84.3% | 21,689,035 | 78.588% |

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

CALPERS has reported that the value of the net assets in the Plan held for pension benefits changed during the year ended June 30, 2006 (the most recent available) as follows:

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

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2008, 2007, and 2006 were \$8,337,207, \$8,032,234, and \$8,638,190 respectively. The City made these contributions as required.

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 11 - PERS PENSION PLAN (Continued)

B. Public Agency Retirement System

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$17,654 and the employee's required contributions of \$70,609 were made during the fiscal year ending June 30, 2008.

NOTE 12 - EMPLOYEE BENEFITS

A. Deferred Compensation Plan

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

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

B. Retiree Medical Benefits

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

In anticipation of implementing the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB) in fiscal year 2008, the City hired an actuary to prepare a study to determine the unfunded liability of these benefits for both active employees and retirees. The study indicated that as of July 1, 2007, the unfunded actuarial liability was estimated to be \$36,371,140. As of June 30, 2007, the City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. City Council authorized a deposit of \$9,496,160 with CERBT on June 5, 2007 to begin funding its OPEB liability.

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

Funding Policy and Actuarial Assumptions

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Funding Progress and Funded Status

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

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

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

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

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 12 - EMPLOYEE BENEFITS (Continued)

C. Accrued Vacation and Sick Leave Liabilities

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

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2008, sick leave benefits payable increased \$503,303 and vacation benefits payable increased \$284,128. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Assets.

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

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

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

CITY OF MILPITAS
Notes to Basic Financial Statements

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of self-funded general liability and auto coverage and \$15,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. ABAG Plan also provides \$1,000,000 of employee theft coverage in excess of the city's \$5,000 deductible. ABAG Plan provides coverage for property damage up to \$1 billion based on its appraised values of the properties up to \$350,000,000. The City retains a self-insured amount of \$5,000 for each property and \$10,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2008 the City contributed \$393,671 for current year coverage.

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

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

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

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$5,000,000. The City has a deductible or uninsured liability of up to \$750,000 per claim for miscellaneous employees and \$1,000,000 for public safety employees.

C. Dental

The City is self-insured for dental care up to a maximum \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2008 the City paid \$631,289 in dental claims and administrative fees.

D. Liability for Uninsured Claims

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

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:

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

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

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

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from \$240 million to \$502 million. The limitation was subsequently increased to \$2.4 billion in 2003. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During fiscal year 2008, the Agency made pass-through payments in the amount of \$1,103,921.

Construction commitments are discussed in Notes 7 and 8.

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, 2008 is as follows:

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

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

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

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

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



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

| | SPECIAL REVENUE FUNDS | | | | | |
|---|-----------------------|---|--------------------------------|--|--|--|
| | Gas Tax | Housing and Community Development | Law Enforcement Services | Solid Waste Reduction and Services | Lighting and Landscape Maintenance District | |
| ASSETS | | | | | | |
| Cash and investments available for operations | \$518 | \$3,200 | \$346,899 | \$1,283,787 | \$289,723 | |
| Receivables: | | | | | | |
| Accounts | | | | 53,733 | | |
| Due from other governments | 396,780 | 54,102 | | | | |
| Interest | 2,828 | 386 | 3,888 | 12,589 | 2,325 | |
| Loans receivable | | 3,080,278 | | | | |
| Prepays, materials, supplies and deposits | | 774 | | 341 | 798 | |
| Total Assets | <u>\$400,126</u> | <u>\$3,138,740</u> | <u>\$350,787</u> | <u>\$1,350,450</u> | <u>\$292,846</u> | |
| LIABILITIES | | | | | | |
| Accounts payable | | \$39,727 | \$33,502 | \$35,146 | \$31,147 | |
| Accrued payroll | | 2,140 | | 2,893 | 515 | |
| Due to other funds | | 28,987 | | | | |
| Deferred revenue | | | 55,217 | | | |
| Refundable deposits | | | | 18,843 | | |
| Total Liabilities | | <u>70,854</u> | <u>88,719</u> | <u>56,882</u> | <u>31,662</u> | |
| FUND BALANCE | | | | | | |
| Fund Balances: | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | | 4,848 | | 1,870 | 14,154 | |
| Loans | | 3,080,278 | | | | |
| Prepays, materials, supplies and deposits | | 774 | | 341 | 798 | |
| Unreserved, Designated for: | | | | | | |
| Projects | | | | | | |
| Change in investment market values | | | | | | |
| Unreserved, Undesignated | \$400,126 | (18,014) | 262,068 | 1,291,357 | 246,232 | |
| Total Fund Balances | <u>400,126</u> | <u>3,067,886</u> | <u>262,068</u> | <u>1,293,568</u> | <u>261,184</u> | |
| Total Liabilities and Fund Balances | <u>\$400,126</u> | <u>\$3,138,740</u> | <u>\$350,787</u> | <u>\$1,350,450</u> | <u>\$292,846</u> | |

CAPITAL PROJECTS FUNDS

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

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

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

CAPITAL PROJECTS FUNDS

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

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

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

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

(Continued)

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

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

TOTALS

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



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

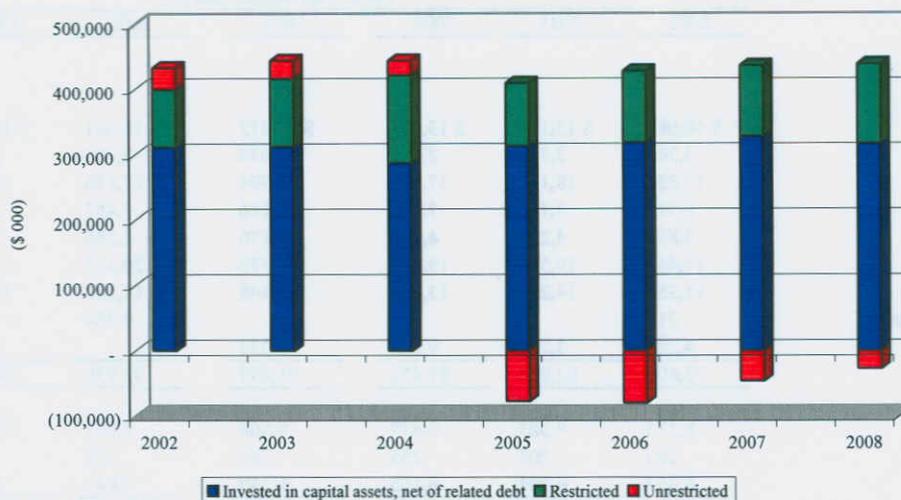
| | Balance June 30, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---|--------------------------|--------------------|--------------------|--------------------------|
| <u>Employee Benefit</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and investments available for operations | \$974,404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

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

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



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



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

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

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

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

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

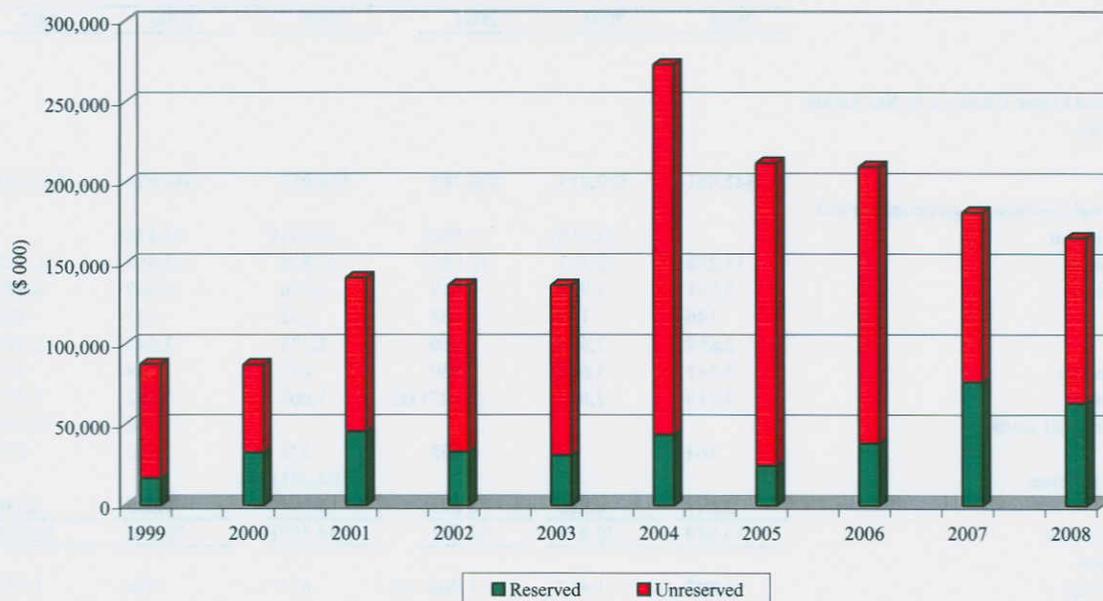
CITY OF MILPITAS
CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS
 (accrual basis of accounting)
 (Dollars in Thousands)

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

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

- (a) In 2004, the fair value of the City's investments decreased \$3,764 K in government activities and \$55K in business-type activities.
- (b) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

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



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

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

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

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

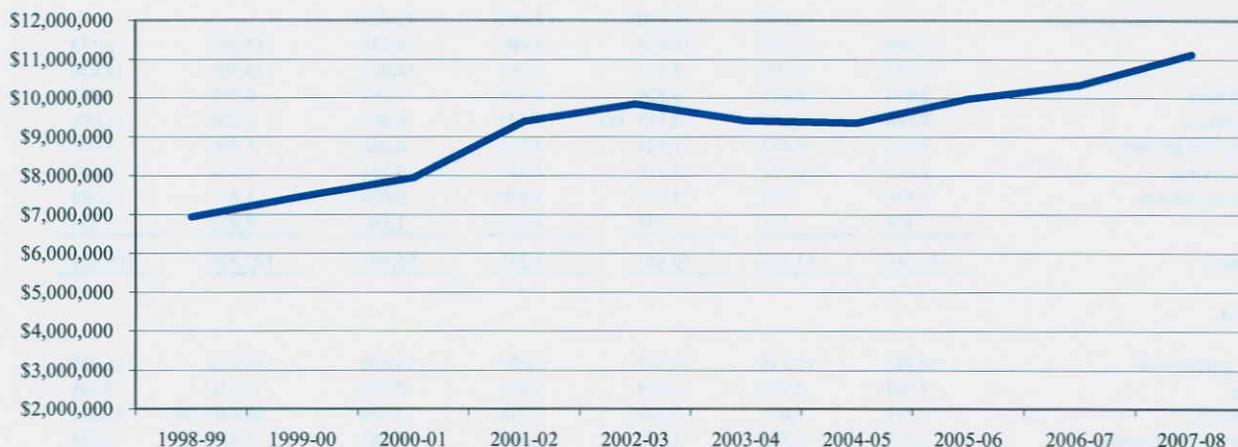
(a) In 2004, the fair value of the investments decreased \$3,764 K in governmental activities.

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

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

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

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



| Fiscal Year | Real Property | | | | Unsecured | Less: Tax-Exempt Property | Total Taxable Assessed Value (a) | Total Direct Tax Rate (b) |
|-------------|----------------------|---------------------|---------------------|-----------|-------------|---------------------------|----------------------------------|---------------------------|
| | Residential Property | Commercial Property | Industrial Property | Other | | | | |
| 1998-99 | N/A | N/A | N/A | N/A | N/A | N/A | \$6,919,759 | 1% |
| 1999-00 | N/A | N/A | N/A | N/A | N/A | N/A | 7,455,656 | 1% |
| 2000-01 | \$3,413,377 | \$790,469 | \$1,791,693 | \$536,246 | \$1,482,114 | (\$81,540) | 7,932,359 | 1% |
| 2001-02 | 3,417,125 | 779,136 | 2,166,036 | 1,274,151 | 1,825,539 | (85,563) | 9,376,424 | 1% |
| 2002-03 | 3,746,467 | 835,889 | 2,502,123 | 1,016,922 | 1,833,384 | (111,940) | 9,822,845 | 1% |
| 2003-04 | 4,377,568 | 964,438 | 2,340,453 | 227,739 | 1,595,224 | 107,860 | 9,397,563 | 1% |
| 2004-05 | 4,572,065 | 798,350 | 2,095,928 | 603,547 | 1,379,444 | (110,377) | 9,338,957 | 1% |
| 2005-06 | 4,952,629 | 814,287 | 2,032,245 | 641,662 | 1,651,527 | (131,810) | 9,960,540 | 1% |
| 2006-07 | 5,513,377 | 1,141,925 | 2,179,658 | 328,782 | 1,284,778 | (129,187) | 10,319,333 | 1% |
| 2007-08 | 5,974,338 | 1,208,674 | 2,423,285 | 320,499 | 1,329,060 | (146,495) | 11,109,361 | 1% |

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

Note:

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

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

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

| Fiscal Year | City Direct Rates | | Overlapping Rates (a) | | |
|-------------|-------------------|--------------|-----------------------|------------------|-------------------|
| | Basic Rate (b) | Total Direct | County of Santa Clara | School Districts | Special Districts |
| 1998-99 | \$1.00 | \$1.00 | \$0.0405 | \$0.0464 | \$0.0082 |
| 1999-00 | 1.00 | 1.00 | 0.0343 | 0.0601 | 0.0085 |
| 2000-01 | 1.00 | 1.00 | 0.0380 | 0.0615 | 0.0075 |
| 2001-02 | 1.00 | 1.00 | 0.0388 | 0.0496 | 0.0062 |
| 2002-03 | 1.00 | 1.00 | 0.0412 | 0.0567 | 0.0072 |
| 2003-04 | 1.00 | 1.00 | 0.0412 | 0.0582 | 0.0075 |
| 2004-05 | 1.00 | 1.00 | 0.0412 | 0.0624 | 0.0086 |
| 2005-06 | 1.00 | 1.00 | 0.0412 | 0.0881 | 0.0078 |
| 2006-07 | 1.00 | 1.00 | 0.0412 | 0.1007 | 0.0072 |
| 2007-08 | 1.00 | 1.00 | 0.0412 | 0.0956 | 0.0071 |

Source: County of Santa Clara, Tax Rates & Information

Notes:

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

CITY OF MILPITAS
 PRINCIPAL PROPERTY TAX PAYERS
 FISCAL YEARS 2007-08 and 1998-99
 (Dollars in thousands)

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

Fiscal Year 2007-2008 Total Net Assessed Valuation \$ 11,109,361

Fiscal Year 1998-1999 Total Net Assessed Valuation \$ 6,919,307

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2007/08 Combined Tax Rolls

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

| <u>Fiscal Year</u> | <u>Taxes Levied (a)</u> | <u>Current Collections (a)</u> | <u>Percent of Levy Collected</u> | <u>Delinquent Tax Collections</u> | <u>Total Taxes Collected (a)</u> | <u>Percent of Levy</u> |
|--------------------|-------------------------|--------------------------------|----------------------------------|-----------------------------------|----------------------------------|------------------------|
| 1998-99 | \$ 28,464 | \$ 28,464 | 100.00% | \$ 0 | \$ 28,464 | 100.00% |
| 1999-00 | 31,831 | 31,831 | 100.00% | 0 | 31,831 | 100.00% |
| 2000-01 | 34,592 | 34,592 | 100.00% | 0 | 34,592 | 100.00% |
| 2001-02 | 41,782 | 41,782 | 100.00% | 0 | 41,782 | 100.00% |
| 2002-03 | 39,520 | 39,520 | 100.00% | 0 | 39,520 | 100.00% |
| 2003-04 | 36,186 | 36,186 | 100.00% | 0 | 36,186 | 100.00% |
| 2004-05 | 38,337 | 38,337 | 100.00% | 0 | 38,337 | 100.00% |
| 2005-06 | 43,155 | 43,155 | 100.00% | 0 | 43,155 | 100.00% |
| 2006-07 | 44,289 | 44,289 | 100.00% | 0 | 44,289 | 100.00% |
| 2007-08 | 49,060 | 49,060 | 100.00% | 0 | 49,060 | 100.00% |

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

Source: City of Milpitas Comprehensive Financial Annual Report

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

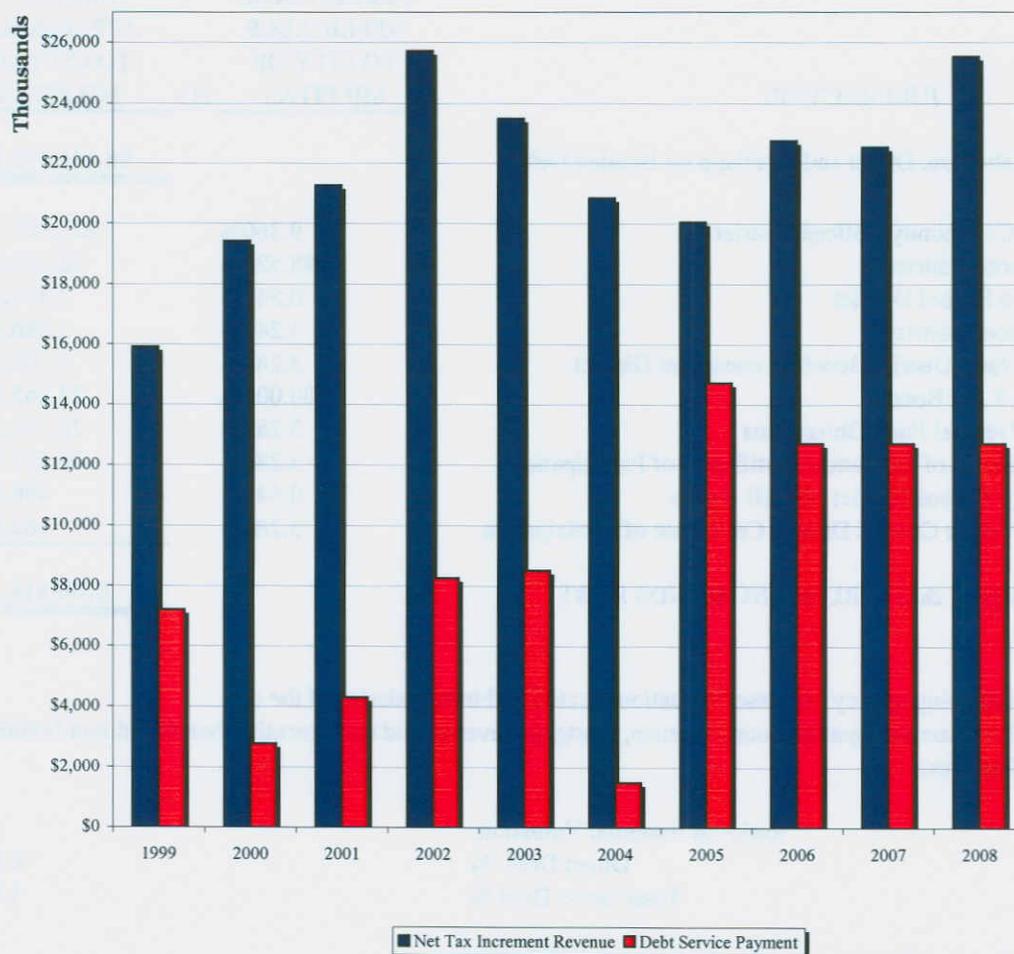
| <u>Fiscal Year</u> | <u>Sales Tax Revenue Bonds</u> | <u>Certificates of Participation</u> | <u>Tax Allocation Bonds</u> | <u>Installment Purchase Agreement</u> | <u>Total Primary Government</u> | <u>Percentage of Personal Income (a)</u> | <u>Per Capita (a)</u> |
|--------------------|--------------------------------|--------------------------------------|-----------------------------|---------------------------------------|---------------------------------|--|-----------------------|
| 1998-99 | 0 | 0 | \$37,810 | 0 | \$37,810 | 1.51% | \$588 |
| 1999-00 | 0 | 0 | 46,205 | 0 | 46,205 | 1.61% | 708 |
| 2000-01 | \$8,795 | \$8,610 | 73,155 | 0 | 90,560 | 2.65% | 1,429 |
| 2001-02 | 8,335 | 7,640 | 68,325 | 0 | 84,300 | 2.70% | 1,322 |
| 2002-03 | 7,855 | 6,680 | 63,295 | 0 | 77,830 | 2.60% | 1,196 |
| 2003-04 | 0 | 5,675 | 200,000 | 0 | 205,675 | 6.92% | 3,182 |
| 2004-05 | 0 | 4,630 | 194,440 | \$54,281 | 253,351 | 7.95% | 3,898 |
| 2005-06 | 0 | 3,540 | 190,780 | 50,471 | 244,791 | 7.50% | 3,750 |
| 2006-07 | 0 | 2,410 | 187,030 | 46,843 | 236,283 | 6.45% | 3,549 |
| 2007-08 | 0 | 1,230 | 183,175 | 43,388 | 227,793 | (b) | 3,281 |

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

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

(b) Data for fiscal year 2007-08 not available until May of 2009.

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



| Fiscal Year | Redevelopment Agency Property Tax Increments | Less Housing Reserve Fund | Net Tax Increment Revenue | Debt Service Requirements | | | Coverage |
|-------------|--|---------------------------|---------------------------|---------------------------|-------------|-------------|----------|
| | | | | Principal | Interest | Total | |
| 1999 | \$20,221,790 | \$4,311,212 | \$15,910,578 | \$4,995,000 | \$2,200,066 | \$7,195,066 | 2.21 |
| 2000 | 24,282,112 | 4,865,649 | 19,416,463 | 810,000 | 1,967,521 | 2,777,521 | 6.99 |
| 2001 | 26,579,328 | 5,315,867 | 21,263,461 | 1,845,000 | 2,464,912 | 4,309,912 | 4.93 |
| 2002 | 32,387,027 | 6,667,458 | 25,719,569 | 4,830,000 | 3,426,503 | 8,256,503 | 3.12 |
| 2003 | 29,511,358 | 6,023,817 | 23,487,541 | 5,030,000 | 3,482,488 | 8,512,488 | 2.76 |
| 2004 | 26,171,147 | 5,315,246 | 20,855,901 | 0 (a) | 1,494,048 | 1,494,048 | 13.96 |
| 2005 | 25,215,408 | 5,160,555 | 20,054,853 | 5,560,000 | 9,163,896 | 14,723,896 | 1.36 |
| 2006 | 28,606,441 | 5,867,736 | 22,738,705 | 3,660,000 | 9,062,546 | 12,722,546 | 1.79 |
| 2007 | 28,413,636 | 5,886,749 | 22,526,887 | 3,750,000 | 8,965,234 | 12,715,234 | 1.77 |
| 2008 | 32,259,656 | 6,740,250 | 25,519,406 | 3,855,000 | 8,860,665 | 12,715,665 | 2.01 |

(a) The Agency issued the 2003 Tax Allocation Bonds and refunded the prior outstanding debt issues. Therefore, no principal payments were due in that fiscal year.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2008

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

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

| | |
|--------------------|-------|
| Direct Debt % | 0.02% |
| Total Gross Debt % | 1.85% |

Source: California Municipal Statistics, Inc.

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

Legal Debt Margin Calculation for Fiscal Year 2007-08

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

| Fiscal Year | Debt Limit | Total Net Debt Applicable to Limit | Legal Debt Margin | Total Net Debt Applicable to the Limit as a percentage of Debt Limit |
|----------------|---------------|---------------------------------------|----------------------|--|
| 1998-99 | \$259,491 | \$0 | \$259,491 | 0.0% |
| 1999-00 | 279,587 | 0 | 279,587 | 0.0% |
| 2000-01 | 297,492 | 0 | 297,492 | 0.0% |
| 2001-02 | 351,616 | 0 | 351,616 | 0.0% |
| 2002-03 | 368,356 | 0 | 368,356 | 0.0% |
| 2003-04 | 352,408 | 0 | 352,408 | 0.0% |
| 2004-05 | 350,211 | 0 | 350,211 | 0.0% |
| 2005-06 | 373,520 | 0 | 373,520 | 0.0% |
| 2006-07 | 386,975 | 0 | 386,975 | 0.0% |
| 2007-08 | 416,601 | 0 | 416,601 | 0.0% |

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

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

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

| Fiscal Year | Operating Revenues (1) | Less: Operating Expenses (2) | Net Available Revenue | Installment Payments | | | Coverage |
|-------------|------------------------|------------------------------|-----------------------|----------------------|-----------|-----------|----------|
| | | | | Principal | Interest | Total | |
| 2006-07 | \$9,832,568 | \$5,960,109 | \$3,872,459 | \$0 | \$198,207 | \$198,207 | 20 |
| 2007-08 | 10,041,250 | 6,208,050 | 3,833,200 | 375,000 | 353,893 | 728,893 | 5 |

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

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

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

| Fiscal Year | Residential | | | Commercial | | (a) |
|-------------|---------------------------------------|--------------------------------------|---|--------------|---------------------|-----|
| | Single Family Per Dwelling Unit | Multi-Family Per Dwelling Unit | Mobile Home Parks Per Dwelling Unit | Flat Rate | Quantity Charges | |
| 1998-99 | 42.29 | 28.17 | 16.68 | 7.14 | 0.02 - 2.94 | |
| 1999-00 | 42.29 | 30.27 | 17.93 | 7.14 | 0.02 - 3.08 | |
| 2000-01 | 42.29 | 30.19 | 18.69 | 7.14 | 0.01 - 3.75 | |
| 2001-02 | 42.29 | 30.19 | 18.69 | 7.14 | 0.01 - 3.37 | |
| 2002-03 | 42.29 | 30.19 | 18.69 | 7.14 | 0.01 - 3.37 | |
| 2003-04 | 46.10 | 33.82 | 21.27 | 7.78 | 0.01 - 5.12 | |
| 2004-05 | 50.25 | 36.48 | 22.76 | 8.48 | 0.01 - 4.89 | |
| 2005-06 | 54.77 | 39.49 | 24.57 | 9.24 | 0.02 - 3.50 | |
| 2006-07 | 59.70 | 43.14 | 26.88 | 10.08 | 0.02 - 3.93 | |
| 2007-08 | 59.70 | 43.14 | 26.88 | 10.08 | 0.02 - 3.93 | |

Source: City of Milpitas, Engineering Department

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

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

| Fiscal Year | Population | Population Density (Sq. Mile) | Per Capita Personal Income (a) | School Enrollment | Unemployment Rate (%) (a) | Land Area (Sq. Mile) |
|-------------|------------|-------------------------------|--------------------------------|-------------------|---------------------------|----------------------|
| 1998-99 | 64,325 | 4,709 | \$39 | 9,917 | 3.40% | 13.66 |
| 1999-00 | 65,254 | 4,777 | 44 | 9,925 | 3.50% | 13.66 |
| 2000-01 | 63,395 | 4,641 | 54 | 9,702 | 5.00% | 13.66 |
| 2001-02 | 63,768 | 4,668 | 49 | 9,424 | 8.70% | 13.66 |
| 2002-03 | 65,049 | 4,762 | 46 | 9,516 | 9.30% | 13.66 |
| 2003-04 | 64,629 | 4,731 | 46 | 9,528 | 6.90% | 13.66 |
| 2004-05 | 64,998 | 3,823 | 49 | 9,602 | 5.60% | 13.66 |
| 2005-06 | 65,276 | 3,840 | 50 | 9,748 | 4.40% | 13.66 |
| 2006-07 | 66,568 | 3,916 | 55 | 9,682 | 4.70% | 13.66 |
| 2007-08 | 69,419 | 5,082 | (b) | 9,590 | 5.50% | 13.66 |

(a) For Santa Clara County.

(b) Data for fiscal year 2007-08 is not available until May of 2009.

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

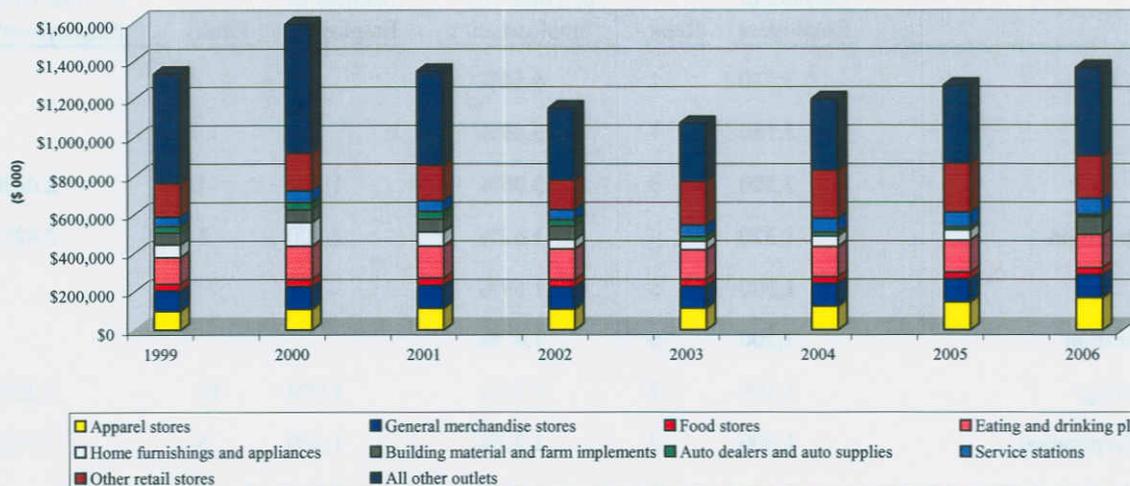
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2006-07 and 1998-99

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

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

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

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



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

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

Source: California State Board of Equalization

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

| Fiscal Year | City Direct Rate | | Santa Clara County |
|----------------|------------------------|-----|-----------------------|
| 1998-99 | 1.00 | | 1.25 |
| 1999-00 | 1.00 | | 1.25 |
| 2000-01 | 1.00 | | 1.25 |
| 2001-02 | 1.00 | | 1.25 |
| 2002-03 | 1.00 | | 1.25 |
| 2003-04 | 1.00 | | 1.25 |
| 2004-05 | 1.00 | | 1.25 |
| 2005-06 | 0.75 | (a) | 1.25 |
| 2006-07 | 0.75 | (a) | 1.25 |
| 2007-08 | 0.75 | (a) | 1.25 |

Source: California State Board of Equalization

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

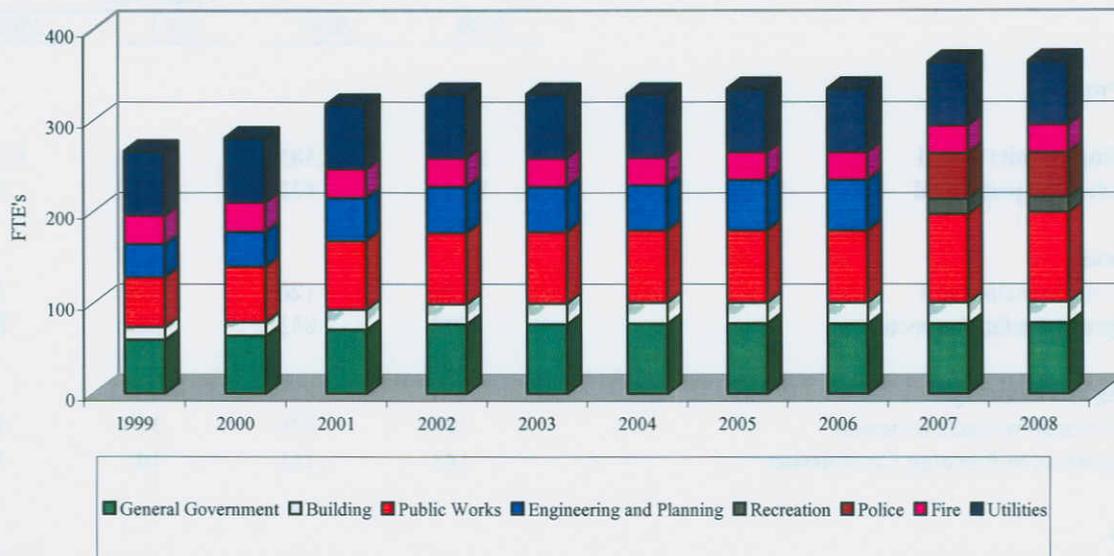
CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 FISCAL YEAR 2007-08 and 1999-2000
 IN ALPHABETICAL ORDER

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

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

Source: MBIA MuniServices Company

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



| Function | Adopted for Fiscal Year Ended June 30 | | | | | | | | | |
|---|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| General Government | 58.8 | 63.3 | 70.3 | 76.3 | 76.3 | 77.0 | 77.3 | 77.0 | 77.0 | 78.0 |
| Building | 14.0 | 15.0 | 22.0 | 22.0 | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 | 23.0 |
| Public Works | 55.0 | 61.0 | 75.0 | 78.0 | 78.0 | 79.0 | 78.8 | 79.0 | 97.0 (a) | 98.0 |
| Engineering and Planning Planning and Neighborhood | 36.0 | 38.0 | 47.5 | 50.5 | 49.5 | 49.5 | 55.5 | 55.5 | (a) | (a) |
| Recreation | 21.0 | 20.0 | 23.5 | 28.5 | 29.0 | 29.0 | 29.0 | 29.0 | (a) | (a) |
| Parks and Recreation | | | | | | | | | 50.0 (a) | 49.0 |
| Police: | | | | | | | | | | |
| Sworn Police | 86.5 | 89.0 | 94.0 | 94.0 | 94.0 | 94.0 | 94.0 | 94.0 | 94.0 | 94.0 |
| Civilians | 31.5 | 32.5 | 31.5 | 31.5 | 31.5 | 30.5 | 30.5 | 30.5 | 30.5 | 30.5 |
| Fire: | | | | | | | | | | |
| Firefighters and Safety | 71.0 | 71.0 | 71.0 | 71.0 | 71.0 | 70.0 | 70.0 | 70.0 | 70.0 | 70.0 |
| Civilians | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Utilities | 25.0 | 25.0 | 26.0 | 27.0 | 27.0 | 27.0 | 27.0 | 27.0 | 27.0 | 27.0 |
| Total | 408.8 | 424.8 | 470.8 | 488.8 | 489.3 | 489.0 | 495.0 | 495.0 | 495.0 | 496.0 |

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

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

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

Source: City of Milpitas, final budget

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

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

| Function/Program | Fiscal Year | | | | |
|---|-------------|-------|-------|-------|-------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Public Works | | | | | |
| Miles of streets | 126 | 127 | 137 | 137 | 137 |
| Street lights | 4,976 | 4,976 | n/a | 4,262 | 4,281 |
| Square feet of buildings maintained (in thousands) | 215 | 215 | 215 | 252 | 299 |
| City vehicles | 475 | 483 | 490 | 657 | 618 |
| Signs | 6,300 | 6,300 | 6,300 | 6,900 | 7,050 |
| Signal lights | 64 | 64 | 64 | 64 | 66 |
| City Parks | 28 | 28 | 28 | 24 | 26 |
| Acres of Parkland | 178 | 178 | 178 | 178 | 161 |
| Playgrounds | 26 | 26 | 26 | 26 | 26 |
| Recreation | | | | | |
| Community centers | 1 | 1 | 1 | 1 | 1 |
| Senior centers | 1 | 1 | 1 | 1 | 1 |
| Sports centers | 1 | 1 | 1 | 1 | 1 |
| Swimming pools | 4 | 4 | 4 | 3 | 3 |
| Tennis courts | 24 | 24 | 24 | 24 | 24 |
| Football field | 1 | 1 | 1 | 1 | 1 |
| Baseball fields | 21 | 21 | 21 | 21 | 21 |
| Soccer fields | 10 | 10 | 10 | 10 | 10 |
| Basketball courts | 5 | 5 | 5 | 5 | 5 |
| Volleyball courts | 7 | 7 | 7 | 7 | 7 |
| Handball courts | 4 | 4 | 4 | 4 | 4 |
| Police | | | | | |
| Police stations | 1 | 1 | 2 | 2 | 2 |
| Police patrol vehicles | 26 | 27 | 28 | 28 | 30 |
| Fire | | | | | |
| Fire stations | 4 | 4 | 4 | 4 | 4 |
| Fire Apparatus | 10 | 10 | 10 | 10 | 11 |
| Fire hydrants | 1,614 | 1,650 | 1,656 | 1,661 | 1,670 |
| Utility | | | | | |
| Miles of water mains | 195 | 197 | 198 | 198 | 199 |
| Water Tank Storage capacity (million of gallons) | 15.64 | 15.64 | 15.64 | 15.64 | 15.64 |
| Miles of sanitary sewers | 164 | 166 | 166 | 167 | 168 |
| Miles of storm drain | 96 | 98 | 100 | 98 | 99 |
| Miles of recycled water main | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |

Source: City of Milpitas, final budget

| Fiscal Year | | | | |
|-------------|-------|-------|-------|-------|
| 2004 | 2005 | 2006 | 2007 | 2008 |
| 137 | 137 | 139 | 139 | 139 |
| 4,324 | 4,346 | 4,354 | 4,354 | 4,435 |
| 344 | 350 | 350 | 350 | 350 |
| 626 | 631 | 635 | 635 | 630 |
| 7,150 | 7,250 | 7,167 | 7,400 | 8,000 |
| 68 | 68 | 68 | 68 | 68 |
| 24 | 26 | 26 | 29 | |
| 171 | 172 | 172 | 172 | |
| 26 | 32 | 32 | 30 | 29 |
| | | | | 171.5 |
| | | | | 32 |
| 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | 1 | 1 |
| 3 | 3 | 3 | 4 | 4 |
| 24 | 22 | 22 | 22 | 22 |
| 1 | 1 | 1 | 1 | 1 |
| 21 | 21 | 21 | 21 | 21 |
| 13 | 13 | 13 | 13 | 13 |
| 5 | 5 | 5 | 5 | 5 |
| 7 | 7 | 7 | 7 | 7 |
| 4 | 4 | 4 | 4 | 4 |
| 2 | 2 | 2 | 2 | 2 |
| 30 | 30 | 30 | 28 | 27 |
| 4 | 4 | 4 | 4 | 4 |
| 15 | 13 | 14 | 16 | 14 |
| 1,739 | 1,755 | 1,756 | 1,756 | 1,809 |
| 202 | 203 | 204 | 204 | 206 |
| 15.64 | 15.64 | 15.64 | 15.64 | 16.21 |
| 168 | 173 | 173 | 173 | 177 |
| 99 | 99 | 105 | 105 | 107 |
| 7.5 | 11.0 | 11.0 | 11.0 | 11 |

