

Comprehensive Annual Financial Report



Norman Y. Mineta International Airport Construction



San José City Hall

Fiscal Year Ended June 30, 2007

Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2007

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Comprehensive Annual Financial Report
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City Clerk
City Manager
City Attorney

Department of Transportation
Environmental Services
Human Resources
General Services
Housing Department
Information Technology

Parks, Recreation and
Neighborhood Services
Police Department
Public Works
Redevelopment Agency
Retirement Department

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Introductory Section

November 15, 2007

HONORABLE MAYOR and CITY COUNCIL

**THE COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY OF SAN JOSE**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of San José for the fiscal year (FY) July 1, 2006 through June 30, 2007 as required by Sections 805(a) and 1215 of the City Charter. Although addressed to the City's governing body, the CAFR is also intended to provide relevant financial information to the residents of San José, creditors, investors, and other interested parties. This transmittal letter provides a summary of City of San José finances, services, achievements, and economic prospects for readers without a technical background. Those wishing a more detailed discussion of the City's financial results should refer to Management's Discussion & Analysis (MD&A) contained in the Financial Section of the CAFR.

The City of San José's management is solely responsible for the accuracy of the information contained in this report, the adequacy of its disclosures, and the fairness of its presentation. We believe this CAFR to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect City assets from loss, to identify and record transactions accurately, and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles.

Ensuring the financial integrity of our public institutions is crucial to maintaining the public's trust. Federal legislation and the Securities and Exchange Commission require top executives of publicly-traded companies to attest personally to the accuracy of their companies' financial results. Although this legislation does not apply to governmental agencies, the Introductory Section includes voluntary oaths from the City Manager and Director of Finance attesting to the accuracy, reliability, and completeness of the CAFR as a means of conveying the importance of the City's commitment to excellence in financial reporting in keeping with the spirit of maintaining the public's trust.

The City contracted with Macias Gini & O'Connell LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City's financial statements for FY 2006-07 are fairly stated and in compliance with accounting principles generally accepted in the United States. This conclusion is the most favorable kind and is commonly known as an "unqualified" or "clean" opinion. The independent auditor's report is included in the Financial Section of this report.

In addition, the auditors audited the City's expenditure of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget (OMB) Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR and may be obtained upon request from the City's Department of Finance.

Letter of Transmittal

This Comprehensive Annual Financial Report is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of the services it provides, and specifics of its legal operating environment.
- The Financial Section contains the City's audited financial statements including the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's major funds, as well as for nonmajor governmental, fiduciary, and other funds.
- The Statistical Section contains comprehensive statistical data on the City's financial, physical, economic, social, and political characteristics. This is the second consecutive year the Statistical Section of the CAFR was prepared in accordance with Statement No. 44 of the Governmental Accounting Standards Board (GASB) titled "Economic Condition Reporting: the Statistical Section".

REPORTING ENTITY

San José has long been recognized as one of the best-managed and safest big cities in the nation. San José is a charter city that has operated under a council-manager form of government since 1916. Under the City Charter, the Mayor and City Council form the legislative body that represents the community and is empowered to formulate citywide policy. The City Council consists of a Mayor and ten Council members. The Mayor is elected at large for up to two four-year terms. Council members are elected by district, also for up to two four-year terms. Under the Charter, the Mayor recommends policy, program and budget priorities to the City Council, which in turn approves policy direction for the City. The City Manager is appointed by the Council and serves as the chief administrative officer of the organization. The City Manager is responsible for administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the City Council. Additionally, the City Council, acting as the Redevelopment Agency Board, appoints the Executive Director of the Redevelopment Agency to administer redevelopment projects and programs.

The City provides a full range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure and the administration of library, recreational activities, and cultural facilities. The City operates a downtown parking program, a municipal water system, a wastewater treatment facility, the Norman Y. Mineta San José International Airport and three municipal golf courses. In addition, it oversees convention, cultural event and hospitality facilities that include History San José, Center for the Performing Arts, San José McEnery Convention Center, Dolce Hayes Mansion Conference Center and HP Pavilion at San José - home of the San José Sharks of the National Hockey League.

San José covers approximately 178 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County. With a 2007 population of 974,000¹, it is the tenth largest city in the United States and the third largest city in California. In addition, San José is the oldest city in California, developing from a Spanish pueblo established on November 29, 1777. The City has transformed dramatically from the rich agricultural setting of its early years into the center for information technology

¹ State Department of Finance

Letter of Transmittal

known as the "Capital of Silicon Valley." Service, manufacturing, retail and government sectors provide well over half of the City's employment.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the City Council has financial accountability. These organizations include the Redevelopment Agency of the City of San José, Parking Authority of the City of San José, San José-Santa Clara Clean Water Financing Authority, and the City of San José Financing Authority.

ECONOMIC CONDITION and OUTLOOK

In general, the economy at both the national level and for San José is projected to grow in 2007 but at a slower rate than that experienced in 2006. The primary reason for the slowdown, both nationally and locally, is the cooling of the housing market. For San José, specifically, several economically sensitive revenue sources, such as Sales Tax, Construction and Conveyance Taxes and Property Taxes may be negatively impacted by the housing market slowdown. More positively, however, San José's average unemployment rates remain relatively low. For example, the City's average unemployment rate for calendar year 2006 was 5.0 percent, which was only slightly higher than the statewide average of 4.9 percent².

Even with modest economic growth the City still faces significant financial challenges. Expenditure obligations for both existing and new programs are substantial. To meet these community needs the City Council approved a balanced General Fund budget for FY 2007-08, closing a funding gap of approximately \$19.9 million. Two significant strategies employed by the City Council to balance the budget were: 1) to focus reduction efforts on the elimination of vacant positions; and, 2) to employ the use of one-time funding to address significant infrastructure maintenance needs. Consequently, the final budget includes a combination of ongoing cost reductions, the strategic use of reserves and necessary fee increases.

Finally, the City continues to maintain its prominence in the financial community as the three national credit rating agencies, Moody's Investors Service, Standard & Poor's, and Fitch Ratings, each cited strong financial management and economic development activities when reaffirming the City's high general credit ratings of Aa1/AA+/AA+ (from Moody's, Standard and Poor's and Fitch, respectively) for the seventh consecutive year. These credit ratings are the highest of any large city in California, and are due, in part, to the City's pro-active approach to fiscal challenges and opportunities, conservative budgeting, and strong financial management.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Highlights of activities and accomplishments for the FY ended June 30, 2007 include the following:

- ❖ Construction of a high-rise housing and retail complex in downtown San José continues to move forward after commencing construction in 2005. The full project, known as Central Place, is being completed in two phases and includes two 24-story towers containing 402 condominiums, 68,000 square feet of ground-floor retail and restaurant space, a new pedestrian-oriented street, six levels of above-grade residential parking and 3 levels of below-grade public parking. Phase I is scheduled for completion in the second quarter of 2008 and Phase II is scheduled for completion in the second quarter of 2009. The site is located at San Fernando Street between Second and Third Streets next to the San José Repertory Theatre. The project is being funded in part by the San José Redevelopment Agency.

² State of California, Employment Development Department, Labor Market Information Division

Letter of Transmittal

- ❖ For the sixth consecutive year, the City received the 2006 Morgan Quitno Safest City Award, which recognizes San José as the safest big city in America of the 32 cities in the United States with populations over 500,000. The award is based on a city's rate for six basic crime categories: murder, rape, robbery, aggravated assault, burglary, and motor vehicle theft.
- ❖ In October 2006, the City hosted the inaugural Rock 'n' Roll Half Marathon race produced by Elite Racing, Inc. The 13.1 mile race on downtown San José streets attracted 12,000 runners and thousands of spectators and visitors, including live bands and cheer squads at every mile. The race was the second fastest half marathon ever to take place on American soil and the seventh most successful inaugural racing event in the world.
- ❖ In November 2006, Chuck Reed was elected as the 64th Mayor of San José for the 2007–10 four-year term. Mayor Reed was inaugurated in January 2007 and previously served as Councilmember for San José's District 4.
- ❖ In December 2006, the City celebrated the opening of a new 66,000 square foot Work2Future facility at a centralized location to better serve businesses and job seekers alike and to continue to expand services and partnerships. The goal of Work2Future is to strengthen the economic base of San José and Santa Clara County by increasing employment opportunities and job retention for all residents. Work2Future assists workers and job seekers with access to the tools they need to manage their careers through high quality information and services as well as helping employers find skilled workers. The intent of the new location is to become a full development and employment destination for youth and adults.
- ❖ In February 2007, Lockheed Martin Corporation celebrated the completion of its Transformational Satellite Missions Operations System building located in North San Jose. In addition to completing this facility, Lockheed Martin will add more than 300 jobs.
- ❖ In February 2007, the California Transportation Commission (CTC) approved \$186.5 million for key transportation projects in Santa Clara County, of which \$101.6 million is slated for congestion relief in San José. The \$101.6 million will fund two major projects in San José – the I-880-High Occupancy Vehicle Lane, Route 237 to US 101 Project and the US 101, I-280 to Yerba Buena Road Project.
- ❖ In February 2007, Cadence Design Systems, Inc. held a ground-breaking ceremony commemorating the start of construction of a five-story, 208,000 square foot "state of the art" research and development center at Cadence's campus in San José. The building is an outward sign of Cadence's commitment to continued innovation.
- ❖ In March 2007, Magma Design Automation Inc., one of the world's leaders in electronic design automation software, announced its decision to move their headquarters to San José from Santa Clara. Magma will add more than 300 jobs to San José and their move to San José reaffirms San José's status as the center for innovation and technology.
- ❖ In April 2007, the City celebrated the 50th anniversary of the sister city affiliation between San José and Okayama, Japan with a ceremonial flag raising at City Hall attended by the Mayor of Okayama and a multi-generational delegation from Okayama. Established in 1957, San José and Okayama began their sister city relationship due to their agriculture and economic similarities. As the regions grew, their economic base followed suit and diversified. Today, both cities are metropolitan hubs and remain part of the sister city program administered by Sister Cities International.
- ❖ In May 2007, the Mayor and City Council appointed Debra Figone as City Manager, effective July 23, 2007. The selection came after an open process in which community members were asked to share the characteristics that the new City Manager should possess. As City Manager, she will oversee and manage the day-to-day operations of the City and its fifteen departments and direct the development and implementation of the City's Operating and Capital Budgets.

Letter of Transmittal

- ❖ As noted earlier, the City maintained its strong general obligation bonds credit ratings from the national rating agencies (Aa1, AA+, AA+, from Moody's, Standard & Poor's and Fitch, respectively) in May 2007, earning the highest rating of any major California city above 250,000 in population. San José has maintained its ratings through its commitment to a conservative and prudent approach to fiscal management by the City's administration and the City Council.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

San José is committed to providing excellent municipal services to its diverse residents and visitors. The City organization is structured into six City Service Areas (CSAs) that integrate services provided in individual departments and offices into the City's key lines of business as viewed from the community's perspective. The CSAs are: Community & Economic Development; Environmental & Utility Services; Neighborhood Services; Public Safety; Strategic Support; and Transportation & Aviation Services. The City publishes a five-year Capital Improvement Program (CIP) that guides the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-year period. The CIP is updated annually and approved by the City Council. Significant issues and projects included in the Adopted 2008-12 CIP, presented within the CSA structure, are as follows:

Community & Economic Development

- A highlight of the Community and Economic Development CSA is the Developer Assisted Projects Capital Program, which includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund (RCTCF). This program reimburses residential developers for the construction of street improvements throughout the City and encourages the under grounding of existing overhead utilities. The objective of this program is to ensure that residential developments within San José include the construction of public improvements necessary to maintain or improve the infrastructure of the City.
- The Underground Utility Fund is used to collect developer fees when a developer opts out of placing facilities underground at the time of development. The Fund is used to establish Underground Utility Districts which combine several smaller under-grounding projects into one large project to achieve economies of scale and minimize the undesirable result of piecemeal under-grounding of utility facilities throughout the City. Projects are prioritized within a five-year plan based on several criteria, the most important of which is the total amount of fees collected within the proposed Underground Utility District. Priorities include three Underground Utility District projects within the City that are currently in the design or construction stage, and five approved projects to be designed.
- Developers who construct residential dwelling units pay taxes that are then deposited into the RCTCF. Payments from the fund are made to developers who construct eligible improvements on major City streets in connection with new residential developments. Some major anticipated activities within the RCTCF include reimbursements to KB Homes South Bay and Summerhill Homes for median island construction and center strip paving related to the Communications Hill and Dairy Hill projects. These projects were originally budgeted in FY 2005-06, but are now programmed in FY 2007-08 due to private developer delays in project completion.

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Environment & Utility Services

- The FY 2008-12 CIP for the Sanitary Sewer system provides funding of \$100.8 million and includes prominent projects related to the construction and/or rehabilitation of the North San José Interceptor System. Projects in this CIP that are not yet fully funded include the Flow Monitoring and Master Planning, Inflow/Infiltration (I&I) Reduction, and Neighborhood Sewer Improvement Programs. The Neighborhood Sewer Improvement Program currently includes projects to rehabilitate and/or replace sewers in the Julian-Sunol, Union/Almaden Oak, and Willow Glen neighborhoods.
- The Storm Sewer System Capital Program provides funding of \$14.8 million. Effective FY 2005-06, a three-year 4.5% annual rate increase strategy was approved by the City Council to fund additional capacity for neighborhood storm drain improvements. However, following a reassessment of needs, this CIP includes a 9.0% rate increase for FY 2007-08 and similar rate increases for the two years beyond to ensure the quality of storm water run off and to fund necessary capital improvements. The program will fund the Albany-Kiely Storm Drainage Improvement Phases III and IV project (\$2.9 million), Alviso Storm Rehabilitation project (\$2.0 million), the Chateau Drive Storm Drain Improvement Phases I and II project (\$0.7 million), Creek Channel Stabilization (\$0.6 million), Storm Pump Station Rehabilitation and Replacement (\$0.5 million), and a series of smaller neighborhood storm drain improvement projects (\$1.8 million).
- The major areas of investment for the Water Pollution Control Capital Program providing funding of \$247.7 million over the five-year CIP are Water Pollution Control Plant ("Plant") Reliability Improvements to increase the Plant's wet weather flow peak capacity, Plant Electrical Reliability Project to enhance the overall safety and reliability of the Plant electrical systems, Plant Master Plan Project to coordinate the many complex projects required for the Plant due to aging infrastructure and future regulations and serve as a tool to identify and prioritize CIP projects for upgrades and replacements, South Bay Action Plan (SBAP) projects to reduce average dry weather effluent flow from the Plant as required by the National Pollution Discharge Elimination System (NPDES), and several other major projects required to meet regulatory mandates, ensure process reliability, provide for a safe work environment, or provide process efficiencies or cost savings.
- The Water Utility System CIP provides funding of \$27.8 million and includes the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. The Water Utility System provides water service to approximately 26,800 customers in five Service Areas within the City: Evergreen, North San José, Alviso, Edenvale and Coyote. Service Area projects include seismic retrofits, water main construction and water valve rehabilitation.

Neighborhood Services

- In November 2000, voters in San José approved Measure O, a \$212 million general obligation bond measure to improve the branch library system over a ten-year period. The Library's FY 2008-12 CIP provides funding of \$122.0 million for bond and non-bond related projects. Bond funded projects include the opening of three new branches and eight expanded/relocated projects. The highest priority non-bond funded projects include funding for new library materials, fixtures, furnishings and equipment, library facilities maintenance and improvements, automation projects and system maintenance to provide customer service enhancements, increase staff productivity and effectiveness, and increase the Library's ability to provide faster, better electronic access to information.

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- In November 2000, voters in San José approved Measure P, a \$228 million general obligation bond measure to improve parks and recreational facilities over a ten-year period. The Parks and Community Facilities Development's FY 2008-12 CIP provides funding of \$310.9 million for bond and non-bond related projects. Bond funded projects include two new sports parks, the renovation or construction of four community centers, the renovation of Almaden Lake Park, the expansion of two trail projects, and the renovation and expansion of the Happy Hollow Park and Zoo. Non-bond funded projects include funding programmed for the development of trails, and several projects to be funded (or partially funded) in the Park Trust Fund, including improvements related to parks, community centers, and senior centers.

Public Safety

- On March 5, 2002, voters in San José approved the Neighborhood Security Act Bond Measure to provide the funding for Police and Fire capital improvements through the issuance of General Obligation Bonds in an amount not to exceed \$159 million. The Public Safety CIP for FY 2008-12 provides funding of \$126.9 million and consists of public safety projects to provide, maintain, and improve facilities and equipment that support the delivery of effective emergency services to City residents and visitors. All projects funded by the Neighborhood Security Act Bond Measure are scheduled for completion during the FY 2008-12 CIP.
- Police Department Bond Projects scheduled during the FY 2008-12 CIP include a South San José Police substation, four community-policing centers, a Driver Safety Training Center, and an upgraded 9-1-1 Communications Dispatch Center.
- Fire Department Bond Projects scheduled during the FY 2008-12 CIP include constructing two new fire stations, relocating seven fire stations, remodeling seventeen fire stations, and renovating the existing Fire Training Center.

Strategic Support

- The Strategic Support CSA is comprised of internal functions that enable the five other CSAs to deliver services to the community and to customers. The Strategic Support Capital Improvement Program for FY 2008-12 includes funding for two large projects. The first is the Central Service Yard Phase II project which is scheduled for completion in November 2007. This project will allow the move of support shops out of the Main Service Yard and centralize support functions at the Central Service Yard. This will also allow the Main Yard property in Japantown to be sold for redevelopment.
- The second major project is City Hall Network Operations Center Secondary Cooling System (NOC). This secondary cooling system will ensure that the temperature remains cool enough to prevent damage to the City's computer equipment inventory in the NOC.

Transportation & Aviation Services

- The Traffic CIP for FY 2008-12 provides funding of \$266.9 million, which includes the development of arterial and collector projects throughout the City including the Branham Lane, Hamilton Avenue, SJSU to Japantown Pedestrian Corridor, and Taylor Street improvement projects. Maintenance activities include bridge and street maintenance, sidewalk repairs, land management, weed abatement and City-wide emergency repairs; projects and programs to improve the operational efficiency and safety of the City's transportation network; transportation improvements in North San José; and funding to support the City's contribution to regional highway and transit systems.
- The Parking CIP for FY 2008-12 provides funding of \$9.1 million, which includes the completion of seismic upgrades to the Second/San Carlos Street Garage to retrofit the facility to meet current California Building Code requirements, extend its life expectancy and help ensure safety in the event of an earthquake. Security improvements such as roll-up gates, security fencing, video cameras, and

Letter of Transmittal

surveillance equipment located at entry/exit lanes, lobby areas and stairwells; and investments in the Parking Guidance System Phase II to include roadway signs that direct motorists to the appropriate City parking garages and display the number of available parking spaces are also funded in this CIP.

- The FY 2008-12 CIP for the Norman Y. Mineta San José International Airport (Airport) totals \$1.4 billion and contains approximately thirty-seven capital projects. This CIP represents capital projects included in the revised Airport Master Plan that was approved by City Council in June 2006. Two of these projects include the completion of the North Concourse as well as implementation of the new Terminal Area Improvement Program (TAIP).
- The North Concourse, scheduled for completion in mid 2008, will be a quarter-mile long "horizontal high rise" located between Terminal A and the existing Terminal C containing nine new gates, new dining and retail concessions, and will feature a "paseo" interior design reflecting the heritage of the region with open spaces, airy walkways, and natural lighting to take advantage of San José's climate. The south end of the North Concourse will connect to the new Terminal B, which is being constructed as part of the TAIP Phase I.
- The TAIP Phase I project consists of several projects including: the design and construction of a portion of the new Terminal B, improvements to the existing Terminal A, temporary improvements to the existing Terminal C, the phased demolition of the existing Terminal C, construction of a new consolidated rental car garage and other parking and roadway improvements.

FINANCIAL INFORMATION

The City's management staff is responsible for establishing and maintaining internal controls that safeguard the assets of the government from loss, theft, or misuse and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of Federal, State and County financial assistance, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management, the Office of the City Auditor, and the City's outside independent auditors.

As part of the City's single audit procedures, tests are performed to determine the effectiveness of the internal controls over major Federal award programs and whether the City has complied with applicable laws and regulations related to the major Federal award programs.

Letter of Transmittal

Budgetary Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the funds are included in the annual appropriated budget. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the appropriation level. This means that expenditures cannot legally exceed the amount appropriated by the City Council.

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment to future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the FY, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Debt Management Policy

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002, and is reviewed annually. The first set of program-specific policies, related to the City's multifamily housing program, was adopted by the City Council on June 11, 2002 and subsequently amended on December 6, 2005. The Debt Management Policy establishes the following equally important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal laws

AWARDS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the FY ended June 30, 2006. This was the nineteenth consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy both accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for one year only. The City believes this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA to determine its eligibility for another certificate.

For the seventeenth consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the FY beginning July 1, 2006. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications medium.

Letter of Transmittal (Concluded)

ACKNOWLEDGMENTS

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance Department. Many members of the Department demonstrated exemplary personal determination and dedicated many long days of focused attention to produce this document.

In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Macias Gini & O'Connell LLP Certified Public Accountants should also be acknowledged as a significant contribution.

Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors, especially their role in guiding the City to a secure financial condition that assures resources are available to provide core services to the community.

Respectfully submitted,



Debra Figone
City Manager



Scott P. Johnson
Director of Finance

**Statement Under Oath of City Manager Regarding Facts and Circumstances Relating to the
Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2007**

I, Debra Figone, City Manager, state and attest that:

(1) To the best of my actual knowledge and belief, based upon a review of the covered reports of the City of San José, and, except as corrected or supplemented in a subsequent covered report:

- The covered report is accurate in all material respects; and
- Is reported in a manner designed to present fairly the financial position and results of operations of the City; and
- No covered report contains an untrue statement of a material fact as of the end of the period covered by such report; and
- No covered report omitted a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.

(2) Each year, upon completion of the City's annual audit of its Financial Statements, City staff, along with the City's external Certified Public Accountant (CPA) auditing firm, present the City's Financial Statements and related independent auditor's report thereon to the Public Safety, Finance & Strategic Support, (PSFSS) Committee which then reports out to the full City Council. The contents of these statements will be presented to the City Council's PSFSS Committee, which functions as the Council's audit committee, at a regularly noticed meeting of the Committee in November 2007.

3) In this statement under oath, each of the following, as filed with the City Clerk, is a "covered report":

- The Comprehensive Annual Financial Report of the City of San José for fiscal year ended June 30, 2007; and
- Any amendments to the foregoing.



Debra Figone
City Manager

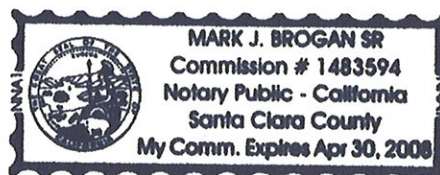
State of California, County of Santa Clara

On 11/2/07 before me, Mark J. Brogan, Sr., Notary Public, personally appeared Debra Figone, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



Mark J. Brogan, Sr., Notary Public



**Statement Under Oath of Principal Financial Officer Regarding Facts and Circumstances Relating
to the Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2007**

I, Scott P. Johnson, Director of Finance, state and attest that:

(1) To the best of my actual knowledge and belief, based upon a review of the covered reports of the City of San José, and, except as corrected or supplemented in a subsequent covered report:

- The covered report is accurate in all material respects; and
- Is reported in a manner designed to present fairly the financial position and results of operations of the City; and
- No covered report contains an untrue statement of a material fact as of the end of the period covered by such report; and
- No covered report omitted a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.

(2) Each year, upon completion of the City's annual audit of its Financial Statements, City staff, along with the City's external Certified Public Accountant (CPA) auditing firm, present the City's Financial Statements and related independent auditor's report thereon to the Public Safety, Finance & Strategic Support, (PSFSS) Committee which then reports out to the full City Council. I will present the contents of these statements to the City Council's PSFSS Committee, which functions as the Council's audit committee, at a regularly noticed meeting of the Committee in November 2007.

(3) In this statement under oath, each of the following, as filed with the City Clerk, is a "covered report":

- The Comprehensive Annual Financial Report of the City of San José for the fiscal year ended June 30, 2007; and
- Any amendments to the foregoing.




Scott P. Johnson
Director of Finance

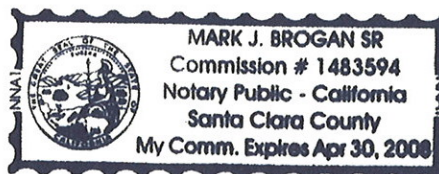
State of California, County of Santa Clara

On 11/2/07 before me, Mark J. Brogan, Sr., Notary Public, personally appeared Scott P. Johnson, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



Mark J. Brogan, Sr., Notary Public



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Jose
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



President

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of San Jose
California**

For the Fiscal Year Beginning

July 1, 2006

President

Executive Director

San José Mayor & City Council

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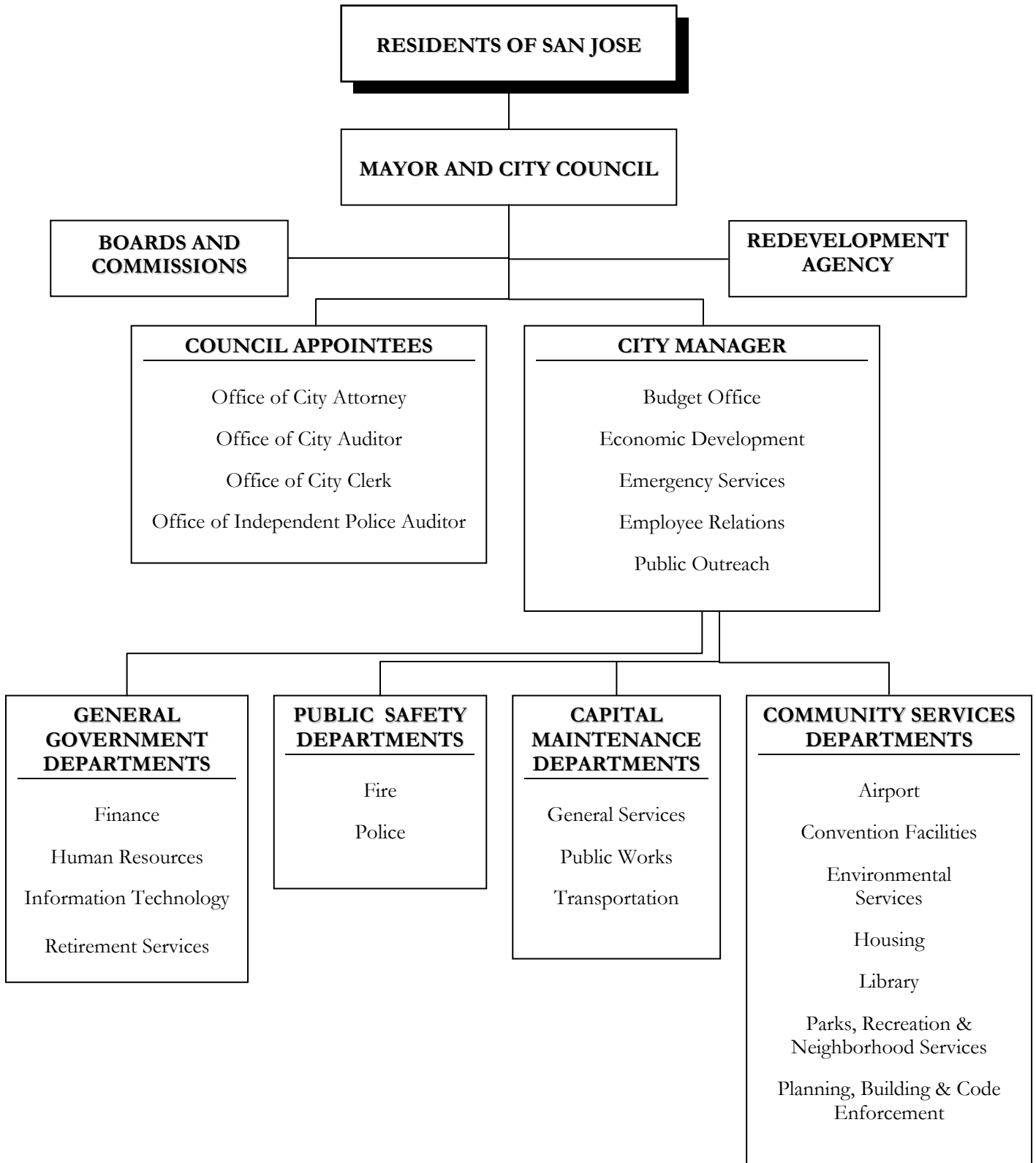


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CITY ORGANIZATION BY FUNCTION



Financial Section



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City Council
City of San José, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.E. to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The management's discussion and analysis, the budgetary comparison information and the schedules of funding progress listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Connell LLP
Certified Public Accountants
Walnut Creek, California

October 26, 2007

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of San José's activities and financial performance for the fiscal year ended June 30, 2007. We encourage readers to read the MD&A in conjunction with the basic financial statements that immediately follow it, with the transmittal letter at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report. All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities at June 30, 2007 by \$7.023 billion (net assets). Of this amount, unrestricted net assets of \$330.0 million may be used to meet the City's ongoing obligations to citizens and creditors. In addition, restricted net assets of \$749.4 million are dedicated to specific purposes and \$5.944 billion is invested in capital assets, net of related debt.
- Total net assets decreased by \$233.5 million or 3.2 percent during 2006-07 from \$7.257 billion to \$7.023 billion. Depreciation expense of \$381.0 million accounts for this decrease. Excluding depreciation, net assets increased by \$147.5 million.
- Governmental funds reported combined ending fund balances of \$1.382 billion at June 30, 2007, which are \$24.7 million or 1.8 percent more than the June 30, 2006 balances. Increases in fund balances for the General Fund (\$43.6 million), and other nonmajor funds (\$59.2 million) were partially offset by the fund balance decreases of the Redevelopment Agency (\$5.7 million), Housing Activities (\$42.2 million), San José Financing Authority Debt Service (\$16.4 million) and Special Assessment Districts (\$13.8 million). Unreserved fund balance comprises \$806.6 million or 58.4 percent of combined governmental fund balances at June 30, 2007 and is available to meet the City's current and future spending needs at its discretion.
- Unreserved fund balance for the General Fund is \$244.9 million at June 30, 2007 and represents 38.7 percent of total General Fund expenditures during 2006-07.
- Total long-term obligations increased by \$68.3 million during 2006-07 to \$4.319 billion at June 30, 2007, an increase of 1.6 percent over the amount at June 30, 2006. Primary factors leading to this increase during the year include the issuance of general obligation bonds and the issuance of Redevelopment Agency tax allocation bonds used primarily to advance refund a portion of other tax allocation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction to the City of San José's basic financial statements which are comprised of four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements
- Required Supplementary Information.

In addition, this report also contains other supplementary information.

Management's Discussion and Analysis

Government-wide Financial Statements

Government-wide Financial Statements provide readers with a broad overview of the City of San José's finances in a manner similar to that of a private-sector business.

The ***statement of net assets*** presents information on all assets and liabilities and reports the difference between the two as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The ***statement of activities*** presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples include revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements address functions that principally are supported by taxes and intergovernmental revenues (*governmental activities*) and other functions that intend to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of San José include general government, public safety, capital maintenance, community services, and sanitation. Its business-type activities include airport, wastewater treatment, water supply, and various parking management operations.

The government-wide financial statements include not only the primary government of the City of San José, but also a legally separate redevelopment agency and three legally separate financing authorities for which the City is financially accountable.

Fund Financial Statements

Fund Financial Statements report information about groupings of related accounts used to maintain control over resources segregated for specific activities or objectives. As do other state and local governments, the City of San José uses fund accounting to ensure and demonstrate finance-related legal compliance. Each City fund falls into one of three categories: *governmental funds*, *proprietary funds*, or *fiduciary funds*.

Governmental funds account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City of San José's capacity to finance its programs in the near future.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate comparison between *governmental funds* and *governmental activities*.

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances present information separately for the General Fund, Redevelopment Agency, Housing Activities, Special Assessment Districts, and the San José Financing Authority Debt Service, which are all classified as major funds. These statements also report several individual governmental funds classified as nonmajor funds such as special revenue, debt service, and capital projects funds which are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Management's Discussion and Analysis

The City of San José adopts an annual appropriated budget for its General Fund and Housing Activities. This report includes budgetary comparison statements to demonstrate compliance with these budgets.

Proprietary funds generally account for services charged to external or internal customers through fees. Proprietary funds provide the same type of information as shown in the government-wide financial statements for *business-type activities*, only in more detail. The City of San José accounts for its airport, wastewater treatment, water supply, and parking management operations in proprietary funds.

Fiduciary funds account for resources held for the benefit of City of San José employees and outside parties in a similar manner as that for proprietary funds. Pension plan trust funds, private purpose trust funds, and agency funds are reported as fiduciary funds. The government-wide financial statements do not include fiduciary funds as their resources are not available to support City of San José programs.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information includes the budgetary schedules for General Fund and Housing Activities. In addition, pension schedules present the City of San José's progress towards funding its obligation to provide future pension benefits for its active and retired employees.

Combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds and fiduciary funds and are presented immediately following the required supplementary information.

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net assets: As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City of San José, assets exceeded liabilities by \$7.023 billion at the June 30, 2007 close of the current fiscal year.

The following table is a condensed summary of the City's net assets for governmental and business-type activities:

**Statement of Net Assets
June 30, 2007 and 2006
(in thousands)**

	Governmental Activities		Business-type Activities		Totals	
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Assets:						
Current and other assets.....	\$ 1,839,606	1,754,132	597,993	679,995	2,437,599	2,434,127
Capital assets.....	7,952,920	8,163,242	1,374,028	1,230,239	9,326,948	9,393,481
Total assets.....	<u>9,792,526</u>	<u>9,917,374</u>	<u>1,972,021</u>	<u>1,910,234</u>	<u>11,764,547</u>	<u>11,827,608</u>
Liabilities:						
Current and other liabilities.....	321,904	283,173	100,591	37,235	422,495	320,408
Long-term liabilities.....	3,696,129	3,603,842	622,542	646,505	4,318,671	4,250,347
Total liabilities.....	<u>4,018,033</u>	<u>3,887,015</u>	<u>723,133</u>	<u>683,740</u>	<u>4,741,166</u>	<u>4,570,755</u>
Net assets:						
Invested in capital assets, net of related debt.....	5,193,578	5,402,375	750,334	689,045	5,943,912	6,091,420
Restricted net assets.....	501,391	735,931	248,039	279,505	749,430	1,015,436
Unrestricted net assets.....	79,524	(107,947)	250,515	257,944	330,039	149,997
Total net assets.....	<u>\$ 5,774,493</u>	<u>6,030,359</u>	<u>1,248,888</u>	<u>1,226,494</u>	<u>7,023,381</u>	<u>7,256,853</u>

At June 30, 2007, the City of San José reported positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

At \$5.944 billion, investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) comprise 84.6 percent of the City of San José's total net assets. Since these assets are not liquid and they provide services to citizens, they are not available for future spending.

Of the total net assets, \$330.0 million or 4.7 percent represents unrestricted net assets available for meeting the City's ongoing obligations to citizens and creditors. Governmental activities show a positive balance of \$79.5 million in unrestricted net assets and business-type activities show a positive balance of \$250.5 million. An additional portion of the City's net assets representing \$749.4 million or 10.7 percent of the total are subject to legal restrictions on their use.

During 2006-07, the City of San José's net assets decreased by \$233.5 million or 3.2 percent. Nonetheless, revenues increased at a faster rate than expenses during the year which narrowed the revenue shortfall for 2006-07. This is an improvement over 2005-06 when expenses outpaced revenues by \$247.1 million.

Management's Discussion and Analysis

Notable changes in the statement of net assets between June 30, 2007 and June 30, 2006 include:

- Capital assets decreased by \$66.5 million or less than 1.0 percent compared to the prior fiscal year. Governmental capital assets decreased by \$210.3 million, but were partially offset by an increase in business-type capital assets of \$143.8 million. The decrease in governmental capital assets resulted from asset additions of \$154.4 million less \$339.9 million in depreciation expense for major infrastructure and other assets and asset deletions of \$24.8 million. The majority of the increase in business-type capital assets was due to continued airport expansion construction projects in the amount of \$126.3 million and a sewer improvement project of \$36.0 million.
- Current and other assets increased by \$3.5 million or less than 1.0 percent due to an \$85.5 million increase for governmental activities offset by an \$82.0 million decrease for business-type activities. The increase for governmental activities primarily resulted from unspent general obligation bond proceeds for capital projects. Conversely, bond proceeds expended on airport capital projects caused the decrease for business-type activities.
- Long-term liabilities increased by a net amount of \$68.3 million or 1.6 percent principally due to the issuance of general obligation bonds for \$90.0 million.
- Current and other liabilities for the City increased by \$102.1 million or 31.9 percent. Increases of \$39.9 million in accounts payable due to timing, \$33.3 million in short term notes payable due to the Airport commercial paper program, and \$15.2 million in short term notes payable due to the issuance of City of San José Financing Authority lease revenue commercial notes account for the majority of this change. The proceeds of the lease revenue commercial paper notes are funding the new City Hall offsite parking garage; technology, furniture and relocation services for the new City Hall; municipal facility improvements; the consolidated utility billing system; and the Central Service Yard Phase II project.
- Net assets invested in capital assets, net of related debt decreased \$147.5 million or 2.4 percent. While the business-type activities increased by \$61.3 million, general government activities accounted for the overall result with a decrease of \$208.8 million.

Management's Discussion and Analysis

Analysis of activities: The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities For the Year Ended June 30, 2007 and 2006 (in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Revenues:						
Program revenues:						
Fees, fines, and charges for services..... \$	273,679	264,517	264,926	257,610	538,605	522,127
Operating grants and contributions.....	93,090	76,004	8,284	8,398	101,374	84,402
Capital grants and contributions.....	68,835	60,337	17,927	32,956	86,762	93,293
General revenues:						
Property taxes.....	467,917	430,426	-	-	467,917	430,426
Utility taxes.....	79,129	75,489	-	-	79,129	75,489
Franchise taxes.....	40,415	36,760	-	-	40,415	36,760
Transient and occupancy taxes.....	21,400	19,214	-	-	21,400	19,214
Sales taxes shared revenue.....	145,340	136,031	-	-	145,340	136,031
State of California in-lieu.....	5,911	5,817	-	-	5,911	5,817
Business license tax.....	39,502	37,236	-	-	39,502	37,236
Unrestricted interest and investment earnings.....	39,359	23,682	21,138	13,079	60,497	36,761
Other revenue.....	35,875	42,076	-	-	35,875	42,076
Total revenues.....	<u>1,310,452</u>	<u>1,207,589</u>	<u>312,275</u>	<u>312,043</u>	<u>1,622,727</u>	<u>1,519,632</u>
Expenses:						
General government.....	120,362	180,633	-	-	120,362	180,633
Public safety.....	393,449	351,331	-	-	393,449	351,331
Capital maintenance.....	528,727	514,025	-	-	528,727	514,025
Community services.....	276,343	220,719	-	-	276,343	220,719
Sanitation.....	99,720	91,353	-	-	99,720	91,353
Interest and fiscal charges.....	154,135	144,444	-	-	154,135	144,444
Norman Y. Mineta San José International						
Airport.....	-	-	139,623	125,770	139,623	125,770
Wastewater Treatment System.....	-	-	111,435	108,510	111,435	108,510
Municipal Water System.....	-	-	22,618	19,896	22,618	19,896
Parking System.....	-	-	9,787	10,058	9,787	10,058
Total expenses.....	<u>1,572,736</u>	<u>1,502,505</u>	<u>283,463</u>	<u>264,234</u>	<u>1,856,199</u>	<u>1,766,739</u>
Excess (deficiency) before transfers	(262,284)	(294,916)	28,812	47,809	(233,472)	(247,107)
Transfers.....	6,418	7,772	(6,418)	(7,772)	-	-
Change in net assets.....	<u>(255,866)</u>	<u>(287,144)</u>	<u>22,394</u>	<u>40,037</u>	<u>(233,472)</u>	<u>(247,107)</u>
Net assets at beginning of year	6,030,359	6,317,503	1,226,494	1,186,457	7,256,853	7,503,960
Net assets at end of year..... \$	<u><u>5,774,493</u></u>	<u><u>6,030,359</u></u>	<u><u>1,248,888</u></u>	<u><u>1,226,494</u></u>	<u><u>7,023,381</u></u>	<u><u>7,256,853</u></u>

Management's Discussion and Analysis

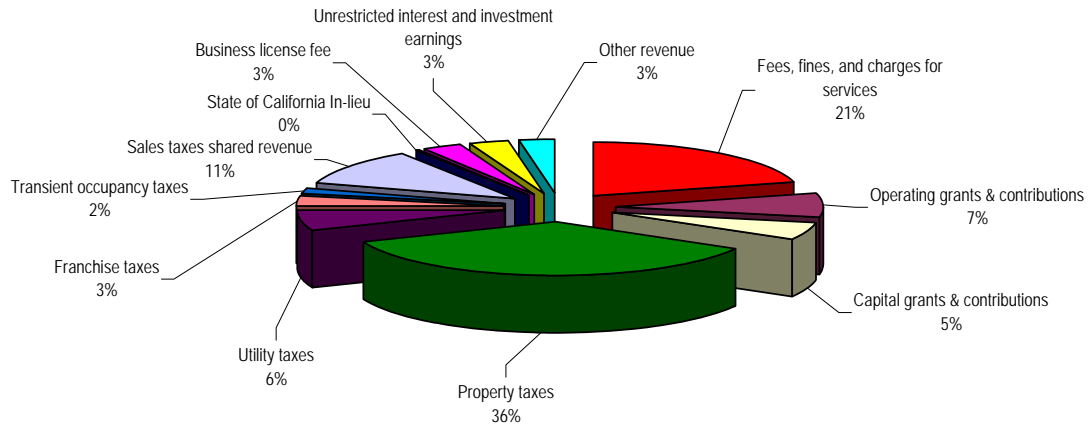
Governmental activities: Net assets for governmental activities decreased by \$255.9 million or 4.2 percent during 2006-07 from \$6.030 billion to \$5.774 billion. On a favorable note, total revenues increased at a rate of 8.5% compared to expenses increasing at a rate of 4.7%. During 2005-06, revenues and expenses increased at rates of 7.9% and 9.4 percent, respectively.

Significant elements of the decrease in net assets for governmental activities from June 30, 2006 to June 30, 2007 are as follows:

- General government expenses decreased by \$60.3 million or 33.4 percent between years primarily due to the prior year accrual for a settlement agreement with the County of Santa Clara and a decrease in general liability claims classified as probable.
- Public safety increased by \$42.1 million or 12.0 percent between years primarily due to higher wage, pension, healthcare and benefit costs, including the retroactive Fire arbitration settlement. Playing a role in the City's decade of investment, capital maintenance increased by \$14.7 million or 2.9 percent due to the City's growing basic infrastructure maintenance requirements and community services increased by \$55.6 million or 25.2 percent due to the opening of two new branch libraries and an increase in the City's valuation allowance on its housing loan receivable balance.
- Depreciation expense for infrastructure and other capital assets was \$339.9 million, an increase of 1.5 percent.
- Helping to offset the increase in expenses, property tax revenue increased by \$37.5 million or 8.7 percent primarily due to the State not withholding \$11.1 million in revenue as part of its budget balancing strategy as the State did in 2005-06 and modest growth in secured property tax revenue related to both the residential and commercial sectors, and sales tax revenue increased by \$9.3 million or 6.8 percent primarily due to "triple flip" revenues received from the State.
- In addition, fees, fines and charges for services, operating grants and contributions, capital grants and contributions, utility taxes, franchise taxes, transient occupancy taxes, State of California in-lieu revenue, business license tax and unrestricted interest and investment earnings increased by \$62.3 million or 10.4 percent. Some factors contributing to the overall increase include net increases in average hotel room rates and occupancy rates, additional revenue collections resulting from more successful enforcement of the City's business tax ordinance and the Business Tax Amnesty program, and a larger investment pool and greater return on investments resulting from increases in earned interest yields during the year.
- Annualized investment interest yield increased from 3.9 percent as of June 30, 2006 to 4.7 percent as of June 30, 2007. The earned interest yield reflects the continued overall increase in market rates.

Management's Discussion and Analysis

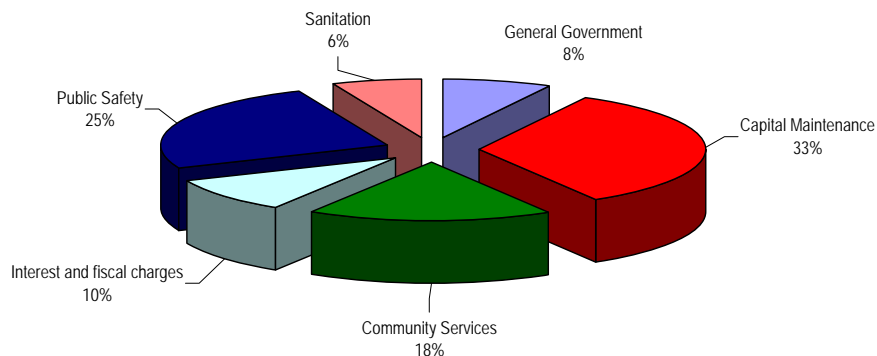
Revenue 2007



The chart above shows the principal components of 2006-07 revenue sources for governmental activities. Of the \$1.310 billion in total revenues generated by governmental activities, 68.0 percent is attributable to property taxes (36.0 percent), fees, fines, and charges for services (21.0 percent), and sales taxes (11.0 percent). The percentage distribution of revenues to these categories is consistent with 2005-06.

The chart below shows the principal categories of 2006-07 expenses for governmental activities. Of the \$1.573 billion in total expenses generated by governmental activities, 76.0 percent is attributable to capital maintenance (33.0 percent), public safety (25.0 percent), and community services (18.0 percent). The percentage distribution of expenses to these categories is consistent with 2005-06.

Expenses 2007



Management's Discussion and Analysis

Business-type activities: Business-type activities net assets increased by \$22.4 million or 1.8 percent to \$1.249 billion during 2006-07.

The notable components of the increase in net assets for business-type activities during 2006-07 are:

- The Norman Y. Mineta San José International Airport (Airport) net assets increased by \$7.7 million or 1.9 percent. The Airport incurred an operating loss of \$32.4 million in 2006-07, an unfavorable increase of \$5.1 million or 18.7 percent compared to the 2005-06 loss of \$27.3 million. Operating revenues decreased by \$0.07 million or less than 1.0 percent reflecting lower rental and concessions revenue. Operating expenses of \$127.6 million in 2006-07 were 4.1% higher compared to 2005-06 primarily due to increases in general and administrative costs. Nonoperating revenues exceeded nonoperating expenses in 2006-07 by \$29.0 million, a decrease of \$4.3 million or 12.9 percent from the 2005-06. An increase in interest expense of \$8.8 million was partially offset by an increase in investment income of \$3.6 million. In addition, the Airport received \$9.7 million in capital contributions primarily from Airport Improvement Program grants.
- Wastewater Treatment System net assets increased by \$12.4 million or 1.9 percent from \$646.2 million to \$658.6 million. Operating revenues increased \$4.2 million or 3.8 percent from \$109.5 million in 2005-06 to \$113.7 million in 2006-07 primarily due to a sewer service rate increase of 4.5 percent. Total operating expenses increased by \$3.2 million or 3.0 percent primarily due to higher general and administrative costs to cover additional regulatory requirements. Nonoperating revenues increased by \$4.4 million attributable primarily to an increase in investment income of \$4.1 million. Capital contributions of \$4.3 million in 2006-07 consisting primarily of donated assets from developers represent a decrease of \$11.5 million compared to 2005-06.
- Municipal Water System net assets increased by \$2.5 million or 3.1 percent from \$82.1 million to \$84.7 million. Operating revenues of \$22.4 million increased \$2.1 million or 10.4 percent from \$20.3 million due in part to monthly rate increases and a slight increase in the number of gallons delivered to customers. Offsetting this gain, operating expenses of \$22.4 million increased \$2.7 million or 13.8 percent from \$19.7 million primarily due to higher operations and maintenance costs for upgrades to facilities to meet customer needs and comply with regulatory requirements. Capital contributions of \$3.9 million decreased \$2.7 million or 40.6 percent from \$6.6 million; however, capital contributions, consisting of donated assets from developers, continued to be the major factor leading to the increase in net assets.
- Parking System net assets decreased by \$0.2 million or less than 1.0 percent from \$91.3 million to \$91.1 million. Operating revenues increased \$0.03 million or less than 1.0 percent showing relatively flat earnings. Operating expenses decreased by \$0.3 million or 2.7 percent primarily due to lower operations and maintenance costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses **fund accounting** to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The City of San José's governmental funds provide information about near-term inflows, outflows, and resources balances available for spending. Such information is useful in assessing the City's financial requirements for its programs and activities. In particular, unreserved fund balance at the fiscal year end may serve as a useful measure of a government's capacity for spending in future years. Governmental funds reported by the City of San José include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

Management's Discussion and Analysis

As of June 30, 2007, the City's governmental funds reported combined fund balances of \$1.382 billion, an increase of \$24.7 million or 1.8 percent compared to the balance at June 30, 2006. *Unreserved fund balance* at \$806.6 million constitutes 58.4 percent of the combined balances and is available for spending at the City's discretion. The \$575.5 million remainder of the governmental fund balances is *reserved* to indicate that it is *not* available for new spending because the following portions have been committed to particular purposes:

- \$233.7 million for advances, loans, and other assets that are long-term in nature and thus do not represent currently available resources;
- \$198.2 million for contractual commitments of 2006-07 carried into fiscal year of 2007-08;
- \$143.6 million for debt service payable in new fiscal year of 2007-08.

Revenues and other financing sources for governmental functions totaled approximately \$2.555 billion in 2006-07, an increase of \$569.4 million or 28.7 percent over 2005-06 primarily due to redevelopment agency refunding bonds issued of \$701.2 million.

General Fund: The General Fund is the chief operating fund of the City of San José. At June 30, 2007, its unreserved fund balance is \$244.9 million or 87.3 percent of the \$280.6 million total General Fund balance. Comparing both unreserved fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2007, unreserved fund balance represents 38.7 percent of total General Fund expenditures of \$633.0 million, while total fund balance represents 44.3 percent. This measure of financial health has improved significantly over the prior fiscal year. At June 30, 2006, the same measures were 33.3 percent and 38.8 percent respectively of \$611.0 million in 2005-06 expenditures.

Significant growth in key revenue sources in 2006-07 was sufficient to meet all expenditure obligations for the first time since 2000-01. In addition, net transfers in to the General Fund further contributed to a net increase in fund balance. Actual performance surpassed the City of San José General Fund budget balancing strategies, which included a combination of ongoing cost reductions, prudent fee increases and the strategic use of reserves and one-time revenues, by achieving a \$43.6 million or 18.4 percent addition to the General Fund balance during 2006-07.

In 2006-07, General Fund revenues of \$674.3 million were \$71.8 million or 11.9 percent higher than 2005-06 revenues of \$602.5 million. An upturn in the local economy accounts for this positive result with property tax revenue the primary factor increasing by \$23.3 million for the year. Other revenue sources showing significant increases between fiscal years were sales tax (\$9.6 million) primarily due to "triple flip" revenues received from the State and interest and other revenues (\$22.2 million) primarily due to a larger investment pool and increases in earned interest yields during the year.

General Fund expenditures of \$633.0 million in 2006-07 were \$22.0 million or 3.6 percent higher than 2005-2006 expenditures of \$611.0 million. Increases in general government of \$7.5 million and public safety of \$27.0 million were due to higher wage, pension, healthcare and benefit costs, especially those relating to the Police Officer's Association agreement. These increases were partially offset by a decrease in capital outlay of \$23.4 million attributable primarily to the FMC land purchase which occurred in the prior year.

Management's Discussion and Analysis

Redevelopment funds: The Redevelopment Agency (Agency) fund accounts for the activities of the Redevelopment Agency of the City of San José that redevelops and upgrades blighted areas. Balances for the Agency's governmental funds decreased \$5.7 million or 4.4 percent to \$122.0 million at June 30, 2007. A deficit of revenues over expenditures of \$90.0 million was mostly offset by other financing sources of \$84.3 million.

The following are some of the highlights for the Agency:

- Revenues increased by 12.7 million or 7.7 percent to \$176.2 million from \$163.5 million in the prior fiscal year. This increase is primarily due to a \$12.0 million increase in tax increment revenue, attributable mainly to the improving commercial and industrial property values.
- Expenditures decreased \$6.6 million, or 2.4 percent from the prior fiscal year. An increase of \$19.8 million in bond issuance and advance refunding escrow costs related to the issuance of taxable tax allocation bonds and tax allocation refunding bonds was offset by a decrease of \$20.7 million in capital maintenance which was attributable primarily to the prior year transfer to the City from the proceeds from the 2005 Housing set-aside tax allocation bonds.
- Other financing sources increased \$76.6 million over other financing sources of \$7.7 million in 2005-06. The primary source of this increase was the issuance of Tax Allocation Taxable Bonds Series 2006A-T for \$14.3 million and Tax Exempt Series B for \$67.0 million.

Additional information about the Agency's finances appears in their separately issued financial statements.

Housing funds: The Housing Activities fund accounts for the City of San José's commitment to providing low and moderate income residents with a diverse range of safe, decent, and affordable housing opportunities. Objectives include preserving the existing affordable housing stock, increasing the supply of affordable housing, and providing services to homeless and at-risk populations. Redevelopment Agency tax allocation bonds and 20 percent of the gross property tax increment provide the fund's primary resources. As required by California State law, the tax increment revenue is used solely for affordable housing. The fund's loans receivable balance (net) which represents loans to developers of various affordable housing projects decreased during the current year by \$38.8 million or 16.0 percent to \$204.4 million at June 30, 2007. This decrease is primarily due to the City's review of the valuation account(s) and determining that the allowance should be increased in the Housing Activities Fund. As a result, the City recorded an expense of \$54.5 million to increase the valuation allowance for those loan portfolios that met the City's valuation allowance policy criteria.

Total expenditures increased by \$47.2 million or 156.9% to \$77.3 million from \$30.1 million in the prior fiscal year, which is primarily due to an increase in allowance for doubtful accounts for receivables from developers of various housing projects.

Special assessment funds: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City of San José. A total of \$71.6 million in special assessment debt outstanding at June 30, 2007 is secured by special assessments or taxes charged to the owners real property in the district issuing the debt. The City of San José is not obligated to cure any deficiency or redeem any debt of special assessment districts. However, the City may voluntarily choose to cure a deficiency at its sole discretion. There was no new special assessment debt issued during 2006-07.

Total expenditures increased by \$10.6 million or 78.7% to \$24.1 million from \$13.5 million in the prior fiscal year. This increase is primarily due to an \$11.1 million reimbursement of development costs to the developers of the Evergreen Specific Plan Property Ownership Partnership.

Financing authority funds: The San José Financing Authority Debt Service fund accounts for the issuance of commercial paper notes secured by lease revenues as a mechanism for financing City of San

Management's Discussion and Analysis

José public improvements such as the offsite parking garage for City Hall, Phase II improvements of the City's Central Service Yard, non-construction costs for technology, furniture, equipment and relocation services at City Hall, and procuring the consolidated utility billing system. The amount of commercial paper notes outstanding increased from \$65.1 million on June 30, 2006 to \$80.3 million on June 30, 2007, a net increase of \$15.2 million or 23.3 percent.

Total other financing sources increased by \$58.3 million or 202.0% to \$29.4 million. This increase is primarily due to increases in transfers in of \$20.5 million for debt service payments and a decrease of \$34.3 million in commercial paper proceeds transfers out for capital projects and operations.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2007, the unrestricted net assets were \$61.2 million for the Norman Y. Mineta San José International Airport, \$161.4 million for the Wastewater Treatment System, \$8.7 million for the Municipal Water System and \$19.1 million for the Parking System. Net assets for proprietary funds grew from \$1.226 billion at June 30, 2006 to \$1.249 billion at June 30, 2007, an increase of \$22.4 million or 1.8 percent. Other aspects of proprietary fund activities are discussed in the business-type activities section above.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City of San José charter requires staff to submit operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2007-08 budgets in June 2007. The City is now in the second half of its *Decade of Investment*, which is transforming much of the City's infrastructure. Major improvements continue in the City's parks, community centers, libraries and public safety facilities and as a result, the City is continuing to dedicate significant resources towards addressing critical service and infrastructure needs in the 2007-08 budgets.

During the fiscal year ended June 30, 2007, there was a \$40.7 million increase in budgeted revenues between the original and final amended operating budget for the General Fund. The majority of the increase was due to increases in interest earnings, reimbursement for SB90 claims, proceeds from the new Comcast franchise agreement and litigation settlement, and rebudget of the Coyote Valley Specific Plan.

In addition, there was a \$37.7 million increase in appropriations between the original and final amended operating budget for the General Fund. Following are the main components of the increase:

- A supplemental appropriation of \$14.6 million to General Government that included increases related to a special election held in City Council Districts 4 and 6, information technology upgrades, funding the implementation of certain hiring process improvements and establishing an arts stabilization fund to finance lines of credit to various arts organizations in financial crises.
- A supplemental appropriation of \$11.9 million to Public Safety that included increases related to the 2005 Urban Areas Security Initiative (UASI), certain reallocations from the 2004 and 2005 UASI budgets to support operational costs related to Orange Alerts (terrorists threat level) at the Norman Y. Mineta San José International Airport and revised 2005 training plans. These costs were reimbursed to the General Fund by a transfer from the Airport. Additional police personal costs and other re-budget increases related to phase III of an automated fingerprint identification system.
- A supplemental appropriation of \$7.3 million for Community Services that included increases related to enhanced park maintenance, funding for San José after school programs, improved operations associated with animal care and animal services programs, neighborhood revitalization strategies and expanded strong neighborhood initiatives.

Management's Discussion and Analysis

Actual budgetary basis expenditures of \$663.4 million were \$87.1 million less than the amended budget and \$49.3 million less than the original budget. Savings were experienced over all expenditure categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of San José's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to \$9.327 billion at June 30, 2007. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City of San José's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. The result of the new additions less depreciation expense during 2006-07 yielded a decrease of \$66.5 million or less than 1.0 percent in net capital asset balance between June 30, 2006 and June 30, 2007.

Total construction-in-progress increased \$170.3 million or 32.4 percent from \$524.9 million at June 30, 2006 to \$695.2 million at June 30, 2007. The governmental activities' portion of construction-in-progress increased \$40.8 million. Business-type activities contributed a net increase of \$129.5 million to construction-in-progress including the on-going Airport expansion (\$91.2 million) and Wastewater Systems (\$38.7 million) projects. Outstanding commitments related to construction-in-progress at June 30, 2007 totaled \$55.8 million and \$188.5 million for governmental and business-type activities, respectively.

The City of San José records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities are presented below to illustrate changes between June 30, 2006 and June 30, 2007 (in thousands):

	Governmental activities		Business-type activities		Total		Increase/ (Decrease)
	2007	2006	2007	2006	2007	2006	Percent of Change
Land	\$ 550,416	558,079	134,926	134,926	685,342	693,005	-1.1%
Construction in progress	296,914	256,123	398,252	268,766	695,166	524,889	32.4%
Buildings	822,140	813,819	281,334	295,680	1,103,474	1,109,499	-0.5%
Improvements, other than buildings	33,557	28,269	506,219	476,109	539,776	504,378	7.0%
Infrastructure	6,211,589	6,469,997	-	-	6,211,589	6,469,997	-4.0%
Furniture, fixtures, vehicles and equipment	36,813	35,206	41,657	42,341	78,470	77,547	1.2%
Intangible assets	-	-	7,932	8,256	7,932	8,256	-3.9%
Property under capital leases	1,491	1,749	3,708	4,161	5,199	5,910	-12.0%
Total capital assets	\$ 7,952,920	8,163,242	1,374,028	1,230,239	9,326,948	9,393,481	-0.7%

Additional information about the City's capital assets can be found in Note III.D to the financial statements.

Management's Discussion and Analysis

General Fund Bonded Debt Limit

The City of San José Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value on the City's 2006-07 tax roll was \$112.923 billion, which results in a net total debt capacity of \$16.428 billion. As of June 30, 2007, the City had \$510.7 million of General Obligation bonds outstanding.

General Obligation Bond Rating

During May 2007, the City received confirmation of its general obligation bond ratings from the three major rating agencies: Aa1 from Moody's; AA+ from Standard & Poor's; and AA+ from Fitch. These ratings place San Jose in the second highest rating category (only one "notch" below Aaa/AAA/AAA), ranking it higher than the State of California and all other California large cities.

Outstanding Debt

The City's debt service obligations include general obligation bonds, revenue bonds, lease revenue bonds, special assessment bonds, and Redevelopment Agency tax allocation bonds.

At June 30, 2007, the City had \$3.433 billion of gross outstanding long-term debt related to governmental activities and \$608.3 million related to business-type activities, for a total of \$4.041 billion. These amounts for the fiscal year ended June 30, 2006 were \$3.323 billion for governmental activities and \$625.2 million for business-type activities, for a total of \$3.949 billion.

The table below identifies the net changes in each category (in thousands):

	As of June 30 2007	As of June 30 2006	Net Change
Governmental Activities			
General obligation bonds	\$ 510,710	432,445	78,265
HUD Section 108 loan	25,436	25,436	-
Lease, reassessment and revenue bonds	641,551	646,070	(4,519)
Special assessments	71,580	75,007	(3,427)
Redevelopment Agency	2,183,295	2,144,495	38,800
Sub-total	<u>3,432,572</u>	<u>3,323,453</u>	<u>109,119</u>
Business-Type Activities			
Revenue bonds	562,730	576,060	(13,330)
State of CA-Revolving Fund Loan	45,585	49,153	(3,568)
Sub-total	<u>608,315</u>	<u>625,213</u>	<u>(16,898)</u>
Total:	<u>\$ 4,040,887</u>	<u>3,948,666</u>	<u>92,221</u>

Additional information about the City's long-term obligations appears in Note III.F. of the notes to the financial statements.

Management's Discussion and Analysis (Concluded)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City of San José continues to confront the need for significant budget reductions. Even though revenues continue to rise, the challenge is to keep expenditures within available resources. In general, the economy for San José is projected to grow in 2007-08 but at a slower rate than that experienced in 2006-07. The primary reason for the slowdown is the cooling of the housing market, where economically sensitive revenue sources, such as Sales Tax, Construction and Conveyance Taxes and Property Taxes may be impacted by the housing market slowdown.
- The 2007-08 budget focuses on City Council priorities, directing resources toward essential services, basic infrastructure requirements, economic development opportunities, and maintaining the City's strong commitment to neighborhoods. To meet these community needs, the City Council approved a balanced General Fund budget for 2007-08. Two significant strategies employed by the City Council to balance the budget were: 1) to focus reduction efforts on the elimination of vacant positions; and, 2) to employ the use of one-time funding to address significant infrastructure maintenance needs. Consequently, the final budget includes a combination of ongoing cost reductions, the strategic use of reserves and necessary fee increases.
- Effective for fiscal years beginning after December 15, 2006, the Governmental Accounting Standards Board (GASB) Statement No. 45 requires governments to report the amount of unfunded liabilities for post-retirement benefits other than pensions, such as for medical benefits. GASB 45 also encourages governments to fund these liabilities over the long-term. As an initial investment towards funding these liabilities, pending the development of a longer term strategy, a total of \$2.0 million is included in the 2007-08 budget.
- The 2007-08 budget will implement rate increases of 9.0 percent for the Storm Sewer and Sewer Service and Use Charge, 28.0 percent for Recycle Plus, and 7.0 percent for the Municipal Water System in order to maintain a reliable utility infrastructure.
- On September 18, 2007, the City Council adopted a resolution to implement the terms of the award resulting from the interest arbitration between the City and the International Association of Firefighters, Local 230. The retroactive portion of the award totaling approximately \$11.1 million through June 30, 2007 has been fully reserved in the general fund balance. The impact to the 2007-08 budget is approximately \$6.6 million.
- For the 2006 calendar year, the average local unemployment rate was 5.0 percent, which was slightly above the California State average unemployment rate of 4.9 percent. These rates reflect significant improvement as the local and California State average unemployment rates have decreased by 1.0 percent and 0.5 percent, respectively, compared to calendar year 2005.

All of these factors were considered in preparing the City's budget for 2007-08.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances. Questions concerning any of the information provided in his report or requests for additional financial information should be addressed to the Director of Finance, 200 E. Santa Clara Street, San José, CA 95113.

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Basic Financial Statements

Basic Financial Statements

City of San José
Statement of Net Assets
June 30, 2007
(\$000's)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and investments	\$ 714,730	294,148	1,008,878
Other cash and investments	6	-	6
Receivables (net of allowances for uncollectibles)	170,952	12,030	182,982
Due from outside agencies	2,162	662	2,824
Internal balances	(9,700)	9,700	-
Inventories	2,553	1,282	3,835
Loans receivable (net)	252,007	250	252,257
Advances and deposits	671	6,020	6,691
Other assets	18,466	5,233	23,699
Restricted assets:			
Equity in pooled cash and investments	91,831	147,848	239,679
Other cash and investments	542,993	100,269	643,262
Receivables (net of allowances for uncollectibles)	-	11,476	11,476
Deferred bond issuance costs (net of accumulated amortization)	52,935	9,075	62,010
Capital assets (net of accumulated depreciation):			
Nondepreciable	847,330	533,178	1,380,508
Depreciable	<u>7,105,590</u>	<u>840,850</u>	<u>7,946,440</u>
Total assets	<u>9,792,526</u>	<u>1,972,021</u>	<u>11,764,547</u>
LIABILITIES			
Accounts payable	75,486	45,158	120,644
Accrued liabilities	36,433	1,924	38,357
Interest payable	49,049	6,538	55,587
Due to outside agencies	15,574	-	15,574
Short term notes payable	80,279	41,424	121,703
Unearned revenue	19,840	1,150	20,990
Advances, deposits, and reimbursable credits	29,512	4,067	33,579
Other liabilities	15,731	330	16,061
Noncurrent obligations:			
Due within one year	118,857	27,155	146,012
Due in more than one year	<u>3,577,272</u>	<u>595,387</u>	<u>4,172,659</u>
Total liabilities	<u>4,018,033</u>	<u>723,133</u>	<u>4,741,166</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,193,578	750,334	5,943,912
Restricted for:			
Debt service	53,475	37,366	90,841
Capital projects	244,876	121,626	366,502
Community services	199,983	-	199,983
Public safety	3,057	-	3,057
City of Santa Clara equity in Wastewater Treatment System	-	89,047	89,047
Unrestricted	<u>79,524</u>	<u>250,515</u>	<u>330,039</u>
Total net assets	<u>\$ 5,774,493</u>	<u>1,248,888</u>	<u>7,023,381</u>

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Activities
For the Year Ended June 30, 2007
(\$000's)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -Type Activities	
Governmental activities:							
General government	\$ 120,362	56,125	118	2,991	(61,128)	-	(61,128)
Public safety	393,449	21,776	21,686	-	(349,987)	-	(349,987)
Capital maintenance	528,727	26,559	19,886	65,844	(416,438)	-	(416,438)
Community services	276,343	73,671	50,930	-	(151,742)	-	(151,742)
Sanitation	99,720	95,548	470	-	(3,702)	-	(3,702)
Unallocated interest and fiscal charges	154,135	-	-	-	(154,135)	-	(154,135)
Total governmental activities	1,572,736	273,679	93,090	68,835	(1,137,132)	-	(1,137,132)
Business -Type activities:							
Norman Y. Mineta San José							
International Airport	139,623	118,978	8,284	9,694	-	(2,667)	(2,667)
Wastewater Treatment System	111,435	113,772	-	4,326	-	6,663	6,663
Municipal Water System	22,618	22,399	-	3,907	-	3,688	3,688
Parking System	9,787	9,777	-	-	-	(10)	(10)
Total business-type activities	283,463	264,926	8,284	17,927	-	7,674	7,674
Total	\$ 1,856,199	538,605	101,374	86,762	(1,137,132)	7,674	(1,129,458)
General revenues:							
Taxes:							
Property and other taxes					467,917	-	467,917
Utility					79,129	-	79,129
Franchise					40,415	-	40,415
Transient and occupancy					21,400	-	21,400
Sales taxes shared revenue (unrestricted)					145,340	-	145,340
State of California in-lieu (unrestricted)					5,911	-	5,911
Business license tax					39,502	-	39,502
Unrestricted interest and investment earnings					39,359	21,138	60,497
Other revenue					35,875	-	35,875
Transfers					6,418	(6,418)	-
Total general revenues and transfers					881,266	14,720	895,986
Change in net assets					(255,866)	22,394	(233,472)
Net assets - beginning					6,030,359	1,226,494	7,256,853
Net assets - ending					\$ 5,774,493	1,248,888	7,023,381

The notes to the financial statements are an integral part of this statement.

City of San José
Balance Sheet
Governmental Funds
June 30, 2007
(\$000's)

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 226,713	76,832	53,285
Other cash and investments	-	-	-
Receivables (net of allowance for uncollectibles)	59,356	1,348	3,033
Due from outside agencies	1,896	-	51
Due from other funds	34,745	246	59
Inventories	-	-	-
Loans receivable (net)	2,391	38,247	204,370
Advances and deposits	13	260	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	933	-	967
Other cash and investments	86	95,251	-
Advances to other funds	3,607	830	-
Other assets	-	-	18,007
Total assets	<u>\$ 329,740</u>	<u>213,014</u>	<u>279,772</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,133	10,271	686
Accrued salaries, wages, and payroll taxes	20,930	333	268
Due to other funds	131	1,143	-
Due to other agencies	302	22,772	-
Short term notes payable	-	-	-
Deferred revenue	6,946	38,808	24,753
Advances, deposits, and reimbursable credits	7	2,765	-
Advances from other funds	250	14,912	580
Other liabilities	10,444	-	-
Total liabilities	<u>49,143</u>	<u>91,004</u>	<u>26,287</u>
Fund balances:			
Reserved for:			
Encumbrances	28,678	29,044	39,284
Noncurrent advances, loans and other assets	7,030	5,127	203,522
Debt service	-	89,615	-
Restricted cash commitments	-	-	3
Unreserved reported in:			
General fund	244,889	-	-
Special revenue funds	-	-	10,676
Debt service funds	-	-	-
Capital projects funds	-	(1,776)	-
Total fund balances	<u>280,597</u>	<u>122,010</u>	<u>253,485</u>
Total liabilities and fund balances	<u>\$ 329,740</u>	<u>213,014</u>	<u>279,772</u>

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	-	354,759	711,589
-	-	6	6
71,935	2	35,278	170,952
15	-	200	2,162
-	-	38,413	73,463
-	-	2,553	2,553
-	-	6,999	252,007
330	-	68	671
39,823	153	49,955	91,831
10,747	52,359	384,550	542,993
-	-	8,112	12,549
-	-	459	18,466
<u>122,850</u>	<u>52,514</u>	<u>881,352</u>	<u>1,879,242</u>
11,728	27	42,570	75,415
17	-	3,471	25,019
-	-	72,885	74,159
-	-	-	23,074
-	80,279	-	80,279
71,906	-	9,977	152,390
4,009	-	22,731	29,512
-	3,607	2,204	21,553
-	-	5,287	15,731
<u>87,660</u>	<u>83,913</u>	<u>159,125</u>	<u>497,132</u>
671	94	100,419	198,190
5	-	17,971	233,655
21,257	-	32,744	143,616
-	-	5	8
-	-	-	244,889
-	-	274,856	285,532
-	(31,493)	-	(31,493)
13,257	-	296,232	307,713
<u>35,190</u>	<u>(31,399)</u>	<u>722,227</u>	<u>1,382,110</u>
<u>122,850</u>	<u>52,514</u>	<u>881,352</u>	<u>1,879,242</u>

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2007
(\$000's)

Total fund balances-governmental funds (Page 22) \$ 1,382,110

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	550,416	
Infrastructure assets	11,237,282	
Other capital assets	1,539,837	
Accumulated depreciation	<u>(5,374,615)</u>	
Total capital assets		7,952,920

Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is generally not accrued as a liability in the balance sheet of governmental funds. (49,049)

Bond issuance costs are expensed in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.
 Deferred charges, net of amortization 52,935

Special Assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred revenue (a liability) since they are not available. 71,580

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis. 60,970

The Public Works Program Support Internal Service fund is used by management to charge its costs to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets. 2,775

Other accrued liabilities do not require the use of current financial resources and, therefore are not accrued as a liability in the balance sheet of governmental funds. (11,119)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	\$ (3,438,353)	
Accreted interest on capital appreciation bonds	(2,323)	
Compensated absences	(89,991)	
Claims and judgments	(143,157)	
Other	<u>(14,805)</u>	
Total long-term liabilities		<u>(3,688,629)</u>

Net assets of governmental activities (Page 20) \$ 5,774,493

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007
(\$000's)

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
REVENUES			
Taxes and special assessments	\$ 475,843	161,818	-
Licenses, permits, and fines	88,611	-	-
Intergovernmental	20,488	-	8,407
Charges for current services	29,624	-	-
Rent	-	1,022	-
Interest and other revenues	59,719	13,322	14,148
Total revenues	<u>674,285</u>	<u>176,162</u>	<u>22,555</u>
EXPENDITURES			
Current:			
General government	86,048	15,765	-
Public safety	368,840	-	-
Capital maintenance	43,303	73,557	-
Community services	129,064	-	77,240
Sanitation	1,833	-	-
Capital outlay	3,922	12,370	-
Debt service:			
Principal	-	42,435	-
Interest and fiscal charges	-	89,771	-
Bond issuance costs	-	19,286	-
Advance refunding escrow	-	13,014	-
Total expenditures	<u>633,010</u>	<u>266,198</u>	<u>77,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,275</u>	<u>(90,036)</u>	<u>(54,685)</u>
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	81,300	-
Refunding bonds issued	-	701,185	-
Premiums on bonds	-	29,158	-
Payment to refunded bond escrow agent	-	(712,615)	-
Proceeds from sale of capital assets	-	8,491	-
Transfers in	38,073	22,159	32,364
Transfers out	(35,721)	(45,310)	(19,940)
Total other financing sources (uses)	<u>2,352</u>	<u>84,368</u>	<u>12,424</u>
Net change in fund balances	43,627	(5,668)	(42,261)
Fund balances - beginning	<u>236,970</u>	<u>127,678</u>	<u>295,746</u>
Fund balances - ending	<u>\$ 280,597</u>	<u>122,010</u>	<u>253,485</u>

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
7,251	-	143,778	788,690
-	-	-	88,611
-	-	63,156	92,051
-	-	235,757	265,381
-	-	9,304	10,326
3,020	2,991	47,431	140,631
<u>10,271</u>	<u>2,991</u>	<u>499,426</u>	<u>1,385,690</u>
-	-	125,442	227,255
-	-	1,735	370,575
16,453	-	100,597	233,910
-	-	48,221	254,525
-	-	97,913	99,746
142	-	114,235	130,669
3,427	9,390	12,235	67,487
4,068	36,536	20,225	150,600
-	914	464	20,664
-	1,960	-	14,974
<u>24,090</u>	<u>48,800</u>	<u>521,067</u>	<u>1,570,405</u>
<u>(13,819)</u>	<u>(45,809)</u>	<u>(21,641)</u>	<u>(184,715)</u>
-	-	90,000	171,300
-	36,555	-	737,740
-	1	965	30,124
-	(32,522)	-	(745,137)
-	-	-	8,491
-	48,393	80,682	221,671
-	(23,003)	(90,784)	(214,758)
-	29,424	80,863	209,431
<u>(13,819)</u>	<u>(16,385)</u>	<u>59,222</u>	<u>24,716</u>
<u>49,009</u>	<u>(15,014)</u>	<u>663,005</u>	<u>1,357,394</u>
<u>35,190</u>	<u>(31,399)</u>	<u>722,227</u>	<u>1,382,110</u>

City of San José
Reconciliation of the Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007
(\$000's)

Net change in fund balances—total governmental funds (Page 26) \$ 24,716

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	130,669	
Depreciation expense	(339,890)	
Excess of depreciation expense over capital outlay		(209,221)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)

Donated assets	23,738	
Disposal of assets	(24,839)	
		(1,101)

Bond issuance costs are expensed in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.

Bond issuance costs	20,664	
Amortization of bond issuance costs	(8,185)	
Total bond issuance costs, net of amortization		12,479

Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bond holders and HUD.

800,671

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. Amortization of bond premiums, discounts and deferred amounts on refunding should be expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds.

Accrued interest on capital appreciation bonds	(250)	
Discount/(premium) on bonds issued	(30,124)	
Increase in accrued interest expense	(1,400)	
Amortization of deferred amounts, premiums and discounts	1,398	
Deferred amounts on bonds issued	29,676	
Total net interest expense and amortization of discount/premium		(700)

Bond and loan proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets.

(909,040)

Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenue and are deferred in the governmental funds. Deferred revenues increased by this amount this year.

12,150

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Net decrease in accrued landfill postclosure costs	465	
Net increase in net pension obligation	(6)	
Net increase in vacation, sick leave, and compensatory time	(6,185)	
Net decrease in estimated liability for self-insurance	30,398	
Net increase in other accrued liabilities	(11,119)	
Net increase in arbitrage liability	(1,790)	
Total additional expenditures		11,763

The net revenues of the Public Works Program Support Internal Service fund is reported with the governmental activities

2,417

Change in net assets of governmental activities (Page 21)

\$ (255,866)

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Fund Net Assets
Proprietary Funds
June 30, 2007
(\$000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	\$ 54,369	214,448	13,511	11,820	294,148	3,141
Receivables (net of allowance for uncollectibles)	3,779	4,101	2,866	1,284	12,030	-
Due from outside agencies	-	662	-	-	662	-
Due from other funds	188	1,208	-	-	1,396	-
Inventories	-	1,282	-	-	1,282	-
Total unrestricted current assets	<u>58,336</u>	<u>221,701</u>	<u>16,377</u>	<u>13,104</u>	<u>309,518</u>	<u>3,141</u>
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	129,524	16,801	-	1,523	147,848	-
Other cash and investments	100,035	234	-	-	100,269	-
Receivables (net of allowances for uncollectibles)	11,476	-	-	-	11,476	-
Prepaid expenses, advances and deposits	5,233	-	-	-	5,233	-
Total restricted current assets	<u>246,268</u>	<u>17,035</u>	<u>-</u>	<u>1,523</u>	<u>264,826</u>	<u>-</u>
Total current assets	<u>304,604</u>	<u>238,736</u>	<u>16,377</u>	<u>14,627</u>	<u>574,344</u>	<u>3,141</u>
Noncurrent assets:						
Deferred bond issuance costs (net of accumulated amortization)	8,246	829	-	-	9,075	-
Loan receivable	250	-	-	-	250	-
Advances and deposits	6,020	-	-	-	6,020	-
Advances to other funds	-	5,732	-	6,800	12,532	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	311,958	200,214	2,186	18,820	533,178	-
Depreciable	361,274	354,139	73,738	51,699	840,850	-
Total noncurrent assets	<u>687,748</u>	<u>560,914</u>	<u>75,924</u>	<u>77,319</u>	<u>1,401,905</u>	<u>-</u>
Total assets	<u>992,352</u>	<u>799,650</u>	<u>92,301</u>	<u>91,946</u>	<u>1,976,249</u>	<u>3,141</u>

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Fund Net Assets
Proprietary Funds
June 30, 2007
(\$000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 4,097	6,030	1,912	586	12,625	71
Accrued liabilities	83	1,669	115	57	1,924	295
Interest payable	-	468	-	-	468	-
Due to other funds	-	-	700	-	700	-
Accrued vacation, sick leave and compensatory time	257	4,540	48	155	5,000	-
Estimated liability for self-insurance	-	1,209	151	7	1,367	-
Loans payable	-	3,633	-	-	3,633	-
Total current liabilities unrestricted	<u>4,437</u>	<u>17,549</u>	<u>2,926</u>	<u>805</u>	<u>25,717</u>	<u>366</u>
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	32,533	-	-	-	32,533	-
Interest payable	5,769	301	-	-	6,070	-
Accrued vacation, sick leave and compensatory time	3,187	-	-	-	3,187	-
Estimated liability for self-insurance	560	-	-	-	560	-
Advances and deposits payable	781	-	-	-	781	-
Deferred revenue	1,150	-	-	-	1,150	-
Short term notes payable	41,424	-	-	-	41,424	-
Current portion of bonds payable	9,257	4,151	-	-	13,408	-
Total current liabilities payable from restricted assets	<u>94,661</u>	<u>4,452</u>	<u>-</u>	<u>-</u>	<u>99,113</u>	<u>-</u>
Total current liabilities	<u>99,098</u>	<u>22,001</u>	<u>2,926</u>	<u>805</u>	<u>124,830</u>	<u>366</u>
Noncurrent liabilities:						
Estimated liability for self-insurance	3,310	3,375	-	-	6,685	-
Advances from other funds	-	-	3,528	-	3,528	-
Advance contributions from participating agencies	-	2,100	-	-	2,100	-
Advances, deposits and reimbursable credits	-	-	1,186	-	1,186	-
Loans payable	-	41,952	-	-	41,952	-
Bonds payable (net of discount and deferred loss on premium/refunding)	475,090	71,660	-	-	546,750	-
Other liabilities	330	-	-	-	330	-
Total noncurrent liabilities	<u>478,730</u>	<u>119,087</u>	<u>4,714</u>	<u>-</u>	<u>602,531</u>	<u>-</u>
Total liabilities	<u>577,828</u>	<u>141,088</u>	<u>7,640</u>	<u>805</u>	<u>727,361</u>	<u>366</u>
NET ASSETS						
Invested in capital assets, net of related debt	234,957	368,934	75,924	70,519	750,334	-
Restricted for debt service	35,843	-	-	1,523	37,366	-
Restricted for capital projects	82,491	39,135	-	-	121,626	-
City of Santa Clara equity in Wastewater Treatment System	-	89,047	-	-	89,047	-
Unrestricted	61,233	161,446	8,737	19,099	250,515	2,775
Total net assets	<u>\$ 414,524</u>	<u>658,562</u>	<u>84,661</u>	<u>91,141</u>	<u>1,248,888</u>	<u>2,775</u>

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007
(\$000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
OPERATING REVENUES						
Charges for services	\$ 50,746	92,755	22,369	9,777	175,647	15,229
Rentals and concessions	39,890	1,731	-	-	41,621	-
Customer transportation fees	4,451	-	-	-	4,451	-
Service connection, engineering and inspection	-	4,901	-	-	4,901	-
Contributions	-	10,638	-	-	10,638	-
Other	108	3,704	-	-	3,812	-
Total operating revenues	<u>95,195</u>	<u>113,729</u>	<u>22,369</u>	<u>9,777</u>	<u>241,070</u>	<u>15,229</u>
OPERATING EXPENSES						
Operations and maintenance	79,198	63,605	19,092	2,483	164,378	12,317
General and administrative	28,786	25,428	794	5,302	60,310	-
Depreciation and amortization	19,645	17,892	2,533	1,845	41,915	-
Materials and supplies	-	280	-	156	436	-
Total operating expenses	<u>127,629</u>	<u>107,205</u>	<u>22,419</u>	<u>9,786</u>	<u>267,039</u>	<u>12,317</u>
Operating income (loss)	<u>(32,434)</u>	<u>6,524</u>	<u>(50)</u>	<u>(9)</u>	<u>(25,969)</u>	<u>2,912</u>
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	22,169	-	-	-	22,169	-
Operating grants	8,284	-	-	-	8,284	-
Investment income	8,935	10,982	616	605	21,138	-
Land and building rental	-	43	-	-	43	-
Interest expense	(11,994)	(3,969)	(199)	-	(16,162)	-
Contributions refunded to participating agencies	-	(260)	-	-	(260)	-
Loss on disposal of capital assets	-	(1)	-	-	(1)	-
Other revenues (expenses)	1,614	-	30	(1)	1,643	-
Net nonoperating revenues (expenses)	<u>29,008</u>	<u>6,795</u>	<u>447</u>	<u>604</u>	<u>36,854</u>	<u>-</u>
Income (loss) before capital contributions and transfers	<u>(3,426)</u>	<u>13,319</u>	<u>397</u>	<u>595</u>	<u>10,885</u>	<u>2,912</u>
Capital contributions	9,694	4,326	3,907	-	17,927	-
Transfers in	1,419	-	193	75	1,687	-
Transfers out	-	(5,275)	(1,960)	(870)	(8,105)	(495)
Changes in net assets	7,687	12,370	2,537	(200)	22,394	2,417
Net assets - beginning	406,837	646,192	82,124	91,341	1,226,494	358
Net assets - ending	<u>\$ 414,524</u>	<u>658,562</u>	<u>84,661</u>	<u>91,141</u>	<u>1,248,888</u>	<u>2,775</u>

The notes to the financial statements are an integral part of this statement.

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City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007
(\$000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	94,151	104,477	21,639	9,426	229,693	15,229
Payments to suppliers	(77,077)	(41,412)	(15,978)	(6,334)	(140,801)	-
Payments to employees	(34,938)	(47,924)	(3,567)	(1,697)	(88,126)	(12,322)
Other receipts (payments)	1,166	10,638	-	-	11,804	-
Net cash provided by (used in) operating activities	(16,698)	25,779	2,094	1,395	12,570	2,907
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	1,419	-	193	75	1,687	-
Transfer to other funds	-	(5,275)	(1,960)	(870)	(8,105)	(495)
Advances (to) from other funds	-	461	(700)	(274)	(513)	-
Subsidies from operating grants	8,270	-	-	-	8,270	-
Advances, deposits and credits	9	-	(58)	-	(49)	-
Net cash provided by (used in) by noncapital and related financing activities	9,698	(4,814)	(2,525)	(1,069)	1,290	(495)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	21,930	-	-	-	21,930	-
Proceeds from commercial paper	33,335	-	-	-	33,335	-
Subsidies from capital grants	10,039	880	-	-	10,919	-
Acquisition and construction of capital assets	(97,471)	(47,869)	(1,134)	(1,933)	(148,407)	-
Principal paid on debt	(9,365)	(7,533)	-	-	(16,898)	-
Interest paid on debt	(23,486)	(3,786)	-	-	(27,272)	-
Advances, deposits and credits paid	(2,039)	-	-	-	(2,039)	-
Net cash used in capital and related financing activities	(67,057)	(58,308)	(1,134)	(1,933)	(128,432)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	172,973	216	-	-	173,189	-
Purchase of investments	(52,781)	-	-	-	(52,781)	-
Interest and dividends received	11,953	10,563	584	846	23,946	-
Land and building rentals	-	42	-	-	42	-
Net cash provided by investing activities	132,145	10,821	584	846	144,396	-
Net change in cash and cash equivalents	58,088	(26,522)	(981)	(761)	29,824	2,412
Cash and cash equivalents - beginning	186,657	258,005	14,492	14,104	473,258	729
Cash and cash equivalents - ending	244,745	231,483	13,511	13,343	503,082	3,141

(Continued)

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007
(\$000's)

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals	Public Works Program Support Internal Service Fund
Reconciliation of operating income (loss) to net cash provided (used in) by operating activities:						
Operating income (loss)	\$ (32,434)	6,524	(50)	(9)	(25,969)	2,912
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	19,645	17,892	2,533	1,845	41,915	-
Other nonoperating revenues(expenses)	1,614	-	30	(1)	1,643	-
Decrease (increase) in:						
Accounts receivable	(745)	1,531	(760)	(349)	(323)	-
Due from outside agencies	-	(144)	-	-	(144)	-
Due from other funds	(22)	-	-	-	(22)	-
Inventories	-	(42)	-	-	(42)	-
Prepaid expenses	(5,076)	-	-	-	(5,076)	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	250	113	284	(105)	542	(5)
Accrued vacation, sick leave and compensatory time	302	427	4	13	746	-
Estimated liability for self-insurance	(22)	(522)	53	1	(490)	-
Deferred revenues	(291)	-	-	-	(291)	-
Advances and deposits payable	81	-	-	-	81	-
Total adjustments	15,736	19,255	2,144	1,404	38,539	(5)
Net cash provided by (used in) operating activities	\$ (16,698)	25,779	2,094	1,395	12,570	2,907
Reconciliation of cash and cash equivalents to the statement of net assets:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	\$ 54,369	214,448	13,511	11,820	294,148	3,141
Restricted	129,524	16,801	-	1,523	147,848	-
Other investments	100,035	234	-	-	100,269	-
Less investments not meeting the definition of cash equivalents	(39,183)	-	-	-	(39,183)	-
	\$ 244,745	231,483	13,511	13,343	503,082	3,141
Noncash noncapital, capital and related financing activities:						
Loss on disposal of capital assets	\$ -	1	-	-	1	-
Acquisition of capital assets on accounts payable and accrued liabilities	29,923	-	-	-	29,923	-
Bond discount/(premium)	769	-	-	-	769	-
Capitalized interest	7,680	-	-	-	7,680	-
Contributions from developers and other funds	-	3,370	3,907	-	7,277	-

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(\$000's)

	Pension Trust Funds	James Lick Private Purpose Trust Fund	Agency Funds
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ -	33	1,672
Investments of retirement plans:			
Investments, excluding securities lending collateral:			
Domestic fixed maturities	1,359,720	-	-
International fixed maturities	145,407	-	-
Domestic equities	1,825,025	-	-
International equities	1,143,233	-	-
Private equities	64,671	-	-
Derivatives	43	-	-
Real estate	276,605	-	-
Cash equivalents and short term investments	(74)	-	-
Securities lending cash collateral investment pool	701,023	-	-
Total investments	<u>5,515,653</u>	<u>-</u>	<u>-</u>
Other cash and investments	-	32	-
Receivables (net of allowances for uncollectibles):			
Accrued investment income	14,698	-	16
Employee contributions	1,941	-	-
Employer contributions	4,920	-	-
Other	135,193	-	-
Total assets	<u>5,672,405</u>	<u>65</u>	<u>1,688</u>
LIABILITIES			
Due to brokers	364,902	-	-
Securities lending collateral, due to borrowers	701,023	-	-
Accrued salaries, wages and payroll taxes	-	-	7
Other liabilities	7,830	-	1,681
Total liabilities	<u>1,073,755</u>	<u>-</u>	<u>1,688</u>
NET ASSETS			
Held in trust for:			
Employees' pension benefits	4,451,184	-	-
Employees' postemployment healthcare benefits	147,466	-	-
Other purpose	-	65	-
Total net assets	<u>\$ 4,598,650</u>	<u>65</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

City of San José
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007
(\$000's)

	Pension Trust Funds	James Lick Private Purpose Trust Fund
ADDITIONS	<u> </u>	<u> </u>
Investment income:		
Interest	\$ 66,305	14
Dividends	35,814	-
Net rental income	10,646	-
Net change in fair value of plan investments	610,411	-
Investment expenses	(18,145)	-
Total investment income	<u>705,031</u>	<u>14</u>
Securities lending activities:		
Securities lending income	34,026	-
Securities lending expenses	(32,387)	-
Total securities lending activities	<u>1,639</u>	<u>-</u>
Contributions:		
Employer	117,439	-
Employees	46,021	-
Total contributions	<u>163,460</u>	<u>-</u>
Total additions	<u>870,130</u>	<u>14</u>
 DEDUCTIONS		
General and administrative	4,200	-
Health insurance	33,058	-
Refunds to terminated employees	1,217	-
Retirement and other benefits paid:		
Death benefits paid	10,908	-
Retirement benefits paid	157,088	-
Total deductions	<u>206,471</u>	<u>-</u>
Change in net assets	663,659	14
Net assets - beginning	<u>3,934,991</u>	<u>51</u>
Net assets - ending	<u>\$ 4,598,650</u>	<u>65</u>

The notes to the financial statements are an integral part of this statement.

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Notes to Basic Financial Statements

June 30, 2007

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Notes to Basic Financial Statements

June 30, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of San José, California (the "City"), was chartered on March 25, 1850, and has operated under a Council-Manager form of government since 1916. The City has defined its reporting entity in accordance with generally accepted accounting principles ("GAAP") in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary government is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. Based upon the application of these criteria, the following is a brief description of each component unit included within the City's reporting entity. All such component units have been "blended" as though they are part of the primary government because the component unit's governing body is substantively the same as the City's primary government, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

- **Redevelopment Agency of the City of San José** – The Redevelopment Agency of the City of San José (the "Redevelopment Agency") was created by the City Council with the authority and responsibility for redeveloping and upgrading blighted areas of the City. The members of the City Council are also members of the Redevelopment Agency's Board of Directors and, as such, are authorized to transact business and exercise their power to plan, engineer, and carry out projects of the Redevelopment Agency.
- **Parking Authority of the City of San José** – The Parking Authority of the City of San José (the "Parking Authority") was created by the City Council to provide funding through debt issuance for parking facilities constructed on City-owned land. Such parking facilities are leased to the City. Members of the City Council are also members of the Parking Authority's Board of Directors.
- **San José – Santa Clara Clean Water Financing Authority** – The San José – Santa Clara Clean Water Financing Authority (the "Clean Water Financing Authority") was created pursuant to a Joint Exercise of Powers Agreement between the City of San José and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the Plant). The Clean Water Financing Authority is governed by a five-member Board of Directors, three are members of the City Council of the City of San José and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara subsequently entered into an Improvement Agreement, which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds.

Notes to Basic Financial Statements

June 30, 2007

- **City of San José Financing Authority** – The City of San José Financing Authority (the “Authority”) was created by a Joint Exercise of Powers Agreement between the City and the Redevelopment Agency. The Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City and is authorized to issue bonds for this purpose. The Authority is governed by an 11 member Governing Board, which consists of the members of the City Council.

Separate financial reports for the fiscal year ended June 30, 2007, containing additional information and more detailed information regarding financial condition and change in financial position, are available from the City’s Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

- Federated City Employees’ Retirement System (the “System”)
- Police and Fire Department Retirement Plan (the “Plan”)
- Redevelopment Agency of the City of San José
- Norman Y. Mineta San José International Airport
- San José – Santa Clara Clean Water Financing Authority

B. Financial Statement Presentation

Government-wide Financial Statements. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) display information about the primary government (the “City”) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. For example, the direct expenses charges based on actual use are not eliminated, whereas indirect expense allocations made in the funds are eliminated. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities, which is included in the government-wide financial statements, presents a comparison between direct expenses and program revenues for each business-type activity of the City and each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a business-type activity or governmental function and; therefore, are clearly identifiable to a particular activity or function. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are instead presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category, such as governmental, proprietary and fiduciary, are presented. The emphasis of fund financial statements are on the major governmental and enterprise funds of the City and are reported separately in the accompanying financial statements. All remaining governmental funds are aggregated and reported as non-major funds in the accompanying financial statements.

Notes to Basic Financial Statements

June 30, 2007

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds.

The **Redevelopment Agency Fund** is a capital projects fund that accounts for administrative, operating, low-to-moderate income housing program, debt and construction activities necessary to carry out responsibilities for redeveloping and upgrading blighted areas in the City.

The **Housing Activities Fund** is a special revenue fund that accounts for the City's affordable housing activities.

The **Special Assessment Districts Fund** is a capital projects fund that accounts for the capital project and debt activities related to debt issued to finance public improvements benefiting properties against which special assessments or special taxes are levied.

The **City of San José Financing Authority** is a debt service fund that accounts for the debt activities related to capital projects funded with Authority debt.

The City reports the following major enterprise funds:

The **Norman Y. Mineta San José International Airport Fund** accounts for the activities of the City owned commercial service and general aviation airport.

The **Wastewater Treatment System Fund** accounts for the financing, construction, and operations of the City's sewer system, the Water Pollution Control Plant (the Plant), and the regional water reclamation program.

The **Municipal Water System Fund** accounts for the operations of the five water system operating districts: North San José, Evergreen, Coyote, Edenvale and Alviso.

The **Parking System Fund** accounts for the operations of the parking garage facilities, parking lots and parking meters located within the City.

The City reports the following fiduciary fund types:

The **Pension Trust Funds** account for the accumulated resources to be used for retirement annuity and postemployment healthcare payments to members of the Federated City Employees' Retirement System (the "System") and the Police and Fire Department Retirement Plan (the "Plan" and collectively, the "Retirement System").

The **James Lick Private Purpose Trust Fund** is used to account for resources legally held in trust for use towards the support of the Eastfield Home of Benevolence (orphanage). All resources of the fund, including any earnings on invested resources, are used to support the organization's activities.

The **Agency Funds** account for assets held by the City in a custodial capacity on behalf of the San José Arena and the Health Care Financing Administration.

Notes to Basic Financial Statements

June 30, 2007

The City reports the following internal service fund:

The **Public Works Program Support Fund** is used to account for Public Works Department administrative services provided to citywide capital programs and certain other Public Works operating divisions on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and trust funds financial statements are reported using the 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 and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues as available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded only when payment is due.

In governmental funds, revenues from taxes, licenses, franchise taxes, interest, certain state and federal grants and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current period. All other revenue items are considered measurable and available only when cash is received by the City.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply restricted cost-reimbursement grant resources to such programs, followed by restricted categorical block grants, and then by unrestricted general revenues.

All business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions or

Notes to Basic Financial Statements

June 30, 2007

any Accounting Research Bulletins unless those pronouncements conflict with or contradict GASB pronouncements.

D. Use of Estimates

A number of estimates and assumptions relating to the reporting of revenues, expenditures/expenses, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with accounting principals generally accepted in the United States of America. Actual results could differ from those estimates.

E. New Pronouncements

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other post-employment benefits (OPEB) plans. This statement was developed to address the growing concern about the magnitude of state and local governments' obligation to provide OPEB for their employees and the lack of information about those obligations in general purpose external financial reports. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. Application of this statement is effective for the City's fiscal year ended June 30, 2007. The additional disclosures concerning the implementation of GASB 43 is available in note IV.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following Governmental Accounting Standards Board (GASB) Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the City's fiscal year ending June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether the proceeds received, should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

Notes to Basic Financial Statements

June 30, 2007

Application of this statement is effective for the City's fiscal year ending June 30, 2008.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Application of this statement is effective for the City's fiscal year ending June 30, 2009

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the City's fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

F. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Restricted and unrestricted pooled cash and investments held in the City Treasury and other unrestricted investments, invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City's cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities less than three months at the time of purchase are also considered cash equivalents for purposes of the statement of cash flows.

2. Equity in Pooled Cash and Investments Held in City Treasury

Most cash balances of the City's funds and some of its component units are pooled and invested by the City Treasurer unless otherwise dictated by legal or contractual requirements. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds and component units on a monthly basis, based on their proportionate shares of the average weekly cash balance.

Notes to Basic Financial Statements

June 30, 2007

3. Deposits and Investments

Investments are accounted for in accordance with the provisions of GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This Statement requires governmental entities to report investments at fair value in the statement of net assets or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is allocated directly to the General Fund rather than the fund that holds the investment on which the income was earned. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the fiscal year ended June 30, 2007, the total investment income from these funds allocated to the General Fund was approximately \$4,693,000.

Retirement Systems. Investments of the Retirement Systems are reported at their fair value and include securities lending transactions. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of the private equities are based on the net asset value of those funds as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fair value of real estate investments is based on independent appraisals. The Retirement Systems investments in pooled holdings have the accompanying securities held by the fund manager in accordance with the above standards. At June 30, 2007, the Retirement Systems had the following pooled holdings: \$24,295,000 in fixed income, \$404,547,000 in international equities, \$412,623,000 in domestic equities, \$58,323,000 in real estate, and \$64,671,000 in private equities. Purchases and sales of securities are reflected on the date of trade. Investment income is recognized as earned. Rental income from real estate activity is recognized as earned, net of expenses.

Other Investments. Non-pooled investments are generally carried at fair value. However, investments in guaranteed investment contracts are carried at cost and special assessments bonds at amortized cost. Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

4. Inventory

Inventory of the proprietary funds is valued at the lower of cost (first-in/first-out) or market. In the governmental funds, inventory items are valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Special Assessment Districts

Special assessments are recorded as receivables when they become a lien on property. Special assessments not considered available are recorded as receivables and offset by deferred revenues in the governmental fund financial statements. The special assessment bonds are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. There is no reserve for delinquent receivables since priority liens exist against the related properties and hence the City's management believes value will ultimately be received by the City. Surplus funds remaining at the completion of a special assessment district project are disposed of in accordance with the City Council's resolutions and with the applicable assessment bond laws of the State of California. A liability is recorded for the balance remaining until a final legal determination has been made.

Notes to Basic Financial Statements

June 30, 2007

6. Advances and Deposits

Amounts deposited in connection with eminent domain proceedings and special assessment surpluses are reported as advances and deposits. In the governmental fund statements, non-current portions of these are offset equally by either a deferred credit or a fund-balance reserve account that indicates they do not constitute expendable financial resources available for appropriation.

7. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program. These assets are recorded at the lower of cost or estimated net realizable value.

8. Bond Issuance Costs; Original Issue Discounts and Premiums and Deferred Amounts on Refundings

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are deferred and are amortized over the term of the related debt. Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Restricted Assets

Assets that are restricted for specific uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because they are maintained in separate bank accounts or by fiscal agents, and their use is limited by applicable bond covenants or agreements.

10. Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and the proprietary funds' statement of net assets. Capital assets are defined as assets with an initial individual cost of more than \$5,000 for general capital assets and \$100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term or the estimated useful life of the asset and is included in depreciation and amortization.

Notes to Basic Financial Statements

June 30, 2007

Buildings and improvements, infrastructure, and vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	5 – 40 years
Improvements, other than buildings	10 - 50 years
Infrastructure	25 - 50 years
Vehicles and equipment	2 - 40 years
Furniture and fixtures	10 years
Intangible assets	40 years

Capital assets, which are used for general governmental purposes and are not available for expenditure, are accounted for and reported in the government-wide financial statements. Capital assets that meet the definition of the major infrastructure networks or extend the life of existing infrastructure networks are capitalized as infrastructure. Infrastructure networks include road, bridges, drainage systems, and lighting systems.

11. Compensated Absences – Accrued Vacation, Sick Leave, and Compensatory Time

Vested vacation, sick leave, compensatory time, and related benefits are accrued as appropriate. For governmental funds, compensated absence obligations are recorded in the appropriate governmental funds when due. The portion not currently due is recorded in the government-wide financial statements. For enterprise funds, compensated absences are expensed when earned by employees. At year-end, the accrued but unpaid compensated absence obligations are recorded as current and non-current liabilities in the appropriate enterprise funds.

Vacation pay may be accumulated up to a maximum of 400 hours or two times of annual accrual rate and carried forward for more than one year in most circumstances. Sick pay vests when a full-time employee reaches 15 years of service (20 years for police officers and firefighters) based on the following percentages, up to a maximum of 1,200 accumulated hours:

<u>Hours Accumulated</u>	<u>Amount Vested</u>
1 to 399	50%
400 to 799	60%
800 to 1,200	75%

The amount vested for police officers and firefighters who have accumulated over 1,200 and 1,680 hours of sick leave, respectively, is 100%, provided that, the employee is a non-disabled, service retiree whom has not lost their life while on active service.

Management employees who have 15 years of service become vested for 75% of an additional 192 hours of sick leave above the 1,200 hour maximum, provided these hours were earned in the last 2 years of service.

Payments for vacation and compensatory time to regularly scheduled part-time employees who retire after 15 years of service are based on actual earned hours.

12. Inter-fund Transactions

Inter-fund transactions are reflected as loans, services provided, reimbursements and/or transfers. Loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, are subject to elimination upon consolidation of similar fund types, and are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans and

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unsettled service transactions) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Advances to other funds, as reported in the fund financial statements, are offset by a fund-balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses. Reimbursements are defined as when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

13. Self-Insurance

The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks. The City's workers' compensation activities are funded and accounted for separately in the fund financial statements based upon the activities of each fund. The current portion of claims liability are accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

14. Net Assets/Fund Equity

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2007, the government-wide statement of net assets reported restricted assets of \$506.0 million in governmental activities and \$248.0 in business type activities. Of these amounts \$360.0 million and \$108.4 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced or eliminated by similar actions.

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Reservations of fund balance are described as follows:

- *Encumbrances* - to reflect the outstanding contractual obligations for which, goods and services have not been received.
- *Non-current advances, loans, other assets, and cash commitments* - to reflect the portion of assets that are not currently available as a spendable resource.
- *Debt service* - to reflect the funds held by trustees or other fiscal agents for future payment of principal and interest related to bond issue. These funds are not available for general operations.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations include:

- *Contingencies* - to reflect management's intent to expend certain funds for future unanticipated needs.
- *Future projects and redevelopment activities* - to reflect management's intent to expend certain funds approved for capital projects in prior year's but not yet completed.

The unreserved governmental fund balance designations at June 30, 2007 are composed of the following (dollars in thousands):

	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	San Jose Financing Authority	Nonmajor Funds	Total
Unreserved, designated for:							
Future projects	\$ 91,850	-	-	13,257	-	571,088	\$ 676,195
Contingencies	67,176	-	-	-	-	-	67,176
Undesignated	85,863	(1,776)	10,676	-	(31,493)	-	63,270
Total unreserved fund balances	<u>\$ 244,889</u>	<u>(1,776)</u>	<u>10,676</u>	<u>13,257</u>	<u>(31,493)</u>	<u>571,088</u>	<u>\$ 806,641</u>

15. Property Taxes

Property taxes are collected on behalf of and remitted to the City by Santa Clara County (the County). The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13).

The County assesses property values, levies, bills, and collects the related property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

The City has elected to participate in the "Teeter Plan" offered by the County whereby cities receive 100% of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes. Accordingly, property taxes levied for the fiscal year are recorded as revenue when received from the County.

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General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year depending on increases in the consumer price index.

The City's net assessed valuation for the fiscal year ended June 30, 2007, was approximately \$109.7 billion, an increase of approximately 9% over the previous year. The tax rate was approximately \$0.189 per \$100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P" (2000) and Measure "O" (2002).

16. Wastewater Treatment System

The Wastewater Treatment System is an enterprise of the City and is comprised of the Water Pollution Control Plant (the Plant), including South Bay Water Recycling and the San José Sewage Collection System.

The Plant provides wastewater treatment services to the City of San José and to seven other sewage collection agencies. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program. The City's sewer service rates pay for the City's share of the Plant operations, maintenance, and administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City of San José serves as the administering agency and is responsible for operating and maintaining the Plant. The cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs, on an accrual basis.

For the fiscal year ended June 30, 2007, the City's portion of the capital and operating costs was approximately 80% and, based on operations through the fiscal year ended June 30, 2007, the City's interest in the net assets of the Plant was approximately 80%.

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balances

Deficit fund balances of \$2,234,000, \$424,000 and \$31,399,000 were reported in non-major capital projects Fiber Optics Development Fund, the Civic Center Improvement Fund and the City of San José Financing Authority major debt service fund, respectively. The deficit fund balance for the Fiber Optics Development Fund will be eliminated with future transfers from the General Fund. The Civic Center Improvement Fund deficit will be eliminated with transfers made from future commercial paper proceeds. The San José Financing Authority deficit fund balance will be eliminated with future debt service transfers from other governmental funds.

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III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

Total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds			Carrying Value
			Pension Trust	Private-Purpose Trust	Agency	
Equity in pooled cash and investments	\$ 714,730	294,148	-	33	1,672	\$ 1,010,583
Other cash and investments	6	-	-	-	-	6
Restricted investments:						
Equity in pooled cash and investments	91,831	147,848	-	-	-	239,679
Other cash and investments	542,993	100,269	-	-	-	643,262
Investments of retirement plans	-	-	5,515,653	-	-	5,515,653
Total deposits and investments	<u>\$ 1,349,560</u>	<u>542,265</u>	<u>5,515,653</u>	<u>33</u>	<u>1,672</u>	<u>7,409,183</u>
Deposits						(11,835)
Investments						<u>7,421,018</u>
Total deposits and investments						<u>\$ 7,409,183</u>

Pooled Cash and Investments Held in City Treasury. The City maintains a cash and investment pool that is available for use by all funds and certain component units. Each fund's portion of this pool is displayed on the accompanying governmental fund balance sheets and proprietary fund statement of net assets as "Equity in pooled cash and investments held in City Treasury."

Other Cash and Investments. The City has other investments outside the City Treasury that are invested pursuant to various governing bond covenants, San José Municipal Code or California Government Code provisions.

Other investments consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These investments are made either in accordance with bond covenants, and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust and grant agreements.

Investments in Retirement Plans. The Retirement Systems' funds are invested pursuant to policy guidelines established by the Retirement Systems' Boards. The objective of the investment policy is to maximize the expected return of the funds at an agreed upon level of risk. The Retirement Boards have established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investments in forward currency contracts of the Pension Trust Funds are recorded commitments to purchase or sell stated amounts of international currency. The Retirement Systems' net position in these contracts is recorded at fair value as short-term international currency investments. The fair value of forward currency contracts is determined by quoted currency prices from national exchanges.

Investment Risk. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, concentration of credit risk, custodial credit risk and foreign currency risk. These risks are addressed separately for the investments related to governmental and business-type activities and those related the Retirement Systems, as follows:

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1. Governmental and Business-Type Activities

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations. As of June 30, 2007, there were no investments, with fair values, that were highly sensitive to interest rate fluctuation.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments as of June 30, 2007, was approximately 569 days or 19 months. The Investment Policy does not prohibit the sale of securities prior to maturity. However any portfolio restructuring requires prior conceptual approval in writing from the City Manager and the Director of Finance. Section 14.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Quality Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Investment in Local Agency Investment Fund. The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the City's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the City's pro-rate share of the fair value provided by the LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool.

As of June 30, 2007, the City's investment in LAIF is approximately \$137,705,000. The total amount recorded by all public agencies in LAIF at that date is approximately \$19,736,253,000,000. Of that amount, 97% is invested in non-derivative financial products and 3% in structured notes and asset backed securities.

Concentration of Credit Risk. The City Council adopted an investment policy (the "Policy") on April 2, 1985, as amended on June 5, 2007, related to the City's cash and investment pool, which is subject to annual review. The Policy prohibits investment in securities purchased with the intent to trade for a profit. Per the Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

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The following table identifies the investment types that are authorized for the City by the California Government Code and Policy, where more restrictive:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage or Dollar of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 Years	None	None
U.S. Government Agency Issues	5 Years	None	None
Bankers' Acceptances	180 Days	25%	5%
Insured Time Deposits	3 Years	\$10 Million	5%
Uninsured Time Deposits	18 Months	\$10 Million	5%
Commercial Paper	270 Days	20%	5%
Negotiable Certificates of Deposit	180 Days	25%	5%
Repurchase Agreements	10 Days	None	None
Reverse Repurchase Agreements	30 Days	\$25 Million or 20%	Only one instrument permitted at a time
Corporate Notes	3 Years	15%	5%
Local Agency California Investment Fund	None	None	None
Money Market Mutual Funds	None	15%	5%
California Municipal Bonds – Category 1	5 Years	15%	5%
California Municipal Bonds – Category 2	5 Years	5%	5%
California Municipal Bonds – Category 3	5 Years	10 %	5%
Investment Agreements	None	None	None

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks (FFCBs), the Federal Home Loan Banks (FHLBs), Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and Student Loan Marketing Association (SLMA).
- The purchase of Banker Acceptances (BAs) are limited to issues by domestic U.S. or foreign banks and which must be rated by Fitch as follows: an issuer of "B" or better for domestic U.S., "C" or better for California banks or "A/B" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations.
- Insured and uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San Jose area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time deposits, depositories must have an issuer rating of "B" or better by Fitch Ratings and be collateralized in a manner prescribed by state law for depositories.
- Investments in commercial paper are limited to investments in domestic corporations with the highest ranking or with the highest letter and number rating as provided for by the three nationally recognized rating services. Issuing corporations must be organized and operating within the U.S. and have total assets in excess of \$500,000,000.
- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch Ratings and may not exceed the net worth of issuing institution.

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- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of purchase agreement's face value.
- Corporate notes eligible for investment must be rated "A" or better by two of the three nationally recognized rating services.
- Funds invested in Local Agency Investment Fund, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer.
- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and be maintained at no less than \$1.00 per share.
- Reverse repurchase agreements under the Policy are limited to the lesser of \$25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.
- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a Provider's inability to meet its contractual obligations.
- California municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes three California municipal bond categories (1 through 3): bonds issued by the City or its agencies (as defined in the Policy), by the State of California, and by other California local agencies, respectively. Eligible securities must be rated AA or better by two nationally recognized rating services. For category 3, a rating of AAA through credit enhancements is also permitted.

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, State and federal laws. Whenever a deviation from the Policy is made, it must be reported to the City Manager and the City Council within one business day. During fiscal year ended June 30, 2007, there were no deviations from or violations against the Policy.

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The Policy stipulates that no more than 5% of the total portfolio can be invested in investments of a single institution other than securities issued by the U.S. Treasury, U.S. Government Agencies (as defined in the policy) and LAIF.

The following schedule indicates the interest rate risk, credit quality risk and concentration credit risk of the City's investments, as of June 30, 2007. The credit ratings listed are for Moody's Investors Services and Standard and Poor's, respectively. Certain investments, such as obligations, which are backed by the full faith and credit of the United States Government, are exempt from credit rating disclosures (dollars in thousands):

Type of Investment	Credit Rating	Maturity					Carrying Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	Over 5 Years	
Pooled investments in the City Treasury:							
U.S. Treasury notes and bonds	Exempt	\$ -	10,020	-	-	-	\$ 10,020
Federal Farm Credit Banks *	Aaa / AAA	-	20,107	-	138,347	-	158,454
Federal Farm Credit Banks - Callable	Aaa / AAA	-	-	2,956	2,098	-	5,054
Federal Home Loan Banks *	Aaa / AAA	-	90,017	61,678	304,415	-	456,109
Federal Home Loan Banks - Callable*	Aaa / AAA	-	9,895	9,925	83,787	-	103,608
Federal Home Loan Banks - Discount*	P-1 / A-1+	41,933	-	-	-	-	41,933
Federal Home Loan Mortgage Corporation *	Aaa / AAA	-	39,169	8,326	119,275	-	166,770
Federal Home Loan Mortgage Corporation - Callable*	Aaa / AAA	-	-	4,883	74,486	-	79,369
Federal Home Loan Mortgage Corporation - Discount*	P-1 / A-1+	53,117	1,368	-	-	-	54,485
Federal National Mortgage Association	Aaa / AAA	-	4,981	29,916	19,531	-	54,429
Federal National Mortgage Association - Callable	Aaa / AAA	-	-	-	4,722	-	4,722
Commercial paper	P-1 / A-1+	59,071	-	-	-	-	59,071
Money market mutual funds	AAAm	1,047	-	-	-	-	1,047
Local agency investment fund	Not Rated	-	74,616	-	-	-	74,616
Total pooled investments in the City Treasury		<u>155,168</u>	<u>250,173</u>	<u>117,684</u>	<u>746,660</u>	<u>-</u>	<u>1,269,685</u>
Other funds:							
U.S. Treasury bills	Exempt	39	-	-	-	-	39
U.S. Treasury notes and bonds	Exempt	-	-	404	-	-	404
Federal Home Loan Banks - Discount **	P-1 / A-1+	123,192	1,900	-	-	-	125,092
Federal Home Loan Mortgage Corporation - Discount **	P-1 / A-1+	126,225	62,179	1,083	-	-	189,488
Federal National Mortgage Association - Discount**	P-1 / A-1+	43,725	-	-	-	-	43,725
Investment agreements***	Not Rated	-	2,490	-	-	34,171	36,661
Commercial paper	P-1 / A-1+	8,863	-	-	-	-	8,863
Money market mutual funds	AAAm	168,319	-	-	-	-	168,319
Local agency investment fund	Not Rated	-	63,089	-	-	-	63,089
Total other funds		<u>470,364</u>	<u>129,658</u>	<u>1,487</u>	<u>-</u>	<u>34,171</u>	<u>635,680</u>
Total citywide investments (excluding Retirement Systems)		<u>\$ 625,531</u>	<u>379,831</u>	<u>119,171</u>	<u>746,660</u>	<u>34,171</u>	<u>1,905,365</u>
Retirement Systems:							
Total investments in Retirement Systems (See page 60 and 61)							<u>5,515,653</u>
Total investments							<u>\$ 7,421,018</u>

* Investments with these issuers represent more than 5% of the City's pooled investments held in the City's Treasury.

** Investments with these issuers represent more than 5% of the investments held outside of the City's Treasury.

*** The City invested \$34,171 in MBIA investment agreements which are more than 5% of the investments held outside the City's Treasury.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the

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City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name.

As of June 30, 2007, the carrying amount of the City's deposits with financial institutions was in an overdraft position amount of \$11,835,000 and the bank balance was \$13,916,000. The difference between the carrying amount and bank balance relates to outstanding checks and wire transfers issued against the general operating account. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$13,416,000 was collateralized.

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2007, the investments in the City's investment pool were not subject to foreign currency risk.

2. Retirement Systems

Interest Rate Risk. The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Retirement Systems do not have policies for managing interest rate risk, although the Retirement Systems do hold certain investments that could be affected by changes in interest rates. The Retirement Systems have investments in U.S. Government National Mortgage Association (GNMA's) in the amount of \$14,736,000 and U.S. government agency securities in the amount of \$481,248,000 backed by mortgage pass-throughs which are sensitive to interest rate changes. Therefore, if interest rates decline, the mortgages are subject to prepayments by borrowers. In addition, \$9,527,000 of the asset backed securities, \$10,110,000 of the collateralized mortgage obligations, and \$4,696,000 of the corporate securities are floating rate securities tied to 1–3 month LIBOR. The Retirement Systems also had \$2,298,000 of the collateralized mortgage obligations invested in floating rate securities tied to 1–12 month LIBOR plus 32-45 bps and \$1,495,000 of floating rate FHMC's securities tied to the one-year CMT plus 212.9 bps. In addition, the Retirement Systems have investments in international government variable rate bond in the amount of \$533,000 which are linked to the URINUSCA Index that is reset semi-annually and investments in international corporate bonds of which \$2,715,000 is principal only and \$703,000 which is a floater linked to the KRN 3 month CD that is reset quarterly.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The Retirement System's custodians hold all investments of the Retirement Systems in the Retirement Systems' name except for the assets held "not-in-bank" pooled funds that are held under custody of the investment managers' custodian bank.

Credit Quality Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by nationally recognized statistical rating organizations that provide rating of debt securities quality, based on a variety of factors, such as the financial conditions of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The System's assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed maturity investment grade shall be defined as being rated Baa/BBB or better by two of the following three rating service: Moody's Investors Service, Standard & Poor's or Fitch Ratings. If the ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be

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used. Up to 15% investment in BB or B securities will be permitted with written authorization of the System's Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control. International fixed maturity must be at least Aa3/AA-. If the corresponding ratings assigned by S&P and Moody's are not equivalent the higher rating will be used for purposes of measuring portfolio and security quality. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Investment Manager is permitted to hold up to 2% of the System's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security.

All domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's, Moody's Investors Service, or Fitch Ratings. In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Investment Manager is permitted to hold up to 2% of the System's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security.

The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

The credit ratings listed below are for Moody's Investors Services and/or Standard and Poor's. Certain investments, such as obligations backed by the full faith and credit of the United States Government, are exempt from credit rating disclosure.

The following schedule indicates the credit quality rate risk of the Retirement System's investments, by category, as of June 30, 2007. (dollars in thousands):

Ratings	Total	Percentage
AAA	\$ 386,194	25.66%
AA	58,463	3.88%
A	70,749	4.70%
BBB	91,314	6.07%
BB	35,179	2.34%
B	23,928	1.59%
CCC & below	1,113	0.07%
Not rated*	838,230	55.69%
	<u>\$ 1,505,170</u>	<u>100.00%</u>

* Includes Government and Collective Short-term Investment Funds, the pooled domestic and international bonds, GNMA, FNMA and FHMLC TBA's (underlying securities to be announced)

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Concentration of Credit Risk. The Retirement Systems' investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

	Type of Investment	Policy Limits and Descriptions
The Plan	Domestic Equity	Minimum of 29% and maximum of 39% of the market value of the aggregate portfolio.
	International Equity	Minimum of 10% and maximum of 25% of the market value of the aggregate portfolio.
	Emerging Market Equity	Limited to 8% of the market value of the aggregate portfolio.
	Domestic Fixed Income	Minimum of 15% and maximum of 25% of the market value of the aggregate portfolio.
	Long Duration Fixed Income	Limited to 7% of the market value of the aggregate portfolio.
	Private Market Equity	Limited to 8% of the market value of the aggregate portfolio.
	Real Estate	Limited to 17% of the market value of the aggregate portfolio. Real estate investments include: - Apartment complexes located in Houston, TX and Colorado Springs, CO. - Office buildings located in Denver, CO; San Jose, CA; Anchorage, AK and near Chicago, IL. - Warehouse located near Minneapolis, MN.
The System	Domestic Equity	Minimum of 38% and maximum of 48% of the market value of the aggregate portfolio.
	International Equity	Minimum of 10% and maximum of 20% of the market value of the aggregate portfolio.
	Domestic Bonds	Minimum of 24% and maximum of 34% of the market value of the aggregate portfolio.
	Global Bonds	Minimum of 4% and maximum of 10% of the market value of the aggregate portfolio.
	Private Market Equity	Limited to 6% of the market value of the aggregate portfolio.
	Real Estate	Minimum of 3% and maximum 9% of the market value of the aggregate portfolio. Real estate investments include: - Warehouse located in Northern California. - Interest in six separate real estate funds managed by third parties.

As of June 30, 2007, the System held \$186,353,000 of the investment issued by the Federal National Mortgage Association (including non-USD) which represents 10.0% of its plan net assets.

The collective short-term investment fund is used for overnight investment of all excess cash in the Retirement Systems' funds. It is invested by the Retirement Systems' custodians, and held in the Retirement Systems' custodians' names. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.
- The System also has commercial paper, certificates of deposits and short term corporate obligations.

Foreign Currency Risk. The risk that changes in foreign exchange rates will adversely affect the fair value of an investment. As of June 30, 2007, the Retirement Systems were subject to foreign currency risk. To mitigate this risk, individual investment managers are permitted to defensively hedge currency to mitigate the impact on currency fluctuation on the underlying asset value.

Forward International Currency Contracts. The Retirement Systems made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Retirement Systems utilize these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2007, the Retirement Systems' net position in these contracts is recorded at fair value as short-term international currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' investments in forward

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currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2007, total commitments in forward currency contracts to purchase and sell foreign currencies for the System were \$10,008,000 and \$10,008,000, respectively, with market values of \$10,003,000 and \$10,044,000 respectively. As of June 30, 2007, total commitments in forward currency contracts to purchase and sell foreign currencies for the Plan were \$4,974,000 and \$4,974,000 respectively, with fair values of \$4,948,000 and \$4,981,000, respectively. The Retirement Systems' commitments relating to forward currency contracts are settled on a net basis. The following tables provide information related to the various investment risks that may affect the investments of the Retirement System (dollars in thousands):

Type of Investment	Maturity						Total Fair Value
	3 Months or Less	3 - 6 Months	6 Months - 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years	
Fixed Maturity:							
Domestic:							
U.S. Treasury Securities	-	10,923	8,888	81,794	31,489	59,544	192,638
U.S. Treasury Strips	-	-	-	-	-	112	112
GNMA	-	-	-	-	-	14,736	14,736
FHLB	-	936	219	2,748	1,095	-	4,998
FHLMC	8,677	-	-	2,180	5,343	76,615	92,815
FNMA	17,012	-	371	4,667	14,825	346,560	383,435
Other U.S. Gov't Agency Securities	-	-	-	430	955	9,811	11,196
Asset Backed Securities	-	-	-	25,502	8,857	22,752	57,111
Collateralized Mortgage Obligations	-	-	-	2,883	-	125,966	128,849
Corporate Bonds	2,894	2,255	2,915	58,269	63,775	108,870	238,978
State and Local Obligations	-	-	-	-	-	2,999	2,999
Collective Short Term Investments	223,346	-	-	-	-	-	223,346
Pooled Domestic Bonds	-	-	-	-	-	8,507	8,507
Total domestic maturities	251,929	14,114	12,393	178,473	134,846	767,965	1,359,720
International:							
Government bonds:							
British Pound	-	-	-	1,374	404	1,966	3,744
Canadian Dollar	-	-	-	154	1,251	-	1,405
Colombian Peso	-	-	-	152	514	95	761
Euro Currency	-	-	-	7,747	6,182	9,049	22,978
Japanese Yen	8,354	-	3,142	5,031	4,248	2,826	23,601
Mexican Peso	-	-	-	-	-	416	416
New Zealand Dollar	-	-	-	-	644	-	644
Norwegian Krone	-	-	-	1,008	1,264	-	2,272
Polish Zloty	-	-	-	-	1,119	-	1,119
Singapore Dollar	-	-	-	3,476	-	-	3,476
South African Rand	-	-	-	918	-	-	918
Swedish Krona	-	-	-	2,257	-	-	2,257
USD Denominated	-	-	-	-	1,600	3,457	5,057
Total international government bonds	8,354	-	3,142	22,117	17,226	17,809	68,648
Corporate Bonds:							
British Pound	-	-	-	1,990	2,079	423	4,492
Canadian Dollar	-	-	-	-	719	47	766
Euro Currency	-	-	-	3,144	3,145	245	6,534
Iceland Krona	-	-	1,121	-	-	-	1,121
Indonesian Rupiah	-	-	-	422	-	-	422
Japanese Yen	-	-	-	5,558	2,829	1,559	9,946
Malaysian Ringgit	-	-	-	2,213	-	-	2,213
Mexican Peso	-	-	-	-	302	942	1,244
South Korean Won	-	-	-	1,504	-	-	1,504
Swiss Franc	-	-	-	1,132	-	-	1,132
USD Denominated	549	-	-	8,108	10,082	12,858	31,597
Total international corporate bonds	549	-	1,121	24,071	19,156	16,074	60,971
Pool International Fixed Maturity	-	-	-	-	2,716	13,072	15,788
Total international fixed maturities	8,903	-	4,263	46,188	39,098	46,955	145,407
Derivatives	162	(106)	(13)	-	-	-	43
Total fixed maturity	260,994	14,008	16,643	224,661	173,944	814,920	1,505,170

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Type of Investment	Maturity					Total Fair Value
	3 Months or Less	3 - 6 Months	6 Months - 1 Year	1 - 5 Years	6 - 10 Years	
Equities:						
Domestic						1,412,402
Pooled domestic equity						412,623
Total domestic equities						<u>1,825,025</u>
International:						
International currency:						
Australian Dollar						21,776
Brazilian Real						13,345
British Pound						113,284
Canadian Dollar						20,143
Danish Krone						1,263
Egyptian Pound						1,863
Euro Currency						222,310
Hong Kong Dollar						15,897
Indian Rupee						6,047
Indonesian Rupiah						2,239
Japanese Yen						120,187
Malaysian Ringgit						2,531
Mexican Peso						7,152
New Zealand Dollar						1,968
Norwegian Krone						8,874
Polish Zloty						1,213
Singapore Dollar						10,114
South African Rand						4,846
South Korean Won						19,290
Swedish Krona						9,817
Swiss Franc						34,785
Taiwan Dollar						8,450
United Arab Emirates Dirham						1,001
USD Denominated						90,291
Total international currency						<u>738,686</u>
Pooled International Equities						<u>404,547</u>
Total international equities						<u>1,143,233</u>
Total equities						<u>2,968,258</u>
Private equity						64,671
Real Estate						276,605
Forward international currency contracts						(74)
Securities Lending Collateral						701,023
Total investments of retirement plans						<u>\$ 5,515,653</u>

Notes to Basic Financial Statements

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Securities Lending. The municipal code and the investment policies, adopted by the Retirement Systems, permit the use of a securities lending program with its principal custodian banks (Custodians). The Retirement Systems do not have a threshold for securities lending. The investment policy of the System requires that loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months. The custodial agreements with the Retirement Systems' custodians authorize such custodian to loan securities in the Retirement Systems' investment portfolio under such terms and conditions, as the custodians deem advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Retirement Systems receive a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the custodians are responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the custodians are required to credit the Retirement Systems' account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Retirement Systems or borrowers.

Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that may be pledged or sold without a default by the borrower. Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the fiduciary statement of net assets. The Retirement Systems do not match the maturities of investments made with cash collateral with the securities on loan.

The loaned securities as of June 30, 2007 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, international corporate bonds, international government bonds, domestic equity securities, and international equity securities. In return, the Retirement Systems receive collateral in the form of cash or securities equal to at least 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2007, the underlying securities loaned by the Retirement Systems as a whole amounted to approximately \$700,968,000. The cash collateral and the non-cash collateral totaled \$701,023,000 and \$20,438,000, respectively. The Retirement Systems had no exposure to credit risk related to the securities lending transactions as of June 30, 2007.

Notes to Basic Financial Statements

June 30, 2007

The following table provides information concerning securities lent and collateral received as of June 30, 2007 (dollars in thousands):

	<u>The Plan</u>	<u>The System</u>	<u>Total Fair Value</u>
Type of Investment Lent			
For Cash Collateral:			
U.S. treasury securities	\$ 113,503	39,919	153,422
U.S. government agency securities	6,767	130	6,897
Domestic corporate bonds	16,893	20,921	37,814
International corporate bonds	-	337	337
International government bonds	-	3,239	3,239
Domestic equity securities	270,006	103,041	373,047
International equity securities	84,551	21,600	106,151
Total lent for cash collateral	<u>491,720</u>	<u>189,187</u>	<u>680,907</u>
For Non-Cash Collateral:			
U.S. treasury securities	9,266	835	10,101
Domestic corporate bonds	-	2,196	2,196
Domestic equity securities	4,998	1,648	6,646
International equity securities	-	1,118	1,118
Total lent for non-cash collateral	<u>14,264</u>	<u>5,797</u>	<u>20,061</u>
Total securities lent	<u>\$ 505,984</u>	<u>194,984</u>	<u>700,968</u>
Type of Collateral Received			
Cash collateral	\$ 507,105	193,918	701,023
Non-cash collateral:			
For lent U.S. treasury securities	9,382	853	10,235
For lent domestic corporate bonds	-	2,181	2,181
For lent domestic equity securities	5,152	1,694	6,846
For lent international equity securities	-	1,176	1,176
Total non-cash collateral	<u>14,534</u>	<u>5,904</u>	<u>20,438</u>
Total collateral received	<u>\$ 521,639</u>	<u>199,822</u>	<u>721,461</u>

Notes to Basic Financial Statements

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B. Receivables, Net of Allowances

Receivables at year-end of the City's major individual funds and non-major funds taken in aggregate, including the applicable allowances for uncollectible accounts are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	San Jose Financing Authority	Total Nonmajor Funds	Governmental Activities
Taxes	\$ 32,079	297	-	-	-	6,691	\$ 39,067
Accrued interest	4,860	235	1,710	354	2	3,925	11,086
Grants	6,600	-	1,273	-	-	8,602	16,475
Special assessments	-	-	-	71,583	-	-	71,583
Other	27,983	850	50	-	-	17,256	46,139
Less: allowance for uncollectibles	(12,166)	(34)	-	(2)	-	(1,196)	(13,398)
Total receivables, net	<u>\$ 59,356</u>	<u>1,348</u>	<u>3,033</u>	<u>71,935</u>	<u>2</u>	<u>35,278</u>	<u>\$ 170,952</u>

Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	\$ 10,058	2,064	2,747	1,166	\$ 16,035
Accrued interest	2,369	1,866	129	124	4,488
Grants	3,277	484	-	-	3,761
Less: allowance for uncollectibles	(449)	(313)	(10)	(6)	(778)
Total receivables, net	<u>\$ 15,255</u>	<u>4,101</u>	<u>2,866</u>	<u>1,284</u>	<u>\$ 23,506</u>

Special assessment receivables in the amount of \$71,580,000 are not expected to be collected within the subsequent year.

C. Loans Receivable

The composition of the City's loans receivable as of June 30, 2007 is as follows (dollars in thousands):

Type of Loan	General Fund	Redevelopment Agency	Housing Activities	Nonmajor Funds	Total Governmental Activities
20% Housing Program Developer, rehabilitation, second mortgage and relocation loans	\$ -	-	456,805	-	\$ 456,805
Loans funded by federal grants	-	-	60,926	7,721	68,647
Economic development, real estate developer and other loans	2,391	45,902	-	1,659	49,952
Less: allowance	-	(7,655)	(313,361)	(2,381)	(323,397)
Total loans, net	<u>\$ 2,391</u>	<u>38,247</u>	<u>204,370</u>	<u>6,999</u>	<u>\$ 252,007</u>

California Community Redevelopment Law requires that at least 20% of the incremental tax revenues generated from redevelopment project areas be used to increase, improve, and preserve the affordable housing stock for families and individuals with very low, low, and moderate incomes. In response to this requirement, the City established its 20% Housing Program to offer financial assistance to qualified developers, families, and individuals by providing loans at "below market" rates.

Typical loans and related terms are summarized as follows:

Loan Type	Interest Rate	Due
New construction	0 - 4%	up to 55 years
Multi-unit rental rehabilitation	3%	5 or more years
Take-out (first time homeowners)	4%	7 to 40 years
Home improvement	3 - 6%	1 to 30 years

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Loans are secured by first, second, or third deeds of trust except for take-out loans, which are all secured by second deeds of trust. Interest and principal are typically due in installments, except for take-out loans, which do not require payments until their due date.

The City has also invested in multi-family rental housing projects serving low to moderate income individuals through subordinate loans with terms of up to 40 years. Generally, these loans are to be repaid through fixed payments or net cash flow from project operations, and the term and potential risk of each loan is different. Because of the net cash flow feature of these second mortgages, earnings and repayments are not as definite as with other loans receivable. There is greater risk of variability in the timing of payments and, potentially, a lower probability of eventual repayment on these second mortgage loans than on other loans.

The City maintains a valuation allowance against loans receivable comprised of an allowance for risk and an allowance for present value discount. The allowance for risk is maintained to provide for losses that can be reasonably anticipated. The allowance is based upon continuing consideration of changes in the character of the portfolio, evaluation of current economic conditions, and such other factors that, in the City's judgment, deserve recognition in estimating potential loan losses. The allowance for risk takes into consideration maturity dates, interest rates, and other relevant factors.

In accordance with City policy, loans are funded at below market rates of interest with amortizing and deferred repayment terms. This policy exists to enhance the well-being of the recipients or beneficiaries of the financial assistance, who, as described above, are very low, low, or moderate-income individuals or families, or developers of housing for such individuals or families.

Accordingly, for financial statement purposes, the City has established an allowance account against the loans receivable balance containing a present value discount. The present value discount gives recognition to the economic cost of providing loans at interest rates below market, and represents an estimate of the present value of projected net cash flows to the City from the loan portfolio. The present value discount attributable to the loans will be recognized as interest income only as such loans are repaid in full because of the deferred nature of the loan portfolio and the high level of uncertainty relating to the likelihood that cash flows will occur as projected. The difference between the individual outstanding loan balances and the calculated net present value of the loans results in the allowance for present value discount. Losses are recognized through charges to the allowance and any subsequent recoveries are added to the allowance.

For the fiscal year ended June 30, 2007, the City reviewed the valuation allowance by taking into account the risk factors noted above and assessing the valuation account(s) in general. Based on this review, the City determined that the allowance should be increased in the Housing Activities Fund. As a result, the City recorded an expense of \$54.5 million to increase the valuation allowance for those loan portfolios that met the City's valuation allowance policy criteria.

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and 20% Housing Program loans receivable as of June 30, 2007.

In the normal course of operations for housing programs, the City has outstanding commitments to extend credit, which have been encumbered as of June 30, 2007. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2007, amounts committed to extend credit under normal lending agreements totaled approximately \$36,701,000.

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D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2007 (dollars in thousands):

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 558,079	14,203	24,352	2,486	550,416
Construction in progress	256,123	89,648	487	(48,370)	296,914
Total capital assets, not being depreciated	<u>814,202</u>	<u>103,851</u>	<u>24,839</u>	<u>(45,884)</u>	<u>847,330</u>
Capital assets, being depreciated:					
Buildings	1,020,010	3,234	-	32,770	1,056,014
Improvements, other than buildings	39,514	-	-	7,274	46,788
Infrastructure	11,193,115	38,452	-	5,715	11,237,282
Vehicles and equipment*	91,918	8,870	553	125	100,360
Furniture & fixtures*	26,382	-	-	-	26,382
Property under capital leases	13,379	-	-	-	13,379
Total capital assets, being depreciated	<u>12,384,318</u>	<u>50,556</u>	<u>553</u>	<u>45,884</u>	<u>12,480,205</u>
Less accumulated depreciation for:					
Buildings	206,191	27,683	-	-	233,874
Improvements, other than buildings	11,245	1,986	-	-	13,231
Infrastructure	4,723,118	302,575	-	-	5,025,693
Vehicles and equipment*	80,456	4,750	553	-	84,653
Furniture & fixtures*	2,638	2,638	-	-	5,276
Property under capital leases	11,630	258	-	-	11,888
Total accumulated depreciation	<u>5,035,278</u>	<u>339,890</u>	<u>553</u>	<u>-</u>	<u>5,374,615</u>
Total capital assets, being depreciated, net	<u>7,349,040</u>	<u>(289,334)</u>	<u>-</u>	<u>45,884</u>	<u>7,105,590</u>
Governmental activities capital assets, net	<u>\$ 8,163,242</u>	<u>(185,483)</u>	<u>24,839</u>	<u>-</u>	<u>7,952,920</u>
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 134,926	-	-	-	134,926
Construction in progress	268,770	169,526	-	(40,044)	398,252
Total capital assets, not being depreciated	<u>403,696</u>	<u>169,526</u>	<u>-</u>	<u>(40,044)</u>	<u>533,178</u>
Capital assets, being depreciated:					
Buildings	503,937	282	-	(20)	504,199
Improvements, other than buildings	795,662	14,034	-	37,354	847,050
Vehicles and equipment	142,128	1,093	15	2,710	145,916
Intangible assets	15,188	-	-	-	15,188
Property under capital leases	13,406	-	-	-	13,406
Total capital assets, being depreciated	<u>1,470,321</u>	<u>15,409</u>	<u>15</u>	<u>40,044</u>	<u>1,525,759</u>
Less accumulated depreciation for:					
Buildings	208,258	14,607	-	-	222,865
Improvements, other than buildings	319,557	21,274	-	-	340,831
Vehicles and equipment	99,786	4,488	15	-	104,259
Intangible assets	6,932	324	-	-	7,256
Property under capital leases	9,245	453	-	-	9,698
Total accumulated depreciation	<u>643,778</u>	<u>41,146</u>	<u>15</u>	<u>-</u>	<u>684,909</u>
Total capital assets, being depreciated, net	<u>826,543</u>	<u>(25,737)</u>	<u>-</u>	<u>40,044</u>	<u>840,850</u>
Business-type activities capital assets, net	<u>\$ 1,230,239</u>	<u>143,789</u>	<u>-</u>	<u>-</u>	<u>1,374,028</u>

* Furniture & fixtures associated with the new City Hall Project were reclassified from vehicles and equipment.

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2. Depreciation

Depreciation expense charged to various governmental and business type activities of the City for the fiscal year ended June 30, 2007 is as follows (dollars in thousands):

Governmental activities:	
General government	\$ 11,275
Public safety	3,534
Capital maintenance	303,187
Community services	21,892
Sanitation	<u>2</u>
Total depreciation expense governmental activities	<u>\$ 339,890</u>
 Business-type activities:	
Norman Y. Mineta San José International Airport	\$ 18,876
Wastewater Treatment System	17,892
Municipal Water System	2,533
Parking System	<u>1,845</u>
Total depreciation expense business-type activities	<u>\$ 41,146</u>

3. Intangible Assets

Intangible assets consist primarily of the Airport's acquisition of certain habitational rights and navigation/relocation easements made in accordance with its land acquisition program under the California Noise Reduction Act. All costs associated with such acquisitions have been capitalized as intangible assets. Amortization of such intangible assets is calculated using the straight-line method over a 40 year estimated useful life. Amortization expense that was reported for the year ended June 30, 2007 related to these acquisitions was approximately \$320,000.

4. Capitalized Interest

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. For the year ended June 30, 2007, the total amount of interest capitalized in the Airport Enterprise Fund, net of allowable interest earned of temporary investment proceeds, was approximately \$7,680,000.

5. Construction Commitments

Commitments outstanding as of June 30, 2007, related to governmental and business-type activities construction in progress totaled approximately \$55,807,000 and \$188,540,000 respectively.

Notes to Basic Financial Statements

June 30, 2007

E. Leases

The City has commitments under various operating lease agreements requiring annual rental payments, which are described as follows:

Governmental Activities

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2022. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund, Nonmajor Governmental Funds and the Redevelopment Agency Fund under these capital lease agreements for the fiscal year ended June 30, 2007 amounted to approximately \$1,443,000, \$678,000 and \$3,235,000, respectively. The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2007, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Redevelopment Agency	Total Governmental Activities
2008	\$ 1,605	\$ 728	\$ 7,719	\$ 10,052
2009	1,591	768	5,651	8,010
2010	917	807	5,083	6,807
2011	706	848	4,593	6,147
2012	1,127	887	4,601	6,615
2013-2017	-	688	2,958	3,646
2018-2022	-	-	2,098	2,098
Totals	<u>\$ 5,946</u>	<u>\$ 4,726</u>	<u>\$ 32,703</u>	<u>\$ 43,375</u>

Business-Type Activities

The Airport leases its office space under two separate operating lease agreements. The lease agreements, as amended, expire in January 2009 and December 2009, respectively. Rental expense for the Airport's office space for the year ended June 30, 2007 was approximately \$3,079,000. In June 2001, the Airport entered into an operating lease and maintenance agreement of 20 compressed natural gas powered buses. The term of the agreement is from March 1, 2003 to February 28, 2010. Rental expenses for the Airport buses for the year ended June 30, 2007 was approximately \$2,029,000.

Notes to Basic Financial Statements

June 30, 2007

The future minimum payments anticipated under these commitments, as of June 30, 2007, are as follows (dollars in thousands):

Fiscal Year	
Ending	Operating
June 30,	Leases
2008	\$ 5,021
2009	4,632
2010	2,620
Total	<u>\$ 12,273</u>

The City also leases building space, facilities, and/or the privilege of operating a concession to tenants and concessionaries resulting in receipt of annual rents, which are described as follows:

Governmental Activities

In October 1991, the City entered into a 15-year agreement with the San José Arena Management Corporation (the Manager), an unrelated entity, regarding the management, operations, and maintenance of the San José Arena, and use of the San José Arena by the San José Sharks, a franchise of the National Hockey League. The Manager is required to pay the City an annual payment of \$500,000 in each of the first 6 years of the agreement. The annual payment increases by \$100,000 each year in years 7 through 10 and totals \$1,000,000 annually in years 11 through 15. Additionally, the City received a portion of the luxury-box suite revenue beginning in year 4 and may receive a portion of hockey-ticket sales revenues in years 11 through 15. The fiscal year ended June 30, 2007 was year 14 of the lease for which the City received approximately \$2,119,000. As of June 30, 2007, leased assets had total historic cost of approximately \$109,865,000 and accumulated depreciation of approximately \$35,892,000.

Business-Type Activities

The Airport is served by 16 major commercial airlines under terms and conditions that provide the airlines with the right to use the Airport's facilities, equipment, improvements and services, and to occupy certain premises and facilities. Of these airlines, 3 operate under long-term lease agreements, while the 13 remaining airlines operate on a month-to-month basis. Such long-term lease agreements incorporate a "residual cost methodology," as called for under the Master Lease Agreements, whereby landing fees and terminal rents are set such that, over time, the Airport's total revenues equal total expenses, including debt service requirements and certain budgeted capital items, as well as estimated maintenance and operation expenses, but excluding depreciation.

As provided in the Master Lease Agreements, actual year-end surplus, as defined, can be used to lower or stabilize airline rates in future fiscal years. For the fiscal year ended June 30, 2007, the Airport's actual revenues exceeded its expenses and reserve requirements by approximately \$21,954,000. The surplus received during the fiscal year ended June 30, 2007 will be credited to the airlines as a reduction of future rates and charges.

Notes to Basic Financial Statements

June 30, 2007

The Airport also enters into leases with concessionaires, airline carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. The terms of these operating leases range from 1 month to 34 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

The future minimum rentals to be received from the aforementioned operating leases, as of June 30, 2007, are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2008	\$	38,944
2009		36,303
2010		41,798
2011		28,454
2012		28,361
2013-2017		20,410
2018-2022		11,242
2023-2027		11,242
2028-2032		8,464
2033-2037		6,966
2038-2042		1,637
Total	\$	<u>233,821</u>

These future minimum rentals are based upon annual rates and charges agreed to by the airlines and other tenants. In addition to the future minimum rentals disclosed above, the Airport expects to receive approximately \$885,000 from month-to-month rentals in fiscal year ending June 30, 2008. As of June 30, 2007, leased assets had historic costs of approximately \$94,273,000 and accumulated depreciation of approximately \$39,814,000.

Notes to Basic Financial Statements

June 30, 2007

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2007 (dollars in thousands):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance, June 30, 2007
Governmental Activities:							
City of San Jose:							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	\$ 71,000	06/06/2001	09/01/2031	4.25-5.125%	2.37	\$ 59,150
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.00-5.00%	3.87	100,610
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.00-5.00%	3.96	110,790
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	3.00-7.50%	1.54-1.55	44,760
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	105,400
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-8.00%	0.00-3.00	90,000
							<u>510,710</u>
HUD Section 108 Note	Economic Development	25,436	02/10/2005	08/01/2024	Variable	0.93-2.08	<u>25,436</u>
City of San Jose Financing Authority:							
Lease Revenue Bonds:							
Series 1993B (Community Facilities)	Community Facilities	18,045	04/13/1993	11/15/2012	5.80-6.00%	0.25-0.35	4,126
Series 1997B (Fire, Childcare, Library Land)	Community Facilities	9,805	07/29/1997	08/01/2012	4.60-4.875%	0.36-0.41	2,290
Series 2000C (Taxable) (Ice Centre)	Refunding	22,200	12/13/2000	12/01/2021	Variable	0.90-2.05	19,800
Series 2001B (Taxable) (Hayes Mansion)	Conference Center	24,000	02/14/2001	07/01/2024	Variable	0.10-2.20	24,000
Series 2001C (Taxable) (Hayes Mansion)	Conference Center	18,500	02/14/2001	07/01/2024	Variable	0.10-1.70	18,500
Series 2001D (Hayes Mansion)	Conference Center	10,800	02/14/2001	07/01/2026	Variable	0.00-4.60	10,800
Series 2001E (Communication Center)	Refunding	18,610	03/29/2001	05/01/2010	4.00-5.00%	2.01-4.04	8,145
Series 2002B (Civic Center Project)	Civic Center	292,425	11/14/2002	06/01/2037	3.25-5.25%	0.14-33.45	292,285
Series 2002C (Civic Center Project)	Civic Center	60,000	11/14/2002	06/01/2039	Variable	0.00-21.79	60,000
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	3.00-4.70%	0.88-1.61	20,190
Series 2004A (Taxable) (Ice Centre)	Ice Centre	9,225	06/03/2004	12/01/2024	Variable	0.00-2.55	9,225
Series 2005A (Taxable) (Land Acquisition)	Economic Development	54,480	02/17/2005	03/01/2029	Variable	1.40-3.88	52,650
Series 2005B (AMT) (Land Acquisition)	Economic Development	25,545	02/17/2005	03/01/2034	Variable	0.00-4.97	25,545
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.00-5.00%	0.00-17.44	57,440
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.125-4.75%	0.86-2.22	36,555
							<u>641,551</u>
Special Assessment Bonds with Limited Governmental Commitment:							
Special Assessment Bonds:							
Series 24K (Seismic Retrofit)	Seismic Retrofit	823	06/29/1993	09/02/2013	8.50%	0.03-0.06	310
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	4.80-5.875%	0.89-2.05	23,345
Series 24R (2002 Consolidated Refunding)	Consolidated Refunding	13,940	07/03/2002	09/02/2015	2.90-4.375%	1.01-1.22	9,840
Special Tax Bonds:							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.10-5.70%	0.14-0.30	3,240
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	4.50-6.00%	0.43-0.97	11,030
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	4.10-6.65%	0.23-0.95	12,565
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	3.40-5.25%	0.47-0.94	11,250
							<u>71,580</u>

Notes to Basic Financial Statements

June 30, 2007

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance, June 30, 2007
Governmental Activities (continued):							
Redevelopment Agency:							
Tax Allocation Bonds:							
Series 1993 (Merged Area Refunding)	Advance Refundings	\$ 692,075	12/15/1993	08/01/2015	6.00%	0.00-18.20	\$ 83,565
Series 1997 (Merged Area)	Redevelopment Projects	106,000	03/27/1997	08/01/2028	5.375-5.625%	0.01-0.72	7,190
Series 1998 (Merged Area)	Redevelopment Projects	175,000	03/19/1998	08/01/2009	5.00%	0.00-1.51	2,050
Series 1999 (Merged Area)	Redevelopment Projects	240,000	01/06/1999	08/01/2019	4.75%	0.00-7.17	12,920
Series 2002 (Merged Area)	Redevelopment Projects	350,000	01/24/2002	08/01/2015	4.00-4.50%	0.00-11.29	22,565
Series 2003 (Merged Area)	Redevelopment Projects	135,000	12/22/2003	08/01/2033	4.00-5.00%	0.00-34.10	127,545
Series 2004A (Merged Area)	Refunding	281,985	05/27/2004	08/01/2019	4.229-5.25%	8.78-31.90	268,550
Series 2005A (Merged Area)	Refunding	152,950	07/25/2005	08/01/2028	3.25-5.00%	0.11-26.21	152,950
Series 2005B (Merged Area)	Refunding	67,130	07/25/2005	08/01/2015	4.917-5.00%	4.23-21.56	67,130
Series 2006A (Merged Area)	Redevelopment Projects	14,300	11/14/2006	08/01/2022	5.35-5.65%	1.00-6.00	14,300
Series 2006B (Merged Area)	Redevelopment Projects	67,000	11/14/2006	08/01/2035	4.50-5.00%	1.00-21.00	67,000
Series 2006C (Merged Area)	Refunding	423,430	12/15/2006	08/01/2032	3.75-5.00%	12.00-74.28	423,430
Series 2006D (Merged Area)	Refunding	277,755	12/15/2006	08/01/2023	4.00-5.00%	0.45-67.33	277,755
							<u>1,526,950</u>
Revenue Bonds (Subordinate):							
Series 1996A (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.80-2.00	27,400
Series 1996B (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.80-2.00	27,400
Series 2003A (Taxable) (Merged Area)	Redevelopment Projects	45,000	08/27/2003	08/01/2028	Variable	1.10-3.10	43,900
Series 2003B (Merged Area)	Redevelopment Projects	15,000	08/27/2003	08/01/2032	Variable	0.00-3.90	15,000
							<u>113,700</u>
City of San Jose Financing Authority Revenue Bonds (Subordinate):							
Series 2001A (4th & San Fernando)	Parking Facility	48,675	04/10/2001	09/01/2026	3.80-5.25%	1.38-3.21	42,545
Series 2001F (Convention Center)	Refunding	186,150	07/26/2001	09/01/2022	4.00-5.00%	6.15-14.73	166,215
							<u>208,760</u>
HUD Section 108 Note (Masson/Dr. Eu/Security)	Redevelopment Projects	5,200	02/11/1997	08/01/2016	Variable	0.25-0.47	3,470
HUD Section 108 Note (CIM Block 3/Central Plaza)	Redevelopment Projects	13,000	02/08/2006	08/01/2025	Variable	0.00-1.14	13,000
HUD Section 108 Note (Story/King Retail)	Redevelopment Projects	18,000	06/30/2006	08/01/2025	Variable	0.00-1.57	18,000
							<u>34,470</u>
CSCDA - 2005 ERAF Loan	Redevelopment Projects	19,085	04/27/2005	08/01/2015	4.34-5.01%	1.71-2.36	16,085
CSCDA - 2006 ERAF Loan	Redevelopment Projects	14,920	05/03/2006	08/01/2016	5.34-5.67%	1.24-1.91	13,935
							<u>30,020</u>
Housing Set-Aside Tax Allocation Bonds:							
Series 1997E (AMT) (Merged Area)	Affordable Housing	17,045	06/23/1997	08/01/2027	5.75-5.85%	0.34-3.67	17,045
Series 2003J (Taxable) (Merged Area)	Afford. Housing/Refunding	55,265	07/10/2003	08/01/2024	2.60-5.25%	2.02-3.51	48,120
Series 2003K (Merged Area)	Afford. Housing/Refunding	13,735	07/10/2003	08/01/2029	2.50-4.40%	0.23-1.07	10,970
Series 2005A (Merged Area)	Refunding	10,445	06/30/2005	08/01/2024	3.75-5.00%	0.97-2.27	10,445
Series 2005B (Taxable) (Merged Area)	Refunding	119,275	06/30/2005	08/01/2035	4.07-5.46%	0.70-8.30	118,325
Series 2005C (AMT) (Merged Area)	Afford. Housing/Refunding	33,075	06/30/2005	08/01/2035	Variable	0.10-1.57	32,245
Series 2005D (AMT) (Merged Area)	Afford. Housing/Refunding	33,075	06/30/2005	08/01/2035	Variable	0.10-1.57	32,245
							<u>269,395</u>
Total Governmental Activities - Bonds, Certificates of Participation and Notes Payable							<u>\$ 3,432,572</u>
Business-type Activities:							
Norman Y. Mineta San Jose International Airport:							
Revenue Bonds:							
Series 1998A (AMT)	Refunding	14,015	01/27/1998	03/01/2018	4.30-4.75%	0.66-1.09	9,350
Series 2001A	Runway Construction	158,455	08/14/2001	03/01/2031	3.65-5.25%	3.42-10.06	145,810
Series 2002A	Refunding	53,600	01/09/2003	03/01/2018	4.00-5.375%	0.00-9.29	53,600
Series 2002B (AMT)	Refunding	37,945	01/09/2003	03/01/2012	4.00-5.00%	2.38-6.55	26,785
Series 2004A (AMT)	Airport Facilities	70,000	06/24/2004	06/01/2034	Variable	0.00-16.05	70,000
Series 2004B (AMT)	Airport Facilities	70,000	06/24/2004	06/01/2034	Variable	0.00-16.05	70,000
Series 2004C (AMT)	Airport Facilities	75,730	06/24/2004	03/01/2026	4.625-5.25%	0.00-10.59	75,730
Series 2004D	Airport Facilities	34,270	06/24/2004	03/01/2028	5.00%	0.00-12.56	34,270
							<u>485,545</u>
Clean Water Financing Authority:							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.25-5.00%	4.31-5.80	50,055
Series 2005B	Refunding	27,130	10/05/2005	11/15/2020	Variable	0.00-6.88	27,130
							<u>77,185</u>
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	Various	05/01/2019	Various	1.77-4.35	45,586
Total Business-type Activities - Bonds and Loan Payable							<u>\$ 608,316</u>
Grand Total							<u>\$ 4,040,888</u>

Notes to Basic Financial Statements

June 30, 2007

2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

3. Legal Debt Limit and Margin

The City's legal debt limit and debt margin (as defined by Section 1216 of the City Charter) as of June 30, 2007, are approximately \$16,938,385,000 and \$16,427,675,000, respectively. In accordance with the California Community Redevelopment Law, the Redevelopment Agency establishes its own legal debt limit, based primarily on the aggregate of all future projected tax increment revenues from existing redevelopment areas.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, the amount calculated has been recorded as a liability to the IRS. The rebate liability amount is recorded as a liability in the Governmental Activities column of the government-wide statements in the amount of \$1,801,000.

5. Special Assessment Bonds with Limited City Commitment

All obligations of the City under the Special Assessment Bonds are not considered general obligations of the City, but are considered limited obligations, payable solely from the assessments and special taxes, and from the funds pledged therefore under the Paying Agent Agreement or Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, or any political subdivision thereof, is pledged to the payment of the bonds. Notwithstanding any other provision of the Paying Agent Agreements for these bonds, the City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the various redemption funds established for repayment of these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds. As of June 30, 2007, the City has recorded approximately \$71,581,000 of deferred revenue and related special assessments and special taxes receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and special taxes to be collected in the future by the County for the City for debt service.

As of June 30, 2007, there are assessment surpluses of approximately \$2,521,000 that have been declared by the City Council. These are included in advances and deposits liabilities on the accompanying statement of net assets and governmental funds balance sheet. Such surpluses will either be used to correct construction deficiencies or will be returned to the assessment-district property owners.

Notes to Basic Financial Statements

June 30, 2007

6. Conduit Debt

The City has issued multifamily housing revenue bonds to provide funds for secured loans to builders of multifamily housing projects. The purpose of the program is to provide needed rental housing for very low to moderate-income households. To comply with Internal Revenue Service requirements in order to meet the tax-exempt status, the owner is required to set aside 20% of all units built for very low income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through February 1, 2047. As of June 30, 2007, the outstanding bond issues aggregated to approximately \$527,899,000.

In August 1997, the Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance a multifamily rental housing project in the Japantown Redevelopment Project Area. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association. The purpose of the bonds issue was for expanding the community's supply of low to moderate-income housing and constructing a community center and retail space. The loan is secured on a non-recourse basis, and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d)(4) of the National Housing Act and applicable regulations thereunder. At June 30, 2007, the outstanding balance was approximately \$9,856,000.

In April 1998, the Agency served as the conduit issuer of \$38,000,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance the acquisition and construction of a multifamily residential project in the Century Center Redevelopment Project Area. The Agency has no obligation for these bonds, as they will be payable solely from, secured, to the extent, and as provided in the indenture, by a pledge of certain revenues and other amounts to be received by the Agency under the Loan Agreement. The borrower, a developer, has arranged for an initial irrevocable direct pay letter of credit to be issued in favor of the trustee. As of June 30, 2007, there has been no principal retirement.

In the opinion of the City's officials, these bonds are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the state, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

Notes to Basic Financial Statements

June 30, 2007

7. Summary of Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2007, are as follows (dollars in thousands):

	June 30, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	\$ 432,445	90,000	(11,735)	510,710	\$ 15,245
HUD Section 108 loan	25,436	-	-	25,436	934
San Jose Financing Authority					
Lease revenue bonds	643,565	36,555	(40,892)	639,228	7,586
Accreted interest on capital appreciation bonds	2,505	250	(432)	2,323	458
Special Assessment bonds with limited governmental commitment	75,007	-	(3,427)	71,580	3,181
Redevelopment Agency					
Revenue bonds	331,870	-	(9,410)	322,460	6,720
HUD Section 108 notes payable	34,705	-	(235)	34,470	250
Tax allocation bonds	1,745,275	782,485	(731,415)	1,796,345	33,840
California Statewide Communities Development Authority - ERAF loan					
	32,645	-	(2,625)	30,020	2,950
Total long-term debt payable	<u>3,323,453</u>	<u>909,290</u>	<u>(800,171)</u>	<u>3,432,572</u>	<u>71,164</u>
Less deferred amounts:					
For refunding	(34,482)	(29,676)	3,495	(60,663)	(3,400)
For issuance premiums	45,527	30,124	(4,961)	70,690	4,900
For issuance discounts	(3,399)	-	68	(3,331)	(70)
Total deferred amounts	<u>7,646</u>	<u>448</u>	<u>(1,398)</u>	<u>6,696</u>	<u>1,430</u>
Total long-term debt payable and deferred amounts	<u>3,331,099</u>	<u>909,738</u>	<u>(801,569)</u>	<u>3,439,268</u>	<u>72,594</u>
Other Long-term obligations:					
Loan to City (Hayes Mansion)	1,908	-	(500)	1,408	298
Arbitrage liability	11	1,790	-	1,801	-
Accrued vacation, sick leave and compensatory time	83,806	42,405	(36,220)	89,991	36,000
Accrued landfill postclosure costs	10,230	-	(465)	9,765	465
Estimated liability for self-insurance	173,555	24,565	(47,463)	150,657	9,500
Net pension obligation	3,233	258	(252)	3,239	-
Total other long-term obligations	<u>272,743</u>	<u>69,018</u>	<u>(84,900)</u>	<u>256,861</u>	<u>46,263</u>
Governmental activities long-term obligations	<u>\$ 3,603,842</u>	<u>978,756</u>	<u>(886,469)</u>	<u>3,696,129</u>	<u>\$ 118,857</u>

Notes to Basic Financial Statements

June 30, 2007

	<u>June 30,</u> <u>2006</u>	<u>Additional</u> <u>Obligations</u> <u>and Net</u> <u>Increases</u>	<u>Current</u> <u>Maturities,</u> <u>Retirements,</u> <u>and Net</u> <u>Decreases</u>	<u>June 30,</u> <u>2007</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	\$ 494,910	-	(9,365)	485,545	\$ 9,745
Deferred amounts:					
For refunding	(4,775)	-	777	(3,998)	(726)
For issuance premiums	5,676	-	(204)	5,472	272
For issuance discounts	(2,711)	-	39	(2,672)	(34)
Clean Water Financing Authority:					
Revenue bonds	81,150	-	(3,965)	77,185	4,310
Deferred amounts:					
For refunding	(2,688)	-	270	(2,418)	(270)
For issuance premiums	1,156	-	(112)	1,044	111
State of California - Revolving Fund Loan	49,153	-	(3,568)	45,585	3,633
Accrued vacation, sick leave and compensatory time	7,442	4,577	(3,832)	8,187	8,187
Estimated liability for self-insurance	9,103	1,335	(1,826)	8,612	1,927
Business-type long-term obligations	<u>\$ 638,416</u>	<u>5,912</u>	<u>(21,786)</u>	<u>622,542</u>	<u>\$ 27,155</u>

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective enterprise funds.

Debt service payments are made from various sources. General Obligation bonds debt service payments are made from property taxes recorded in the Non-major Governmental Funds. Lease Revenue Bonds debt service payments are made from lease rental revenue from "lessee" departments in the General Fund and Non-major Funds. Assessment and Reassessment Bonds debt service payments are made from property tax assessments and reassessments recorded in the Special Assessment Districts Fund. Tax Allocation Bonds and Redevelopment Agency Revenue Bonds debt service payments are made from tax increment revenue recorded in the Redevelopment Agency Fund. Other Long-Term Obligations payments are primarily made from general revenue recorded in the General Fund.

Notes to Basic Financial Statements

June 30, 2007

8. Annual Requirements to Maturity

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2007, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Governmental Activities				
	General Obligation Bonds and HUD Section 108 Loan		Lease Revenue and Reassessment Bonds ^(1,2,3)		
	Principal	Interest	Principal	Accreted Interest	Interest
2008	\$ 16,179	23,956	7,586	458	29,843
2009	19,198	24,390	7,870	480	30,072
2010	19,253	23,395	10,329	501	29,724
2011	19,283	22,471	6,899	521	29,213
2012	19,319	21,639	8,210	540	28,885
2013-2017	97,461	94,976	57,484	556	137,185
2018-2022	99,566	72,140	87,845	-	119,481
2023-2027	97,157	48,023	114,745	-	94,105
2028-2032	91,245	25,243	113,895	-	67,926
2033-2037	54,485	6,233	160,515	-	36,457
2038-2042	3,000	71	63,850	-	3,792
Total	<u>\$ 536,146</u>	<u>362,537</u>	<u>639,228</u>	<u>3,056</u>	<u>606,683</u>

Fiscal Year Ending June 30,	Governmental Activities			
	Special Assessment Bonds With Limited Government Commitment		Redevelopment Agency ^(1,3)	
	Principal	Interest	Principal	Interest
2008	\$ 3,181	3,705	43,760	103,822
2009	3,290	3,575	50,720	101,540
2010	3,429	3,433	62,990	98,782
2011	3,558	3,280	67,205	95,626
2012	3,718	3,113	70,765	92,355
2013-2017	19,454	12,714	402,555	405,031
2018-2022	19,270	7,707	488,395	297,476
2023-2027	10,825	2,560	496,795	171,830
2028-2032	3,910	997	354,710	71,509
2033-2037	945	31	145,400	10,355
	<u>\$ 71,580</u>	<u>41,115</u>	<u>2,183,295</u>	<u>1,448,326</u>

Notes to Basic Financial Statements

June 30, 2007

Fiscal Year Ending June 30,	Business-Type Activities					
	Airport ⁽¹⁾		Wastewater Treatment System ⁽¹⁾			
	Revenue		Revenue		Loans	
	Bonds		Bonds		Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 9,745	22,802	4,310	2,793	3,633	831
2009	11,180	22,351	4,480	2,636	3,699	765
2010	11,645	21,839	4,640	2,484	3,767	697
2011	12,120	21,317	4,790	2,331	3,835	628
2012	12,620	20,776	4,945	2,155	3,905	559
2013-2017	72,420	93,767	27,790	7,636	20,621	1,698
2018-2022	74,435	74,348	26,230	1,876	6,125	143
2023-2027	91,385	54,131	-	-	-	-
2028-2032	127,395	29,108	-	-	-	-
2033-2037	62,600	3,706	-	-	-	-
Total	\$ 485,545	364,145	77,185	21,911	45,585	5,321

[1] Projected interest payments for the variable rate series of bonds are based on the following rates in effect on June 30, 2007. Lease Revenue Bonds: Series 2000C (5.30%), Series 2001B (5.35%), Series 2001C (5.32%), Series 2001D (3.67%), Series 2002C (3.65%), Series 2004A (5.22%), Series 2005A (5.35%), Series 2005B (3.82%). Redevelopment Agency Revenue Bonds: Series 1996A (3.65%), Series 1996B (3.55%), Series 2003A (5.38%), Series 2003B (3.65%). Redevelopment Agency Housing Set-Aside Tax Allocation Bonds: Series 2005C (3.76%), Series 2005D (3.73%). Airport Revenue Bonds: Series 2004A (3.85%), Series 2004B (3.87%). Clean Water Financing Authority Revenue Bonds: Series 2005B (3.65%). HUD Section 108 Notes: City of San Jose and Redevelopment Agency Loans (5.56%). Each series may be set at different interest rate calculation modes, including daily, weekly, monthly, and long rates.

[2] Amount shown is accreted value payable in each period. As of June 30, 2007, \$2,323,000 of value had accreted on the outstanding capital appreciation bonds, which combined with the \$639,228,000 of outstanding current interest bonds totals \$641,551,000 of outstanding lease revenue debt.

[3] Projected debt service payments for the City of San Jose Financing Authority Series 2001A Parking Revenue Bonds and Series 2001F Lease Revenue Bonds is included in the Redevelopment Agency Redevelopment Project category, reflecting that the Redevelopment Agency is the primary source of payment for those bonds.

For governmental and business-type activities, the specific year for payment of estimated liabilities for accrued vacation, sick leave and compensatory time, accrued landfill post-closure cost, estimated liability for self-insurance and for the net pension obligation is not practicable to determine.

9. New Debt Issuances and Unused Authorizations

Governmental Activities

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2006A-T and Tax Allocation Bonds, Series 2006B. On November 14, 2006, the Redevelopment Agency issued \$14,300,000 of Series 2006A-T (taxable) and \$67,000,000 of Series 2006B tax allocation bonds (together, the "Series 2006AB Bonds"). The proceeds of the Series 2006AB bonds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. The 2006 Tax Allocation Bonds are issued in parity with other outstanding Tax Allocation Bonds issued by the Agency. Debt service is payable from the Agency's tax increment revenues.

The Series 2006A-T bonds, which are insured by Radian Asset Assurance Inc., bear interest at fixed rates ranging from 5.35% to 5.65%, and have a final maturity date of August 1, 2022. The Series 2006B bonds, which are also insured by Radian Asset Assurance Inc., bear interest at fixed rates ranging from 4.50% to 5.00%, and have a final maturity date of August 1, 2035.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006C and Series 2006D. On December 15, 2006, the Redevelopment Agency issued \$423,430,000 of Series 2006C and \$277,755,000 of Series 2006D tax allocation bonds. The proceeds of the Series 2006C bonds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1993, Series 1997, Series 1998 and Series 2002 tax allocation bonds. The

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proceeds of the Series 2006D bonds were used to advance refund portions of the Agency's Series 1998 and Series 1999 tax allocation bonds. Debt service is payable from the Agency's tax increment revenues.

This refunding generated approximately \$22,604,000 of aggregate debt service savings (net of available funds) and \$21,656,000 of net economic gain, representing 3.1% of the refunded debt. The Series 2006C bonds, which are insured by MBIA Insurance Corporation, bear interest at fixed rates ranging from 3.75% to 5.00%, and have a final maturity date of August 1, 2032. The Series 2006D bonds, which are insured by Ambac Assurance Corporation, bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of August 1, 2023.

City of San José General Obligation Bonds, Series 2007 (Parks and Public Safety Projects).

On June 20, 2007, the City issued \$90,000,000 of Series 2007 general obligation bonds. The proceeds will be used to fund \$22,100,000 of parks projects and \$67,900,000 of public safety projects. Debt service on the Series 2007 bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2007 bonds bear interest at fixed rates ranging from 4.00% to 8.00%, and have a final maturity date of September 1, 2037.

At June 30, 2007, the City has issued \$547,490,000 in general obligation bonds to provide funds for the acquisition and construction of major capital facilities and parks. Of this amount, as of June 30, 2007, \$510,710,000 is outstanding. Of the total amount authorized to be issued of \$598,820,000, there remains an unused balance of \$51,330,000.

City of San José Financing Authority Lease Revenue Refunding Bonds, Series 2007A

(Recreational Facilities Refunding). On June 28, 2007, the Authority issued \$36,555,000 of Series 2007A lease revenue refunding bonds. The proceeds of the Series 2007A bonds were used to current refund a portion of the Authority's Series 1993B lease revenue bonds, current refund all of the Authority's Series 1997A lease revenue bonds, and advance refund all of the Authority's Series 2000B lease revenue bonds. Debt service will be paid from several City Council District Construction and Conveyance Tax Funds, the Municipal Golf Course Fund, and the Community Facilities Revenue Fund.

Series 2007A bonds net proceeds and cash remaining in the debt service and debt service reserve funds of the refunded bonds were used to establish refunding escrows for each series of refunded bonds on the date of issuance of the Series 2007A bonds. The refunding escrows provided for the principal, call premium and accrued interest through the date of redemption for each series of refunded bonds. The Series 1997A bonds in the amount of \$5,965,000 were redeemed on August 15, 2007, and the Series 1993B bonds in the amount of \$5,795,000 were redeemed on September 24, 2007. The Series 2000B bonds in the amount of \$21,500,000 are considered defeased and will be redeemed on August 15, 2008. The refunded bonds have been removed from the City's basic financial statements.

This refunding generated approximately \$3,600,000 of aggregate debt service savings (net of available funds) and \$1,300,000 of net economic gain, representing 3.9% of the refunded debt. The Series 2007A bonds, which are insured by Ambac Assurance Corporation, bear interest at fixed rates ranging from 4.125% to 4.75%, and have a final maturity date of August 15, 2030.

City of San José Financing Authority Lease Revenue Commercial Paper Notes Payable. On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98,000,000. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology,

Notes to Basic Financial Statements

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furniture, equipment and relocation services for the new Civic Center. On November 9, 2005, the City Council and the Authority authorized use of the commercial paper program to finance procurement costs of the City's consolidated utility billing system.

Subsequently, on June 21, 2005, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same \$98,000,000 not to exceed limitation as the tax-exempt notes. This subsequent authorization permits the Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds.

On November 15, 2005, the City Council and the City of San José Financing Authority each adopted a resolution expanding the capacity of the lease revenue commercial paper program from \$98,000,000 to \$116,000,000 and authorizing the issuance of commercial paper notes to pay a portion of the costs of the Phase II improvements at the City's Central Service Yard and a portion of the demolition and clean-up costs at the City's Main Service Yard.

On May 22, 2007, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of lease revenue commercial paper notes to pay for capital improvements at the City's HP Pavilion.

Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and are additionally secured by a letter of credit issue on a several basis by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

During fiscal year 2006-07, the Authority issued \$2,161,000 of commercial paper notes for the New City Hall and offsite parking garage, \$1,546,000 for technology, furniture and relocation services for the New City Hall, \$19,000 for municipal facility improvements, \$5,090,000 for the consolidated utility billing system, \$16,052,000 for the Central Service Yard Phase II project, and \$186,000 for other adjustments.

Also during fiscal year 2006-07, the Authority redeemed \$590,000 of commercial paper notes for the new City Hall offsite parking garage, \$7,517,000 for technology, furniture and relocation services for the new City Hall, \$370,000 for municipal facility improvements, and \$1,402,000 for the consolidated utility billing system.

On June 30, 2007, \$80,279,000 of Authority tax-exempt commercial paper notes were outstanding at interest rates ranging from 3.70% to 3.75%. On June 30, 2007, no Authority taxable commercial paper notes were outstanding.

The change in commercial paper payables are as follows (dollars in thousands):

June 30, 2006	Additions & other adjustments	Deletions	June 30, 2007
\$ 65,104	25,054	(9,879)	\$ 80,279

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June 30, 2007

Business-Type Activities

Airport Commercial Paper Notes Payable. On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, San José International Airport subordinated commercial paper notes in three series (Series A -- Tax-Exempt, Series B -- Subject to the AMT, Series C -- Taxable) in an amount not to exceed \$100,000,000. The commercial paper program was established to provide an interim source of financing for the initial capital projects in the Airport Master Plan until a permanent financing plan was finalized and implemented.

Subsequently, on April 1, 2003, the City Council authorized use of the commercial paper program to fund costs associated with implementation of the requirements under the federal Aviation and Transportation Security Act (ATSA).

On June 20, 2006, the City Council approved an expansion of the Airport commercial paper program from \$100,000,000 to \$200,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the rephased Airport Master Plan projects. On January 9, 2007, the City Council approved an additional expansion of the Airport commercial paper program from \$200,000,000 to \$450,000,000 to ensure that funding would be available for the award of the design and construction contracts related to the rephased Airport Master Plan projects. Various Airport Master Plan projects over the next several years are focused on completion of the North Concourse Projects as well as the implementation of a Terminal Area Improvement Program (the "TAIP"). Additionally, the Airport commercial paper program may be used to pay costs related to the Airport's lease of the former FMC property and to pay debt service costs related to the City of San José Airport Revenue Bonds, Series 2004.

Under this program, the City is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by a letter of credit issued on a several basis by JPMorgan Chase Bank, Bank of America, Citibank and Dexia Credit Local.

During fiscal year 2006-07, no Series A commercial paper notes were issued or outstanding. During fiscal year 2006-07, the City issued \$22,048,000 of Series B commercial paper notes and \$11,287,000 of Series C commercial paper notes.

On June 30, 2007, \$41,424,000 of Airport commercial paper notes were outstanding at interest rates ranging from 3.74% to 5.35%.

The change in commercial paper payables are as follows (dollars in thousands):

<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
\$8,089	33,335	-	\$41,424

10. Landfill Post-closure Costs

The City has five closed landfills for which post-closure and monitoring services may be required for approximately a 30 year period which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of \$9,765,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2007. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

Notes to Basic Financial Statements

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11. Estimated Liability for Self-Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. The City maintains an all-risk property policy where the maximum total liability in a single occurrence for all coverage combined will not exceed \$1,000,000,000, with a single occurrence deductible of \$100,000 for property damage and time element combined. This policy also provides coverage for loss due to flood in the amount for Zone A and V of \$10,000,000 (reduced from \$15,000,000), Zone B \$15,000,000 (reduced from \$25,000,000) and \$50,000,000 in all other flood zones with flood deductibles ranging from \$100,000 to \$1,000,000 per occurrence depending on the flood zone. The City reduced its coverage for Zone A and V and Zone B during the fiscal year in response to the current insurance market. The City has an airport liability policy covering the Airport, which provides a limit of \$200,000,000 combined single limit for bodily injury and property damage with a \$25 million each occurrence limit for personal injury subject to a per occurrence deductible of \$100,000. During the past three years, there have been no instances of the amount of claim settlements exceeding insurance coverage.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, new discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims.

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2007. The City Attorney and, with respect to workers' compensation claims, the City's Risk Manager have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

Changes in the reported liability during the past two years are as follows (dollars in thousands):

Liability as of July 1, 2005	\$ 140,910
Claims and changes in estimates during 2006	64,598
Claims payments	<u>(22,850)</u>
Liability as of June 30, 2006	182,658
Claims and changes in estimates during 2007	(6,379)
Claims payments	<u>(17,010)</u>
Liability as of June 30, 2007	<u>\$ 159,269</u>

(a) Owner Controlled Insurance Programs

On March 31, 2004, the City acquired certain liability insurance coverage (see chart below) for major components of the "2004 Security Projects" (currently referred to as the North Concourse Project) at the Norman Y. Mineta San José International Airport (the "Airport") through an Owner

Notes to Basic Financial Statements

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Controlled Insurance Program (“OCIP”). An OCIP is a single insurance program that provides commercial general liability, excess liability and workers’ compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

Coverages	2004 Security Projects	
	Limits	Deductible Per Occurrence
General Liability	\$2 million per occurrence/ \$4 million aggregate	\$250,000
Workers' Compensation	Statutory	\$250,000
Employers' Liability	\$2 million per accident	\$250,000
Excess Liability	\$150,000,000	None

The 2004 Security Projects OCIP Project terms include a 36-month construction period with ten years completed operations for general liability. The City extended the term to 53 months to correspond to the new estimated completion date.

On March 15, 2007, the City bound additional liability insurance through another OCIP for major components of the Airport’s Terminal Area Improvement Program (“TAIP OCIP”). The term and construction period for this program is 57 months. The coverages for this program are as follows:

Coverages	Terminal Area Improvement Projects	
	Limits	Deductible Per Occurrence
General Liability	\$2 million per occurrence/ \$4 million aggregate	\$250,000
Workers' Compensation	Statutory	\$250,000
Employers' Liability	\$1 million per accident	\$250,000
Excess Liability	\$200,000,000	None

12. Net Pension Obligation

The City determined the net pension obligation at transition (July 1, 1997) amounted to \$2,300,000 for the Federated Employees’ Retirement System (the System) in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The methods and assumptions that apply for the calculation of the net pension obligation are those that are used for amortizing actuarial experience gains and losses in determining the City’s contribution rates. The System’s amortization factors incorporate the use of an investment return rate of 8.25% and an inflation rate of 4.50%, with an amortization period of 21 years as a level percentage of projected payroll on an open basis, resulting in an amortization factor of 12.83 for fiscal 2007.

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G. Interfund Transactions

The composition of interfund balances as of June 30, 2007, with explanations of significant transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

Due From/Due to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Redevelopment Agency	\$ 1,084 (1)
	Nonmajor governmental funds	33,661 (2)
Housing Activities	Redevelopment Agency	59 (3)
Nonmajor governmental funds	Nonmajor governmental funds	38,413 (4)
Redevelopment Agency	General Fund	131 (5)
	Nonmajor governmental funds	115 (6)
Wastewater Treatment System	Nonmajor governmental funds	508 (7)
	Municipal Water System	700 (8)
Norman Y. Mineta San Jose International Airport	Nonmajor governmental funds	188 (9)
		<u>\$ 74,859</u>

(1) \$451 represents interest receivable accrual from pooled investment and \$633 staff support labor charges and other various accruals.

(2) \$31,939 is working capital short term borrowing; \$1,336 represents accrual of gas tax transfer, and \$386 represents accrual of Construction & Conveyance tax transfer.

(3) Represent year-end tax increment accrual.

(4) Short-term borrowing for working capital.

(5) Represent accrual of interest receivable of pooled cash funds.

(6) \$65 represents accrual 4th Street communication conduit cost and \$50 represents accrual for WRT Solomon Agreement.

(7) \$50 represents short term portion of loan for Fiber Optics Conduit and \$458 represents short term portion loan for sewer extension program.

(8) Represents short term portion of loan for North Coyote Valley Water Project.

(9) Represents reimbursable expenses related to the FMC project.

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2. Advances to/Advances from other funds

Receivable Fund	Payable Fund	Amount
General Fund	San Jose Financing Authority	\$ 3,607 (1)
Redevelopment Agency	Housing Activities	580 (2)
	General Fund	250 (3)
Nonmajor governmental funds	Redevelopment Agency	8,112 (4)
Parking System	Redevelopment Agency	6,800 (5)
Wastewater Treatment System	Nonmajor governmental funds	2,204 (6)
	Municipal Water System	3,528 (7)
		<u>\$ 25,081</u>

- (1) \$310 represents loan to fund Seismic District bond issuance costs and \$3,297 represents loan to support City-owned golf course.
- (2) \$580 represents loan to the YMCA Villa Nueva housing project.
- (3) Represents executive director home loan.
- (4) Represents parkland vouchers fees for low income housing projects and is expected to be repaid in 2010.
- (5) Redevelopment Agency loan from the Parking Reserve Fund and is expected to be repaid in 2009.
- (6) Represents long-term loans for the Fiber Optic conduit project is scheduled to be paid within 15 years from 1996.
- (7) Represents loans for the North Coyote Valley Water Project and is scheduled to be paid including the interest earned at the City pooled investments interest rate.

3. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity with explanations of significant transactions (dollars in thousands):

Between Governmental and Business-type Activities:

Transfers from	Transfers to	Amount
General Fund	Municipal Water System	\$ 193 (1)
Nonmajor governmental funds	Norman Y. Mineta San Jose International Airport	1,419 (2)
San Jose Financing Authority	Parking System	75 (3)
Parking System	Redevelopment Agency	90 (4)
	Nonmajor governmental funds	780 (5)
Municipal Water System	General Fund	1,735 (6)
	Nonmajor governmental funds	61 (7)
	San Jose Financing Authority	164 (8)
Wastewater Treatment System	General Fund	3,648 (9)
	Nonmajor governmental funds	1,279 (10)
	San Jose Financing Authority	348 (11)
Public Works Program Support	Nonmajor governmental funds	<u>495 (12)</u>
		<u>\$ 10,287</u>

- (1) Refund of over-paid rate of return and In-Lieu fees.
- (2) Reimburse expenses for FMC project.
- (3) Transfer Interest earned from debt service for the joint parking project.
- (4) Transfer surplus revenue and interest earned to Redevelopment Agency per partnership agreement.
- (5) Transfer of convention center parking receipts and debt service payment.
- (6) Municipal Water System payments for in-lieu taxes and rate of return on assets.
- (7) Transfer for debt service payment and commercial paper redemption.
- (8) Transfer for commercial paper redemption expense.
- (9) Wastewater Treatment System payments for in-lieu taxes.
- (10) City Hall debt service payments.
- (11) Commercial paper redemption.
- (12) Debt service payments for City Hall project.

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Between Funds within the Governmental Activities:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General Fund	Redevelopment Agency	\$ 50 (1)
	San Jose Financing Authority	6,185 (2)
	Nonmajor governmental funds	29,293 (3)
Redevelopment Agency	General Fund	335 (4)
	Housing Activities	32,364 (5)
	San Jose Financing Authority	3,363 (6)
	Nonmajor governmental funds	9,248 (7)
Housing Activities	Redevelopment Agency	18,583 (8)
	General Fund	120 (9)
	Nonmajor governmental funds	1,237 (10)
Nonmajor governmental funds	Redevelopment Agency	3,436 (11)
	General Fund	32,235 (12)
	Nonmajor governmental funds	15,361 (13)
	San Jose Financing Authority	38,333 (14)
San Jose Financing Authority	Nonmajor governmental funds	<u>22,928 (15)</u>
		<u>\$ 213,071</u>

- (1) Reimburse RDA for share of Mariachi Festival expenses.
- (2) Various debt service payments and commercial paper redemption.
- (3) Various debt service payments, loan repayment and operating transfers.
- (4) San Jose arena pass through payment.
- (5) 20% tax increment tax transfers.
- (6) Debt service payment for 4th & San Fernando parking garage.
- (7) Transfers for various capital project.
- (8) Debt service payment.
- (9) Transfer to General Fund for acquisition of City-owned properties.
- (10) Debt service payments.
- (11) \$962 represents transfers for various capital projects and \$2,474 represents a loan repayment.
- (12) Various transfers for operations and capital projects.
- (13) Various transfers for debt service, operations and capital projects.
- (14) Various transfers for debt service payments.
- (15) Transfer commercial paper proceeds for capital projects and operations.

IV. Other Information

A. Employee Defined Benefit Retirement Systems

1. Systems Description

The City sponsors and administers two single employer defined benefit retirement systems, the Police and Fire Department Retirement Plan (the "Plan") and the Federated City Employees' Retirement System (the "System" and collectively, "the Retirement Systems"), which together cover all full-time and certain part-time employees of the City. Each of them provides postemployment health subsidy benefits in addition to regular retirement benefits. The Retirement Systems are accounted for as separate Pension Trust Funds. The estimated payrolls for employees covered under the Plan and the System for the fiscal year ended June 30, 2007, were approximately \$209,025,000 and \$280,575,000, respectively. The City's total payroll for the fiscal year ended June 30, 2007, was approximately \$566,133,000.

Notes to Basic Financial Statements

June 30, 2007

The separately issued annual reports of the Retirement Systems and the City's municipal code provide more detailed information about the Retirement Systems. Those reports may be obtained by writing to the City of San José Department of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112.

The Retirement Systems provide general retirement benefits under single employer Defined Benefit Pension Plans, including pension, death, disability, as well as postemployment medical and dental benefits under the Postemployment Healthcare Plans. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The Retirement Systems are administered by the Director of Retirement, an employee of the City, under the direction of the Retirement Systems' Boards of Administration. The contribution and benefit provisions and all other requirements are established by City ordinances.

The current membership in the Retirement Systems as of June 30, 2007, is as follows:

	The Plan	The System
Defined Benefit Pension Plans:		
Retirees and beneficiaries currently receiving benefits	1,536	2,749
Terminated vested members not yet receiving benefits	71	530
Active members	2,145	4,143
Total	3,752	7,422
 Postemployment Healthcare Plans:		
Retirees and beneficiaries currently receiving benefits	1,375	2,053
Terminated vested members not yet receiving benefits	13	77
Active members	2,145	4,143
Total	3,533	6,273

The Retirement Systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974. It is the City's policy to obtain actuarial valuations for the Retirement Systems every two years.

2. Funding Policy

Contributions to the Defined Benefit Pension Plan for each Retirement System for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. The significant assumptions used to compute the Retirement Systems' (excluding Postemployment Health Care Plans) actuarially determined contribution requirements are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan.

Notes to Basic Financial Statements

June 30, 2007

Contribution rates for the City and the participating employees for fiscal year ended June 30, 2007 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2005. The contribution rates and the amounts contributed to the Plan and the System for the fiscal year ended June 30, 2007, are as follows:

	The Plan			The System		
	City	Participants	Total	City	Participants	Total
Actuarial Rate:						
Defined Benefit Plan:						
7/01/05 - 7/01/06	21.77%	8.27%		14.96%	4.26%	
7/02/06 - 6/30/07	21.03%	7.48%		18.16%	4.26%	
12/17/06 - 6/30/07*	24.32%	7.89%		N/A	N/A	
Postemployment Healthcare Plan:						
7/01/05 - 7/01/06	3.27%	2.89%		2.16%	1.80%	
7/02/06 - 6/30/07	4.19%	3.78%		3.82%	3.32%	
Annual Pension Contribution (in thousands):						
Defined Benefit Plan	\$ 46,625	\$ 16,051	\$ 62,676	\$ 51,004	\$ 12,370	\$ 63,374
Postemployment Healthcare Plan	9,082	7,989	17,071	10,728	9,611	20,339
	<u>\$ 55,707</u>	<u>\$ 24,040</u>	<u>\$ 79,747</u>	<u>\$ 61,732</u>	<u>\$ 21,981</u>	<u>\$ 83,713</u>

* This rate is for Police members only.

The Retirement Systems completed new actuarial valuations dated June 30, 2005 and the rates were effective July 2, 2006. The new rates increased the Plan's contribution from the City from 25.04% to 25.22% and for the employees the rate increased from 11.16% to 11.26%. Funding status of the Plan was reduced from 100.2% to 97.8%. The new rates also increased the System's contributions from the City from 17.12% to 21.98% and for the employees the rate increased from 6.06% to 7.58%. Funding status of the System was reduced from 97.6% to 80.9%. On December 17, 2006, the City's actuarial rate for Police increased by 3.29% due to scheduled retirement benefit increases required pursuant the Police Officers Association's memorandum of agreement effective July 1, 2006.

3. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Plan and the System (excluding the Postemployment Healthcare Plans) as of and for the fiscal year ended June 30, 2007, were as follows (dollar in thousands):

	The Plan	The System
Annual required contribution	\$ 46,625	\$ 51,004
Interest on net pension obligation	-	258
Adjustment to annual required contribution	-	(252)
Annual pension cost	46,625	51,010
Contributions made	(46,625)	(51,004)
Increase in net pension obligation	-	6
Net pension obligation – beginning of year	-	3,233
Net pension obligation – end of year	<u>\$ -</u>	<u>\$ 3,239</u>

Notes to Basic Financial Statements

June 30, 2007

The following is three-year trend information for the City's single-employer pension plans (dollars in thousands):

	<u>Fiscal year ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent APC Contributed</u>	<u>Net Pension Obligation</u>
The Plan	6/30/05	\$ 41,835	100%	\$ -
	6/30/06	43,473	100%	-
	6/30/07	46,625	100%	-
The System	6/30/05	\$ 41,552	100%	\$ 3,220
	6/30/06	41,267	100%	3,233
	6/30/07	51,004	100%	3,239

Notes to Basic Financial Statements

June 30, 2007

4. Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employee and employer contributions to the Retirement Systems (excluding Postemployment Healthcare Plans) for the fiscal year ended June 30, 2007 are as follows:

<u>Method/Assumption</u>	<u>The Plan</u>	<u>The System</u>
Valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	12 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations	30 years, open
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Investment rate of return	8.00% per annum	8.25% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with a four-year set back, is used for male members. The 1994 Female Group Annuity Mortality Table, with a one year set forward, is used for female members.	The 1994 Group Annuity Mortality Table used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2005 experience analysis	Tables based on current experience
Salary increases	10.00% for employees for the first five years of service; 7% for 6 or 7 years of service and 4.75% in excess of 7 years of service. Of the total salary increases of 4.00%, 3.00% is for inflation and 1.00% is real across-the-board salary increase.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.
Cost-of-living adjustments	3.00% a year	3.00% a year

Notes to Basic Financial Statements

June 30, 2007

5. Implementation of GASB 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

As noted earlier in the Notes to the Financial Statements, the City implemented GASB 43 in fiscal year 2006-07. GASB 43 applies to the City's Postemployment Healthcare Plans and requires additional disclosure with respect to the healthcare plans. This information is noted below:

Plan Description. The City administers Postemployment Healthcare Plans for employees retiring under the City's Retirement Systems. The two health care plans are single-employer defined benefit plans. The City issues publicly available financial reports that include financial statements and required supplementary information for the Postemployment Healthcare Plans. The financial reports may be obtained by writing to the City of San Jose, Office of Retirement Services, 1737 North First Street, Suite 580 San Jose, California 95112.

Basis of Accounting. The financial statements for the Postemployment Healthcare Plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. The valuation method is discussed more fully, for the Retirement Systems, in the Summary of Significant Accounting Policies, Note I. F.3., entitled "Deposits and Investments—Retirement Systems".

Actuarial information. Certain actuarial information with respect to the Postemployment Healthcare Plans is disclosed in the Required Supplementary Information section of the financial statements, in accordance with the provisions of GASB 43.

B. Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a single employer defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the Retirement Plan), which provides pension benefits for its non-civil service employees. For eligible employees who contribute 3.5% of their annual base salary, the Agency contributes approximately 9.0%. The Agency's contributions are based on a formula taking into account employee annual base salary and length of service. The Agency's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The Agency's contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Agency's contribution requirement or to offset plan-operating expenses. The Agency contracts with an advisor to manage the pension plan with all assets of the plan being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of his/her separate account. The Agency's Board of Directors may authorize changes to the Plan.

The Agency's total payroll in fiscal year ended June 30, 2007 for all non-civil service employees was approximately \$8,406,000. Contributions to the plan during the year ended June 30, 2007, made by both the Agency and the participating employees, amounted to approximately \$739,000 and \$280,000, respectively.

Notes to Basic Financial Statements

June 30, 2007

C. Commitments and Contingencies

1. *Norman Y. Mineta San José International Airport*

Purchase Commitments. As of June 30, 2007, the Airport was obligated for purchase commitments of approximately \$190,201,000, primarily for the noise attenuation, design and construction of the North Concourse building and Taxiway Y reconstruction. Additionally, the Airport has projected that it will expend or encumber approximately \$967,000,000 on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from passenger facility charges (PFC), federal grant monies, bond proceeds and other Airport revenues.

Fuel Storage Facility. In 1985, a fuel leak was discovered in the Airport's fuel storage facility. The Airport and a fuel supplier with a fuel storage facility adjacent to the City owned facility agreed to share the costs of a study to develop an acceptable cleanup program for the contaminated site. The cleanup program submitted to the Santa Clara Valley Water District, the responsible regulatory authority, was approved and the cleanup program commenced during the fiscal year ended June 30, 1991. The agreement between the Airport and the fuel supplier required the Airport to pay 60% of the costs and the fuel supplier to pay the balance of 40% of the costs. The fuel supplier also receives a 10% management fee for overseeing the cleanup operation. As of June 30, 2007, the Airport has accrued approximately \$330,000 to reflect its share of the remaining estimated costs of the initial phase of the cleanup program. On December 22, 1998, due to minimal fuel activities, the Airport temporarily closed its facility and ceased operation at that time. It has been mandated by the regulatory agencies that the final closure of the facility must occur by May 2008. The timing of the complete closure of the facility, which is dependent upon the construction of the new fueling facility at the Airport, and an estimate of the full costs of the existing tank removal and final site remediation have not yet been determined. As of June 30, 2007 and based on presently available information, the Airport's management does not anticipate that the full costs of remediation of the fuel storage facility will have a significant impact on the Airport's financial position or results of operations.

Acoustical Treatment Program. The Airport has an Acoustical Treatment Program (ACT) to comply with the requirements of Title 21 of the California Noise Standard. The program provides acoustical treatment to residences in the noise impact areas surrounding the Airport, at no cost to the property owners. The program is primarily funded by grants from the Federal Aviation Administration (FAA) and by PFC revenues. The Airport expended approximately \$9,335,000 on noise attenuation projects during the fiscal year ended June 30, 2007 and expects to spend approximately \$25,372,000 during fiscal year ending June 30, 2008.

Master Plan. The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the year 2017, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San Jose in June 1997 and approved by the Federal Aviation Administration (FAA) in December 1999. Subsequent to its 1997 approval, the Airport Master Plan has been revised through a series of City-approved amendments. The Master Plan development program currently includes approximately 70 improvement projects, of which about half have been completed or are underway.

Notes to Basic Financial Statements

June 30, 2007

The Airport development program incorporates environmental mitigation measures and other requirements set forth in the City's Airport Master Plan Environmental Impact Report (EIR) and Implementation Ordinance, and the California Air Resources Board's air quality certification for runway improvements. These associated requirements have also been updated subsequent to their original issuance.

2. Redevelopment Agency

Tax Sharing Agreement with the County of Santa Clara. On May 22, 2001, the County of Santa Clara, City of San José and the Agency amended and restated the 1993 Tax Revenue Sharing Agreement (the new agreement). The new agreement requires the Agency to provide the County a portion of the Agency's bond proceeds in addition to the 1993 revenue sharing amounts. The money will be used by the County to undertake redevelopment projects in or of benefit to the merged area, and requires the Agency to transfer funds to the County to pay for such projects. Such payments are considered Delegated Payments. Until June 30, 2004, the Delegated Payment was equal to the County's pass-through payment. However, after January 1, 2004, the Delegated Payment was re-defined as 20% of the proceeds of any debt secured by the Agency's non-housing tax increment revenues (excluding refunding bonds). For the fiscal year ended June 30, 2007, the pass-through payment totaled approximately \$14,695,000 and Delegated Payments totaled in the amount of \$15,383,000.

In August 2004, the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached an agreement entered into among the parties in May 2001 (the 2001 Agreement). The 2001 Agreement included provisions regarding redevelopment tax increment allocation and the application of land use procedures in County territory within the San Jose urban service area. The City and the Agency contend that under the 2001 Agreement, the County was required to abide by City land use procedures before it entered into agreements with private entities for the development of a theater on the County fairgrounds.

In April 2005, the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations. The County's cross complaint alleges no specific amount of damages and seeks damages and restitution according to proof. In addition a second lawsuit was filed by the County challenging the Council's approval of the North San Jose Development Policies Update. These lawsuits resulted in a settlement in November 2006.

The settlement among the City, Agency and County is that each agreed to dismiss their respective lawsuits and the Agency and/or City would pay the County a sum of \$22.5 million, to be used by County on specified facilities that benefit the citizens of the City of San José. The Agency and/or City will pay the \$22.5 million in three installments of \$7.5 million over a three-year period, commencing on July 1, 2007. At June 30, 2007, the related liabilities are recorded as part of non-current obligations in the government wide financial statements. In addition, as part of the agreement, the City is required to fund up to \$11 million toward certain improvements on Montague Expressway no later than June 30, 2010.

3. San José - Santa Clara Water Pollution Control Plant

The City's 2007-2011 Five-Year Capital Improvement Program includes the South Bay Water Recycling (SBWR) project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board (RWQCB), to control the amount of effluent discharged by the Plant into San Francisco Bay.

Notes to Basic Financial Statements

June 30, 2007

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$140,000,000 funded by the tributary agencies, grants, and bond proceeds.

Proceeds from the 1995 Series A and B San Jose-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds, which were refunded during the Fiscal Year 2005-06, (2005 Series A and B Sewer Revenue Bonds) and other funds were used to pay for the City's share of Phase I costs. The City of Santa Clara's share of Phase I costs was approximately \$20,067,000. Sources of funding included credit for the City of Santa Clara's existing non-potable water reclamation distribution system, in-kind services, additional construction, and City of Santa Clara sewer utility cash reserves. Other sources of funding for Phase I included U.S. Bureau of Reclamation grants, \$6,449,000 transferred in fiscal year 1995 from the Authority to the City's Wastewater Treatment Plant Capital Fund, and cash contributions from the other participating agencies.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day (mgd) and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was \$127,500,000, of which \$98,130,000 has been expended or encumbered. These estimated costs are to be funded by the City and other tributary agencies through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

4. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the Department of Housing and Urban Development, the Department of Transportation, the Department of Interior, the Department of Labor, and the Department of Justice. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2007, these programs are still subject to financial and compliance audits by federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

Notes to Basic Financial Statements

June 30, 2007

D. Subsequent Events

1. Debt Issues

City of San José Airport Revenue Bonds, Series 2007A (AMT) and Series 2007B. On September 13, 2007, the City issued \$545,755,000 of Series 2007A and \$179,260,000 of Series 2007B airport revenue bonds (together, the "2007 Bonds"). The proceeds of the 2007 Bonds will be used to pay (and to redeem commercial paper notes issued to pay) a portion of the costs of Phase I of the Airport Development Program at the Norman Y. Mineta San José International Airport. Debt service on the 2007 Bonds will be paid from General Airport Revenues and certain other funds. The 2007 Bonds are insured by Ambac Assurance Corporation.

The Series 2007A bonds are subject to the Alternative Minimum Tax (AMT), bear interest at fixed rates ranging from 5.00% to 6.00%, and have a final maturity date of March 1, 2047. The Series 2007B bonds bear interest at fixed rates ranging from 4.25% to 5.00% and have a final maturity date of March 1, 2037.

A note repayment fund for the Series B commercial paper notes, in the amount of \$32,446,000, was funded from a combination of Series 2007A and Series 2007B bonds proceeds and will be used to redeem a portion of the outstanding Series B commercial paper notes when those notes mature on December 6, 2007.

Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T and Tax Allocation Bonds, Series 2007B. On October 24, 2007, the Redevelopment Agency sold \$21,330,000 of Series 2007A-T (taxable) and \$191,600,000 of Series 2007B tax allocation bonds (together, the "Series 2007AB Bonds"). The Series 2007AB Bonds transaction is scheduled to close on November 7, 2007. The proceeds of the Series 2007AB bonds will be used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues.

The Series 2007A-T bonds, which are insured by XL Capital Assurance Inc., bear interest at a fixed rate of 5.10%, and have a maturity date of August 1, 2017. The Series 2007B bonds, which are also insured by XL Capital Assurance Inc., bear interest at fixed rates ranging from 4.25% to 5.00%, and have a final maturity date of August 1, 2036.

2. Liability Issues

Labor Contract Settlement of Firefighters Association Local 230. On September 18, 2007, the City Council adopted a resolution to implement the terms of the interest arbitration between the City and the International Association of Firefighters, Local 230. The term of the agreement is from fiscal year 2004-05 through 2008-09. The annual direct cost of the interest arbitration award is zero in 2004-05, approximately \$1.5 million in 2005-06 and approximately \$9.6 million in 2006-07. At June 30, 2007, these retroactive portion of the settlement have been designated in the General Fund and are recorded as other accrued liabilities in the government wide financial statements. Other issues decided by the arbitration award, such as changes to retirement benefits, will impact future periods.

Notes to Basic Financial Statements

June 30, 2007

3. Operations Issues

New Airline Lease Agreement. Three of the passenger airlines (Alaska Airlines, Delta Airlines, and US Airways) and one cargo airline (United Parcel Service) providing service at the Airport have signed the new airline lease agreement, which is scheduled to become effective December 1, 2007. The new airline lease agreement is scheduled to expire on June 30, 2012, may be extended for one additional five-year term by mutual consent of the City and the Signatory Airlines (as defined below). The key provisions in the new agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center.

The new airline lease agreement provides that any passenger airline that (a) signs an agreement substantially similar to the new airline lease agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year-round, at least three days per week shall be a Signatory Airline. The new airline lease agreement also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the new airline lease agreement (other than in connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the new airline lease agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week.

Required Supplementary Information

City of San José
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2007
(\$000's)

	Budgeted Amounts		Actual Amounts	Actual	Budgetary	Actual
	Original	Final	Budgetary Basis	Variance with	to GAAP	Amounts
			Final Budget	Over (Under)	Differences	GAAP Basis
REVENUES						
Taxes:						
Property	\$ 184,914	189,314		2,512	-	191,826
Sales	144,008	149,074		888	-	149,962
Utility	76,098	77,748		1,381	-	79,129
State of California in-lieu	5,212	6,212		(301)	-	5,911
Franchise	36,904	38,862		1,553	-	40,415
Other	7,600	7,600		1,000	-	8,600
Licenses, permits and fines	87,197	89,597		(986)	-	88,611
Intergovernmental	22,020	26,048		(5,560)	-	20,488
Charges for current services	29,157	29,448		176	-	29,624
Interest and other revenues	39,692	59,642		(1,359)	1,436	59,719
Total revenues	632,802	673,545		(696)	1,436	674,285
EXPENDITURES						
Current:						
General government	115,233	129,785		(34,765)	(8,972)	86,048 (2), (3)
Public safety	373,079	384,997		(11,573)	(4,584)	368,840 (2)
Capital maintenance	68,602	71,077		(20,274)	(7,500)	43,303 (2)
Community services	149,509	156,816		(19,442)	(8,310)	129,064 (2)
Sanitation	2,581	2,785		(279)	(673)	1,833 (2)
Capital outlay	3,664	4,943		(720)	(301)	3,922 (2), (3)
Total expenditures	712,668	750,403		(87,053)	(30,340)	633,010
Excess (deficiency) of revenues over expenditures	(79,866)	(76,858)		86,357	31,776	41,275
OTHER FINANCING SOURCES (USES)						
Transfers in	36,330	36,843		1,230	-	38,073
Transfers out	(35,238)	(35,801)		80	-	(35,721)
Total other financing sources (uses)	1,092	1,042		1,310	-	2,352
Net change in fund balances	(78,774)	(75,816)		87,667	31,776	43,627
Fund balances - beginning	209,418	209,418		-	27,552	236,970
Beginning encumbrance	-	-		-	-	-
Fund balances - ending	\$ 130,644	133,602		87,667	59,328	280,597

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budget are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

City of San José
Housing Activities
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2007
(\$000's)

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budgetary to GAAP Differences</u>	<u>Actual Amounts GAAP Basis</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Intergovernmental	\$ 21,287	21,474	(12,743)	8,731	(324)	8,407 (1), (3)
Interest and other revenues	26,177	26,177	(6,520)	19,657	(5,509)	14,148 (1), (3)
Total revenues	<u>47,464</u>	<u>47,651</u>	<u>(19,263)</u>	<u>28,388</u>	<u>(5,833)</u>	<u>22,555</u>
EXPENDITURES						
Current:						
Capital maintenance	-	130	(130)	-	-	-
Community services	111,858	113,723	(34,312)	79,411	(2,171)	77,240 (2), (3)
Total expenditures	<u>111,858</u>	<u>113,853</u>	<u>(34,442)</u>	<u>79,411</u>	<u>(2,171)</u>	<u>77,240</u>
Excess (deficiency) of revenues over expenditures	<u>(64,394)</u>	<u>(66,202)</u>	<u>15,179</u>	<u>(51,023)</u>	<u>(3,662)</u>	<u>(54,685)</u>
OTHER FINANCING SOURCES (USES)						
Capital lease financing proceeds						
Transfers in	45,707	46,224	(13,860)	32,364	-	32,364
Transfers out	(19,940)	(19,940)	-	(19,940)	-	(19,940)
Total other financing sources (uses)	<u>25,767</u>	<u>26,284</u>	<u>(13,860)</u>	<u>12,424</u>	<u>-</u>	<u>12,424</u>
Net change in fund balances	<u>(38,627)</u>	<u>(39,918)</u>	<u>1,319</u>	<u>(38,599)</u>	<u>(3,662)</u>	<u>(42,261)</u>
Fund balance - beginning	23,047	23,047	-	23,047	272,699	295,746
Add beginning encumbrance balance	-	-	-	26,572	-	-
Fund balances - ending	<u>\$ 23,008</u>	<u>(16,871)</u>	<u>1,319</u>	<u>11,020</u>	<u>269,037</u>	<u>253,485</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budget are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

Required Supplementary Information
Schedules of Funding Progress (Dollars in Thousands)
(Unaudited-See accompanying independent auditor's report)

Police and Fire Department Retirement Plan - Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (1)	Entry Age Actuarial Accrued Liability (AAL) (2)	Unfunded (Overfunded) AAL	Funded Ratio	Annual Covered Payroll (3)	(Overfunded) Unfunded AAL as a Percentage of Covered Payroll
6/30/01 (4)	\$ 1,713,812	1,492,732	(221,080)	115%	171,779	(129)%
6/30/03	1,826,287	1,823,200	(3,087)	100%	202,222	(2)%
6/30/05	1,983,090	2,027,432	44,342	98%	210,018	21%

Federated City Employees' Retirement System - Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (1)	Entry Age Actuarial Accrued Liability (AAL) (2)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/01	\$ 1,060,144	1,072,333	12,189	99%	252,696	5%
6/30/03	1,280,719	1,311,691	30,972	98%	292,961	11%
6/30/05	1,384,454	1,711,370	326,716	81%	286,446	114%

- (1) Excludes accounts payable and postemployment healthcare plan assets.
(2) Excludes postemployment healthcare liability.
(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.
(4) After adoption of the Supplemental Retiree Benefit Reserve (SRBR) program.

Implementation of GASB 43
Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

In fiscal year 2006-07, the City implemented the reporting requirements of GASB 43. The following schedules of funding progress are presented for the Plan's and the System's Postemployment Healthcare Benefit Plans based on the most recent actuarial valuation report.

Police and Fire Department Retirement Plan - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/06	\$ 38,381	851,217	812,836	5%	218,521	372%

Federated City Employees' Retirement System - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/06	\$ 81,288	702,939	621,651	12%	275,559	226%

(Continued)

Notes to Required Supplementary Information

June 30, 2007

I. Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

Annual budgets are prepared for the General Fund and all special revenue funds except for the following:

- Developer Fees
- William F. Prusch, Jr.
- Emergency Reserve
- Special Assessment Special Services

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the CAFR itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Capital project budgets are based on a project time frame rather than a fiscal year time frame and therefore are not included. Debt Service Funds appropriations were implicitly adopted by the Council when the formal bond resolutions were approved.

II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States (GAAP) basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.
- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables for the GAAP basis and as expenditures for the budgetary basis. When loan repayments are received, they are recorded as reductions to receivables for the GAAP basis, but are recognized as revenues for the budgetary basis.

(Continued)

Notes to Required Supplementary Information

June 30, 2007

- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure for the GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial statements, but is an expenditure for the GAAP basis.
- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial statements.
- The Community Facilities non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial statements.
- Certain line of credit transitions are recognized as expenditures in the budgetary basis financial schedules but is recorded as an asset in the GAAP basis financial statements. When the outside agency drawdown on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.
- Certain grant revenues received in advance are recognized on the budgetary basis financial statements, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On October 2, 2007, the City Council approved certain fiscal 2007 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedule of revenues, expenditures, and changes in fund balances - budget and actual (budgetary basis) reflect such budget revisions.

(Concluded)

Combining Nonmajor Governmental Funds

Combining Nonmajor
Governmental Funds

Combining Nonmajor Governmental Funds



City of San José
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 353,210,675	-	1,548,268	354,758,943
Other cash and investments	5,940	-	-	5,940
Receivables (net of allowance for uncollectibles)	32,729,215	395,789	2,153,516	35,278,520
Due from outside agencies	88,229	111,691	-	199,920
Due from other funds	3,135,834	-	35,277,184	38,413,018
Inventories	2,553,488	-	-	2,553,488
Loans receivable (net)	6,999,076	-	-	6,999,076
Advances to other funds	8,111,800	-	-	8,111,800
Advances and deposits	29,405	-	38,672	68,077
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	31,128,822	18,825,618	49,954,440
Other investments	2,160,200	1,164,689	381,225,308	384,550,197
Other assets	459,000	-	-	459,000
Total assets	\$ 409,482,862	32,800,991	439,068,566	881,352,419
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,458,659	56,785	12,054,312	42,569,756
Accrued salaries, wages, and payroll taxes	2,930,449	-	541,309	3,471,758
Due to other funds	5,366,773	-	67,518,460	72,885,233
Deferred revenue	9,977,094	-	-	9,977,094
Advances, deposits, and reimbursable credits	22,731,160	-	-	22,731,160
Advances from other funds	-	-	2,203,918	2,203,918
Other liabilities	5,286,792	-	-	5,286,792
Total liabilities	76,750,927	56,785	82,317,999	159,125,711
Fund balances:				
Reserved for:				
Encumbrances	39,939,268	-	60,479,467	100,418,735
Noncurrent advances, loans and other assets	17,931,769	-	38,672	17,970,441
Debt service	-	32,744,206	-	32,744,206
Restricted cash commitments	4,868	-	-	4,868
Unreserved:				
Special revenue funds	274,856,032	-	-	274,856,032
Capital projects funds	-	-	296,232,428	296,232,428
Total fund balances	332,731,937	32,744,206	356,750,567	722,226,710
Total liabilities and fund balances	\$ 409,482,864	32,800,991	439,068,566	881,352,421

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes and special assessments	\$ 95,157,531	34,127,364	14,492,933	143,777,828
Intergovernmental	52,903,380	-	10,253,084	63,156,464
Charges for current services	235,540,494	-	216,114	235,756,608
Rent	9,303,754	-	-	9,303,754
Interest and other revenues	26,325,077	2,990,910	18,115,523	47,431,510
Total revenues	<u>419,230,236</u>	<u>37,118,274</u>	<u>43,077,654</u>	<u>499,426,164</u>
EXPENDITURES				
Current:				
General government	125,442,028	-	-	125,442,028
Public safety	1,734,481	-	-	1,734,481
Capital maintenance	70,366,989	-	30,229,935	100,596,924
Community services	48,220,867	-	-	48,220,867
Sanitation	97,912,571	-	-	97,912,571
Capital outlay	47,352,444	-	66,882,741	114,235,185
Debt service:				
Principal	500,000	11,735,000	-	12,235,000
Interest and fiscal charges	-	20,225,503	-	20,225,503
Bond issuance costs	-	464,265	-	464,265
Total expenditures	<u>391,529,380</u>	<u>32,424,768</u>	<u>97,112,676</u>	<u>521,066,824</u>
Excess (deficiency) of revenues under (over) expenditures	<u>27,700,856</u>	<u>4,693,506</u>	<u>(54,035,022)</u>	<u>(21,640,660)</u>
OTHER FINANCING SOURCES (USES)				
Bond issued	-	-	90,000,000	90,000,000
Bond premium	-	965,400	-	965,400
Transfers in	37,862,489	30,117,648	12,701,697	80,681,834
Transfers out	(47,022,200)	(28,988,549)	(14,773,615)	(90,784,364)
Total other financing sources (uses)	<u>(9,159,711)</u>	<u>2,094,499</u>	<u>87,928,082</u>	<u>80,862,870</u>
Net change in fund balances	18,541,145	6,788,005	33,893,060	59,222,210
Fund balances - beginning	314,190,792	25,956,201	322,857,507	663,004,500
Fund balances - ending	<u>\$ 332,731,937</u>	<u>32,744,206</u>	<u>356,750,567</u>	<u>722,226,710</u>

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Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision, local ordinance, or Federal grant regulation to finance particular operating or capital functions of the City.

The Special Revenue Funds of the City of San José include the following:

Emma Prusch Memorial Park Fund - The Emma Prusch Memorial Park Fund was established for the development and improvement of the Emma Prusch Memorial Park.

Gift Trust Fund - The Gift Trust Fund was established to receive gifts, donations, and bequests.

Developer Fees - The Developers' Fund was established to account for developer deposits relating to certain development projects as mandated by the State of California Assembly Bill # 518.

William F. Prusch, Jr. Fund - The William F. Prusch, Jr. Fund was established for the construction of the Emma Prusch Memorial Park.

Emergency Communication System Support Fee Fund - To account for the collection of Emergency Communication System Support fees.

Employee Benefit Fund - To account for the cost of funding the City's portion of employee fringe benefits.

Workforce Investment Act Fund - To account for federal funds for training and placement of dislocated and economically disadvantaged workers.

Construction and Property Conveyance Tax Funds - To account for the collection of taxes from construction and property transfers, for the acquisition, construction, and improvement of libraries, parks, recreational, public works, and communication facilities.

Special Assessment Maintenance Districts Funds - To account for assessments involving Maintenance District activities.

Special Assessment Special Services Fund - To account for assessments and reimbursements from property owners for sidewalk repair, refuse removal and other costs incurred for public improvement and safety.

Subdivision Park Trust Fund - To account for the payment of fees and/or the dedication of land for parks and recreational purposes in residential subdivisions.

Emergency Reserve Fund - To account for reserves established from local revenues to meet public emergencies and Federal and State grants received to meet natural and other disasters.

1943 and 1964 Gas Tax Maintenance and Construction Funds - To account for gas taxes collected for the acquisition, construction, improvement, and maintenance of public streets subject to provisions of Streets and Highway Code of the State of California under Sections 2105, 2106, 2107, and 2107.5, imposing the State gas tax law.

Library Benefit Assessment District Fund - To account for costs associated with providing library services and to account for annual assessment district levied to pay for the library services costs.

Storm Drainage Fee Fund - To account for fees collected from developers as a result of connections to the storm drainage sewer system which may be used for construction, reconstruction, and maintenance of storm drainage systems and for land acquisition for such system.

Supplemental Local Law Enforcement Fund - To account for revenues received from the State of California (AB 3229) to be used for front line municipal police service.

Federal Local Law Enforcement Block Grant Fund - To account for revenues received from the United States Department of Justice to be used for reducing crime and improving public safety.



Nonmajor Special Revenue Funds

Underground Utility Fund - To account for revenues received as assessments and fees for the City's costs and expenses to place certain utility facilities underground, including wires, pipes, and communications facilities which are to be newly installed or which were previously located above ground.

State Drug Forfeiture Fund - To account for State drug forfeiture monies received pursuant to California Health and Safety Code Section 11489.

Library Parcel Tax Fund - To account for the annual parcel tax used for enhancing the City's library services and facilities.

Federal Drug Forfeiture Fund - To account for Federal drug forfeiture monies received pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Codes.

Residential Construction Tax Contribution Fund - To account for the accumulation of residential construction tax monies for eligible street improvements.

Arterial and Major Collectors Fund - To account for funds repaid by abutting landowners for City costs of acquisition and construction of existing and proposed arterial and major collector streets.

Community Facility Revenue Funds - To account for the rental revenues received from the Hayes Mansion and the Ice Rink Center operations, and to provide for the accumulation and transfer of base rental income to the appropriate debt service funds for repayment of the facilities-related debts.

Integrated Waste Management Fund - To account for activities related to the Integrated Waste Management Program which includes garbage collection, recycling services, and related billing operations.

Tobacco Settlement Fund - To account for revenues received per the Master Settlement Agreement in the tobacco industry lawsuit.

Building and Structures Construction Tax Fund - To account for revenues received from the issuance of building permits and expenditures of the construction, reconstruction, replacement, and widening of existing and proposed city streets.

Development Enhancement Fund - To account for loans and loan guarantees to assist small business development.

Community Development Block Grant Fund - To account for Federal grant funds received from the U.S. Department of Housing and Urban Development under Title II of the Housing and Community Development Act of 1974.

Economic Development Administration Loans Fund - To account for Federal funds received for the Economic Development Administration Loan program for eligible administrative expenses and loans to small businesses.

Storm Drainage Service Use Charge Fund - To account for revenues collected from owners of properties benefited by the storm drainage service which may be used for the construction, reconstruction, maintenance, and operation of the storm drainage system.

Transient Occupancy Tax Fund - To account for transient occupancy tax revenues and to provide for the funding of fine arts and cultural grant programs, the San Jose Convention and Visitors Bureau and the conventions and cultural facilities operation.

Lake Cunningham Park Fund - To account for the parking fees and lease payment revenues used for the purchase of equipment, maintenance, and operations at Lake Cunningham Park.

Edward Brown Memorial Justice Fund - To account for the Federal funding in support of the Edward G. Brown Memorial Justice Assistance grant.

Municipal Golf Courses - The Municipal Golf Courses Fund was established in 1969 to manage and operate the public golf courses.

Convention and Cultural Facilities - To fund the costs of managing and operating the San José McEnery Convention Center, the Center of the Performing Arts, Civic Auditorium, Montgomery Theater, Exhibit Hall, and their related facilities and grounds.

Stores, Vehicle Maintenance and Operations Funds - To account for the purchase and issuance of materials and supplies consumed by the departments for their general operations. Also to account for the cost of operating a maintenance facility for automotive equipment used by other City departments for repairs, demolition, or other abatement of dangerous buildings.

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	<u>Emma Prusch Memorial Park (Fund 131)</u>	<u>Gift Trust (Fund 139)</u>	<u>Developer Fees (Fund 138)</u>	<u>William F. Prusch, Jr. (Fund 151)</u>	<u>Emergency Communication System Support Fee (Fund 154)</u>
ASSETS					
Equity in pooled cash and investments					
held in City Treasury	\$ 264,189	1,934,314	6,537,611	15,102	4,362,887
Other investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	20,470	20,298	86,492	143	-
Due from outside agencies	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable (net)	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Advances and deposits	-	-	-	-	-
Restricted assets:					
Other investments	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	<u>284,659</u>	<u>1,954,612</u>	<u>6,624,103</u>	<u>15,245</u>	<u>4,362,887</u>
LIABILITIES					
Accounts payable	26,000	19,067	-	-	-
Accrued salaries, wages and payroll taxes	-	33	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	6,000	-	-	-	-
Advances, deposits and reimbursable credits	-	-	6,624,103	-	-
Other liabilities	-	-	-	-	-
Total liabilities	<u>32,000</u>	<u>19,100</u>	<u>6,624,103</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Reserved for:					
Encumbrances	3,181	24,186	-	-	-
Noncurrent advances, loans, and other assets	-	-	-	-	-
Restricted cash commitments	-	-	-	-	-
Unreserved:					
Designated for future expenditures	-	-	-	-	-
Undesignated	249,478	1,911,326	-	15,245	4,362,887
Total fund balances	<u>252,659</u>	<u>1,935,512</u>	<u>-</u>	<u>15,245</u>	<u>4,362,887</u>
Total liabilities and fund balances	<u>\$ 284,659</u>	<u>1,954,612</u>	<u>6,624,103</u>	<u>15,245</u>	<u>4,362,887</u>

<u>Employee Benefits (Funds 155-161)</u>	<u>Workforce Investment Act (Funds 290-294)</u>	<u>Construction and Property Conveyance (Funds 377-398)</u>	<u>Special Assessment Maintenance Districts (Funds 351-369 371-374)</u>	<u>Special Assessment Special Services (Fund 350)</u>	<u>Subdivision Park Trust (Fund 375)</u>	<u>Emergency Reserve (Funds 405-407)</u>	<u>1943 Gas Tax Maintenance and Construction (Fund 409)</u>
6,917,247	-	114,382,371	11,037,905	171,113	77,134,730	4,590,663	-
-	-	-	-	-	-	-	-
396,100	6,250,638	5,207,376	229,152	111,127	731,655	-	567,355
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	8,111,800	-	-
-	-	26,805	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>7,313,347</u>	<u>6,250,638</u>	<u>119,616,552</u>	<u>11,267,057</u>	<u>282,240</u>	<u>85,978,185</u>	<u>4,590,663</u>	<u>567,355</u>
715,000	3,609,102	4,313,085	186,019	-	227,187	-	-
323,182	150,858	198,263	32,110	-	53,202	-	-
-	1,643,033	436,915	-	-	-	-	567,355
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
23,795	-	-	-	-	-	-	-
<u>1,061,977</u>	<u>5,402,993</u>	<u>4,948,263</u>	<u>218,129</u>	<u>-</u>	<u>280,389</u>	<u>-</u>	<u>567,355</u>
123,584	1,215,532	13,652,368	1,029,994	93,177	1,217,143	-	-
-	-	26,805	-	-	8,111,800	-	-
-	-	-	-	-	-	-	-
-	-	14,444,000	-	-	54,531,163	-	-
<u>6,127,786</u>	<u>(367,887)</u>	<u>86,545,118</u>	<u>10,018,934</u>	<u>189,063</u>	<u>21,837,690</u>	<u>4,590,663</u>	<u>-</u>
<u>6,251,370</u>	<u>847,645</u>	<u>114,668,291</u>	<u>11,048,928</u>	<u>282,240</u>	<u>85,697,796</u>	<u>4,590,663</u>	<u>-</u>
<u>7,313,347</u>	<u>6,250,638</u>	<u>119,616,554</u>	<u>11,267,057</u>	<u>282,240</u>	<u>85,978,185</u>	<u>4,590,663</u>	<u>567,355</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	<u>1964 Gas Tax Maintenance and Construction (Funds 410-411)</u>	<u>Library Benefit Assessment (Fund 412)</u>	<u>Storm Drainage Fee (Funds 413, 427)</u>	<u>Supplemental Local Law Enforcement (Fund 414)</u>	<u>Federal LLEBG Program (Fund 415)</u>
ASSETS					
Equity in pooled cash and investments					
held in City Treasury	\$ -	-	871,495	2,520,696	33,663
Other investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	768,217	-	-	24,159	317
Due from outside agencies	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable (net)	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Advances and deposits	-	-	-	-	-
Restricted assets:					
Other investments	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	\$ <u>768,217</u>	<u>-</u>	<u>871,495</u>	<u>2,544,855</u>	<u>33,980</u>
LIABILITIES					
Accounts payable	-	-	13,911	230,264	-
Accrued salaries, wages and payroll taxes	-	-	6,307	3,409	-
Due to other funds	768,217	-	503,110	-	-
Deferred revenue	-	-	-	2,144,084	-
Advances, deposits and reimbursable credits	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	<u>768,217</u>	<u>-</u>	<u>523,328</u>	<u>2,377,757</u>	<u>-</u>
FUND BALANCE					
Reserved for:					
Encumbrances	-	-	76,704	656,814	8,134
Noncurrent advances, loans, and other assets	-	-	-	-	-
Restricted cash commitments	-	-	-	-	-
Unreserved:					
Designated for future expenditures	-	-	-	-	25,846
Undesignated	-	-	271,463	(489,716)	-
Total fund balances	<u>-</u>	<u>-</u>	<u>348,167</u>	<u>167,098</u>	<u>33,980</u>
Total liabilities and fund balances	\$ <u>768,217</u>	<u>-</u>	<u>871,495</u>	<u>2,544,855</u>	<u>33,980</u>

Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)	Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Integrated Waste Management (Fund 423)
3,189,514	1,501,098	6,007,514	984,160	1,337,959	1,304,671	6,518,330	40,555,517
-	-	-	-	-	-	-	-
372,021	14,115	47,301	364,776	-	12,389	1,359,725	8,347,623
-	-	25,812	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	109,000	-
<u>3,561,535</u>	<u>1,515,213</u>	<u>6,080,627</u>	<u>1,348,936</u>	<u>1,337,959</u>	<u>1,317,060</u>	<u>7,987,055</u>	<u>48,903,140</u>
41,003	4,987	252,261	2,868	-	35,664	824,499	14,925,904
4,160	-	161,594	-	-	1,575	550,118	295,450
-	-	-	-	-	-	-	-
-	-	-	-	-	-	89,032	4,321,934
-	-	-	-	-	-	861,006	13,729,040
-	-	-	-	-	-	5,000,000	-
<u>45,163</u>	<u>4,987</u>	<u>413,855</u>	<u>2,868</u>	<u>-</u>	<u>37,239</u>	<u>7,324,655</u>	<u>33,272,328</u>
85,472	-	26,999	-	1,047	538,724	1,976	4,778,079
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	100,000	-	-	-	-	3,900,000
<u>3,430,900</u>	<u>1,510,226</u>	<u>5,539,773</u>	<u>1,346,068</u>	<u>1,336,912</u>	<u>741,097</u>	<u>660,424</u>	<u>6,952,733</u>
<u>3,516,372</u>	<u>1,510,226</u>	<u>5,666,772</u>	<u>1,346,068</u>	<u>1,337,959</u>	<u>1,279,821</u>	<u>662,400</u>	<u>15,630,812</u>
<u>3,561,535</u>	<u>1,515,213</u>	<u>6,080,627</u>	<u>1,348,936</u>	<u>1,337,959</u>	<u>1,317,060</u>	<u>7,987,055</u>	<u>48,903,140</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	Tobacco Settlement (Fund 426)	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Fund 441)	Economic Development Administration Loans (Fund 444)
ASSETS					
Equity in pooled cash and investments held in City Treasury	\$ 6,212,179	25,844,096	2,556,296	-	53,944
Other investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	59,437	1,910,186	23,302	2,558,903	508
Due from outside agencies	-	-	-	-	-
Due from other funds	-	3,135,834	-	-	-
Inventories	-	-	-	-	-
Loans receivable (net)	600,000	-	474,028	5,665,431	259,617
Advances to other funds	-	-	-	-	-
Advances and deposits	-	2,600	-	-	-
Restricted assets:					
Other investments	-	-	-	4,868	-
Other assets	-	-	350,000	-	-
Total assets	\$ 6,871,616	30,892,716	3,403,626	8,229,202	314,069
LIABILITIES					
Accounts payable	41,654	2,445,078	-	661,104	-
Accrued salaries, wages and payroll taxes	41,395	199,750	4,477	144,082	-
Due to other funds	-	-	-	989,692	-
Deferred revenue	-	-	-	1,380,548	-
Advances, deposits and reimbursable credits	-	-	-	-	-
Other liabilities	-	262,997	-	-	-
Total liabilities	83,049	2,907,825	4,477	3,175,426	-
FUND BALANCE					
Reserved for:					
Encumbrances	1,330,537	8,196,971	51,000	1,980,291	-
Noncurrent advances, loans, and other assets	600,000	2,600	824,028	5,553,431	259,617
Restricted cash commitments	-	-	-	4,868	-
Unreserved:					
Designated for future expenditures	3,813,352	-	-	-	-
Undesignated	1,044,678	19,785,320	2,524,121	(2,484,814)	54,452
Total fund balance	6,788,567	27,984,891	3,399,149	5,053,776	314,069
Total liabilities and fund balances	\$ 6,871,616	30,892,716	3,403,626	8,229,202	314,069

Storm Drainage Service Use Charge (Funds 446, 469)	Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Brown Memorial Justice (Fund 474)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Fund 536)	Stores Vehicle Maintenance and Operations (Funds 551-553)	Totals
10,584,031	3,104,807	1,116,006	399,219	830,955	4,115,219	6,221,174	353,210,675
-	-	-	-	-	-	5,940	5,940
223,083	1,252,344	11,608	3,754	7,446	1,529,079	218,116	32,729,215
62,417	-	-	-	-	-	-	88,229
-	-	-	-	-	-	-	3,135,834
-	-	-	-	-	-	2,553,488	2,553,488
-	-	-	-	-	-	-	6,999,076
-	-	-	-	-	-	-	8,111,800
-	-	-	-	-	-	-	29,405
-	-	-	-	-	2,155,332	-	2,160,200
-	-	-	-	-	-	-	459,000
<u>10,869,531</u>	<u>4,357,151</u>	<u>1,127,614</u>	<u>402,973</u>	<u>838,401</u>	<u>7,799,630</u>	<u>8,998,718</u>	<u>409,482,862</u>
594,898	74,200	176,085	6,753	101	106	1,031,859	30,458,659
251,429	4,486	2,468	-	-	232,899	269,202	2,930,449
458,451	-	-	-	-	-	-	5,366,773
-	-	-	388,457	-	1,647,039	-	9,977,094
-	-	-	-	-	1,517,011	-	22,731,160
-	-	-	-	-	-	-	5,286,792
<u>1,304,778</u>	<u>78,686</u>	<u>178,553</u>	<u>395,210</u>	<u>101</u>	<u>3,397,055</u>	<u>1,301,061</u>	<u>76,750,927</u>
2,141,219	126,697	252,242	115,617	10,793	338,432	1,862,355	39,939,268
-	-	-	-	-	-	2,553,488	17,931,769
-	-	-	-	-	-	-	4,868
-	-	94,000	-	-	-	-	76,908,361
<u>7,423,534</u>	<u>4,151,768</u>	<u>602,819</u>	<u>(107,854)</u>	<u>827,507</u>	<u>4,064,143</u>	<u>3,281,814</u>	<u>197,947,671</u>
<u>9,564,753</u>	<u>4,278,465</u>	<u>949,061</u>	<u>7,763</u>	<u>838,300</u>	<u>4,402,575</u>	<u>7,697,657</u>	<u>332,731,937</u>
<u>10,869,531</u>	<u>4,357,151</u>	<u>1,127,614</u>	<u>402,973</u>	<u>838,401</u>	<u>7,799,630</u>	<u>8,998,718</u>	<u>409,482,864</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Emma Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Developer Fees (Fund 138)	William F. Prusch, Jr. (Fund 151)	Emergency Communication System Support Fee (Fund 154)
REVENUES					
Taxes and special assessments	\$ -	-	-	-	-
Intergovernmental	-	587,601	-	-	-
Charges for current services	-	-	-	-	23,251,468
Rent	72,000	-	-	-	-
Interest and other revenues	11,404	94,826	-	656	-
Total revenues	83,404	682,427	-	656	23,251,468
EXPENDITURES					
Current:					
General government	28,330	-	-	-	-
Public safety	-	-	-	-	-
Community services	26,000	679,351	-	-	-
Sanitation	-	-	-	-	-
Capital maintenance	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Total expenditures	54,330	679,351	-	-	-
Excess (deficiency) of revenue over (under) expenditures	29,074	3,076	-	656	23,251,468
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(50,000)	-	-	-	(20,600,000)
Total other financing sources (uses)	(50,000)	-	-	-	(20,600,000)
Net change in fund balances	(20,926)	3,076	-	656	2,651,468
Fund balances - beginning	273,585	1,932,436	-	14,589	1,711,419
Fund balances - ending	\$ 252,659	1,935,512	-	15,245	4,362,887

Employee Benefits (Funds 155-161)	Workforce Investment Act (Funds 290-294)	Construction and Property Conveyance Tax (Funds 377-398)	Special Assessment Maintenance Districts (Funds 351-369 371-374)	Special Assessment Special Services (Fund 350)	Subdivision Park Trust (Fund 375)	Emergency Reserve (Funds 405-407)	1943 Gas Tax Maintenance and Construction (Fund 409)
-	-	41,801,434	6,429,612	7,770	-	-	-
-	15,655,853	4,952,174	-	-	-	-	7,700,000
73,877,863	-	-	-	-	12,397,141	-	-
-	-	-	-	-	-	-	-
343,514	-	2,392,424	429,190	-	3,197,556	-	-
<u>74,221,377</u>	<u>15,655,853</u>	<u>49,146,032</u>	<u>6,858,802</u>	<u>7,770</u>	<u>15,594,697</u>	<u>-</u>	<u>7,700,000</u>
73,876,922	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	15,543,244	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	28,380,930	6,232,233	3,268	5,304,118	-	7,700,000
-	-	22,613,213	-	-	1,199,602	-	-
-	-	-	-	-	-	-	-
<u>73,876,922</u>	<u>15,543,244</u>	<u>50,994,143</u>	<u>6,232,233</u>	<u>3,268</u>	<u>6,503,720</u>	<u>-</u>	<u>7,700,000</u>
344,455	112,609	(1,848,111)	626,569	4,502	9,090,977	-	-
-	-	19,100,767	123,106	-	-	-	-
(133,254)	-	(7,649,948)	(9,104)	-	(40,000)	-	-
(133,254)	-	11,450,819	114,002	-	(40,000)	-	-
211,201	112,609	9,602,708	740,571	4,502	9,050,977	-	-
<u>6,040,169</u>	<u>735,036</u>	<u>105,065,583</u>	<u>10,308,357</u>	<u>277,738</u>	<u>76,646,819</u>	<u>4,590,663</u>	<u>-</u>
<u>6,251,370</u>	<u>847,645</u>	<u>114,668,291</u>	<u>11,048,928</u>	<u>282,240</u>	<u>85,697,796</u>	<u>4,590,663</u>	<u>-</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	1964 Gas Tax Maintenance and Construction (Funds 410-411)	Library Benefit Assessment (Fund 412)	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Federal LLEBG Program (Fund 415)
REVENUES					
Taxes and special assessments	\$ -	-	-	-	-
Intergovernmental	9,500,000	-	4,000	1,263,920	173,868
Charges for current services	-	-	259,342	-	-
Rent	-	-	-	-	-
Interest and other revenues	-	20,522	14,389	109,136	6,050
Total revenues	<u>9,500,000</u>	<u>20,522</u>	<u>277,731</u>	<u>1,373,056</u>	<u>179,918</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	1,263,919	214,683
Community services	-	114,848	-	-	-
Sanitation	-	-	-	-	-
Capital maintenance	9,500,000	5,592	833,619	-	-
Capital outlay	-	-	512,262	-	-
Debt service:					
Principal	-	-	-	-	-
Total expenditures	<u>9,500,000</u>	<u>120,440</u>	<u>1,345,881</u>	<u>1,263,919</u>	<u>214,683</u>
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>(99,918)</u>	<u>(1,068,150)</u>	<u>109,137</u>	<u>(34,765)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(29,090)	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(29,090)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	(99,918)	(1,097,240)	109,137	(34,765)
Fund balances - beginning	<u>-</u>	<u>99,918</u>	<u>1,445,407</u>	<u>57,961</u>	<u>68,745</u>
Fund balances - ending	<u>\$ -</u>	<u>-</u>	<u>348,167</u>	<u>167,098</u>	<u>33,980</u>

Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)	Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Integrated Waste Management (Fund 423)
-	-	6,461,630	-	311,574	-	16,703,512	-
717,147	-	-	-	-	-	-	470,313
-	-	-	-	-	63,560	-	81,704,741
-	-	-	-	-	-	1,665,989	-
39,571	202,588	162,389	475,027	-	61,240	4,435,349	1,427,923
<u>756,718</u>	<u>202,588</u>	<u>6,624,019</u>	<u>475,027</u>	<u>311,574</u>	<u>124,800</u>	<u>22,804,850</u>	<u>83,602,977</u>
-	-	-	-	-	-	20,714,137	-
-	83,513	-	-	-	-	-	-
-	-	3,493,457	-	-	-	-	-
-	-	-	-	-	-	-	84,258,993
1,590,272	-	1,317,701	-	180,733	79,924	356,931	-
-	-	-	37,628	-	156,374	-	-
-	-	-	-	-	-	500,000	-
<u>1,590,272</u>	<u>83,513</u>	<u>4,811,158</u>	<u>37,628</u>	<u>180,733</u>	<u>236,298</u>	<u>21,571,068</u>	<u>84,258,993</u>
<u>(833,554)</u>	<u>119,075</u>	<u>1,812,861</u>	<u>437,399</u>	<u>130,841</u>	<u>(111,498)</u>	<u>1,233,782</u>	<u>(656,016)</u>
-	-	-	-	-	-	4,780,000	4,794,120
(9,000)	-	(52,835)	-	(1,000)	(11,000)	(6,077,632)	(1,530,435)
(9,000)	-	(52,835)	-	(1,000)	(11,000)	(1,297,632)	3,263,685
(842,554)	119,075	1,760,026	437,399	129,841	(122,498)	(63,850)	2,607,669
<u>4,358,926</u>	<u>1,391,151</u>	<u>3,906,746</u>	<u>908,669</u>	<u>1,208,118</u>	<u>1,402,319</u>	<u>726,250</u>	<u>13,023,143</u>
<u>3,516,372</u>	<u>1,510,226</u>	<u>5,666,772</u>	<u>1,346,068</u>	<u>1,337,959</u>	<u>1,279,821</u>	<u>662,400</u>	<u>15,630,812</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Tobacco Settlement (Fund 426)	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Fund 441)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
REVENUES						
Taxes and special assessments	\$ -	10,641,999	-	-	-	-
Intergovernmental	-	1,134,573	-	10,404,460	5,188	-
Charges for current services	-	-	-	-	-	16,336,868
Rent	-	-	-	-	-	-
Interest and other revenues	9,973,814	2,039,150	150,206	-	-	372,932
Total revenues	9,973,814	13,815,722	150,206	10,404,460	5,188	16,709,800
EXPENDITURES						
Current:						
General government	10,337,612	-	196,835	-	1,648	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	8,161,412	-	-
Sanitation	-	-	-	-	-	13,653,578
Capital maintenance	-	5,295,504	-	1,515,094	-	433,156
Capital outlay	-	16,409,085	-	1,236,189	-	2,076,753
Debt service:						
Principal	-	-	-	-	-	-
Total expenditures	10,337,612	21,704,589	196,835	10,912,695	1,648	16,163,487
Excess (deficiency) of revenue over (under) expenditures	(363,798)	(7,888,867)	(46,629)	(508,235)	3,540	546,313
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(72,871)	(328,000)	(69,099)	-	-	(475,948)
Total other financing sources (uses)	(72,871)	(328,000)	(69,099)	-	-	(475,948)
Net change in fund balances	(436,669)	(8,216,867)	(115,728)	(508,235)	3,540	70,365
Fund balances - beginning	7,225,236	36,201,758	3,514,877	5,562,011	310,529	9,494,388
Fund balances - ending	\$ 6,788,567	27,984,891	3,399,149	5,053,776	314,069	9,564,753

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Brown Memorial Justice (Fund 474)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Fund 536)	Stores Vehicle Maintenance and Operations (Funds 551-553)	Totals
12,800,000	-	-	-	-	-	95,157,531
-	-	165,613	-	-	168,670	52,903,380
-	717,892	-	700,562	2,671,148	23,559,909	235,540,494
-	-	-	-	7,565,765	-	9,303,754
170,679	70,402	15,483	92,793	5,651	10,213	26,325,077
<u>12,970,679</u>	<u>788,294</u>	<u>181,096</u>	<u>793,355</u>	<u>10,242,564</u>	<u>23,738,792</u>	<u>419,230,236</u>
-	-	-	-	-	20,286,544	125,442,028
-	-	172,366	-	-	-	1,734,481
6,114,258	-	-	210	14,088,087	-	48,220,867
-	-	-	-	-	-	97,912,571
-	869,716	-	81,424	331,465	355,309	70,366,989
-	-	-	20,764	-	3,090,574	47,352,444
-	-	-	-	-	-	500,000
<u>6,114,258</u>	<u>869,716</u>	<u>172,366</u>	<u>102,398</u>	<u>14,419,552</u>	<u>23,732,427</u>	<u>391,529,380</u>
<u>6,856,421</u>	<u>(81,422)</u>	<u>8,730</u>	<u>690,957</u>	<u>(4,176,988)</u>	<u>6,365</u>	<u>27,700,856</u>
-	-	-	1,250,000	7,064,496	750,000	37,862,489
<u>(6,338,040)</u>	<u>(553,000)</u>	<u>-</u>	<u>(1,868,371)</u>	<u>(214,393)</u>	<u>(909,180)</u>	<u>(47,022,200)</u>
<u>(6,338,040)</u>	<u>(553,000)</u>	<u>-</u>	<u>(618,371)</u>	<u>6,850,103</u>	<u>(159,180)</u>	<u>(9,159,711)</u>
518,381	(634,422)	8,730	72,586	2,673,115	(152,815)	18,541,145
<u>3,760,084</u>	<u>1,583,483</u>	<u>(967)</u>	<u>765,714</u>	<u>1,729,460</u>	<u>7,850,472</u>	<u>314,190,792</u>
<u>4,278,465</u>	<u>949,061</u>	<u>7,763</u>	<u>838,300</u>	<u>4,402,575</u>	<u>7,697,657</u>	<u>332,731,937</u>

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Emma Prusch Memorial Park (Fund 131)			Gift Trust (Fund 139)		
		Budgetary Basis	Variance Over		Budgetary Basis	Variance Over
	Budget	Actual	(Under)	Budget	Actual	(Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	29,689	587,601	557,912
Charges for current services	-	-	-	-	-	-
Rent	71,000	72,000	1,000	-	-	-
Interest and other revenues	7,000	9,934	2,934	457,515	84,514	(373,001)
Total revenues	<u>78,000</u>	<u>81,934</u>	<u>3,934</u>	<u>487,204</u>	<u>672,115</u>	<u>184,911</u>
EXPENDITURES						
Current:						
General government	62,000	31,511	(30,489)	-	-	-
Community services	26,000	26,000	-	2,443,105	703,537	(1,739,568)
Public safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>88,000</u>	<u>57,511</u>	<u>(30,489)</u>	<u>2,443,105</u>	<u>703,537</u>	<u>(1,739,568)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,000)</u>	<u>24,423</u>	<u>34,423</u>	<u>(1,955,901)</u>	<u>(31,422)</u>	<u>1,924,479</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(50,000)	(50,000)	-	-	-	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (60,000)</u>	<u>(25,577)</u>	<u>34,423</u>	<u>(1,955,901)</u>	<u>(31,422)</u>	<u>1,924,479</u>
Fund balances - beginning		274,238			1,800,717	
Prior year encumbrances		-			70,203	
Fund balances - ending		<u>\$ 248,661</u>			<u>\$ 1,839,498</u>	

Emergency Communication System Support Fee (Fund 154)			Employee Benefits (Funds 155-161)			Workforce Investment Act (Funds 290-294)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	20,458,648	15,655,853	(4,802,795)
-	23,251,468	23,251,468	76,220,533	73,877,863	(2,342,670)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	143,000	305,871	162,871	-	-	-
-	<u>23,251,468</u>	<u>23,251,468</u>	<u>76,363,533</u>	<u>74,183,734</u>	<u>(2,179,799)</u>	<u>20,458,648</u>	<u>15,655,853</u>	<u>(4,802,795)</u>
-	-	-	76,072,914	74,000,506	(2,072,408)	-	-	-
-	-	-	-	-	-	18,642,174	16,758,776	(1,883,398)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	<u>76,072,914</u>	<u>74,000,506</u>	<u>(2,072,408)</u>	<u>18,642,174</u>	<u>16,758,776</u>	<u>(1,883,398)</u>
-	23,251,468	23,251,468	290,619	183,228	(107,391)	1,816,474	(1,102,923)	(2,919,397)
-	-	-	-	-	-	-	-	-
<u>(20,600,000)</u>	<u>(20,600,000)</u>	-	<u>(133,254)</u>	<u>(133,254)</u>	-	-	-	-
<u>(20,600,000)</u>	<u>(20,600,000)</u>	-	<u>(133,254)</u>	<u>(133,254)</u>	-	-	-	-
<u>(20,600,000)</u>	2,651,468	<u>23,251,468</u>	<u>157,365</u>	49,974	<u>(107,391)</u>	<u>1,816,474</u>	(1,102,923)	<u>(2,919,397)</u>
	1,711,419			3,663,897			(5,430,046)	
	-			5,775			6,165,082	
	<u>\$ 4,362,887</u>			<u>\$ 3,719,646</u>			<u>\$ (367,887)</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	<u>Construction and Property Conveyance</u>			<u>Special Assessment Maintenance Districts</u>		
	<u>(Funds 377-398)</u>			<u>(Funds 351-369, 371-374)</u>		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ 48,136,456	41,801,434	(6,335,022)	6,733,900	6,428,462	(305,438)
Intergovernmental	11,882,000	4,952,174	(6,929,826)	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Interest and other revenues	<u>2,890,000</u>	<u>2,392,424</u>	<u>(497,576)</u>	<u>167,400</u>	<u>387,141</u>	<u>219,741</u>
Total revenues	<u>62,908,456</u>	<u>49,146,032</u>	<u>(13,762,424)</u>	<u>6,901,300</u>	<u>6,815,603</u>	<u>(85,697)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	60,872,376	42,060,103	(18,812,273)	8,614,030	7,262,227	(1,351,803)
Capital outlay	22,613,213	22,613,213	-	-	-	-
Total expenditures	<u>83,485,589</u>	<u>64,673,316</u>	<u>(18,812,273)</u>	<u>8,614,030</u>	<u>7,262,227</u>	<u>(1,351,803)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,577,133)</u>	<u>(15,527,284)</u>	<u>5,049,849</u>	<u>(1,712,730)</u>	<u>(446,624)</u>	<u>1,266,106</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	19,100,767	19,100,767	-	123,106	123,106	-
Transfers out	<u>(7,649,948)</u>	<u>(7,649,948)</u>	-	<u>(9,104)</u>	<u>(9,104)</u>	-
Total other financing sources (uses)	<u>11,450,819</u>	<u>11,450,819</u>	<u>-</u>	<u>114,002</u>	<u>114,002</u>	<u>-</u>
Net change in fund balances	<u>\$ (9,126,314)</u>	<u>(4,076,465)</u>	<u>5,049,849</u>	<u>(1,598,728)</u>	<u>(332,622)</u>	<u>1,266,106</u>
Fund balances - beginning		83,001,380			9,201,255	
Prior year encumbrances		<u>21,665,585</u>			<u>1,211,201</u>	
Fund balances - ending		<u>\$ 100,590,500</u>			<u>\$ 10,079,834</u>	

Subdivision Park Trust (Fund 375)			1943 Gas Tax Maintenance and Construction (Fund 409)			1964 Gas Tax Maintenance and Construction (Funds 410-411)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	7,700,000	7,700,000	-	9,500,000	9,500,000	-
106,728	12,397,141	12,290,413	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	2,891,463	2,891,463	-	-	-	-	-	-
<u>106,728</u>	<u>15,288,604</u>	<u>15,181,876</u>	<u>7,700,000</u>	<u>7,700,000</u>	<u>-</u>	<u>9,500,000</u>	<u>9,500,000</u>	<u>-</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
20,641,488	5,754,141	(14,887,347)	7,700,000	7,700,000	-	9,500,000	9,500,000	-
2,360,965	1,966,722	(394,243)	-	-	-	-	-	-
<u>23,002,453</u>	<u>7,720,863</u>	<u>(15,281,590)</u>	<u>7,700,000</u>	<u>7,700,000</u>	<u>-</u>	<u>9,500,000</u>	<u>9,500,000</u>	<u>-</u>
<u>(22,895,725)</u>	<u>7,567,741</u>	<u>30,463,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-	-
(40,000)	(40,000)	-	-	-	-	-	-	-
(40,000)	(40,000)	-	-	-	-	-	-	-
<u>(22,935,725)</u>	<u>7,527,741</u>	<u>30,463,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	77,345,164			-			-	
	133,544			-			-	
	<u>\$ 85,006,449</u>			<u>\$ -</u>			<u>\$ -</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	<u>Library Benefit Assessment</u>			<u>Storm Drainage Fee</u>		
	<u>(Fund 412)</u>			<u>(Funds 413, 427)</u>		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	4,000	4,000
Charges for current services	-	-	-	502,000	259,342	(242,658)
Rent	-	-	-	-	-	-
Interest and other revenues	<u>42,330</u>	<u>18,511</u>	<u>(23,819)</u>	<u>-</u>	<u>5,632</u>	<u>5,632</u>
Total revenues	<u>42,330</u>	<u>18,511</u>	<u>(23,819)</u>	<u>502,000</u>	<u>268,974</u>	<u>(233,026)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Community services	124,913	114,848	(10,065)	-	-	-
Public safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	5,592	5,592	-	915,357	870,647	(44,710)
Capital outlay	-	-	-	619,000	551,938	(67,062)
Total expenditures	<u>130,505</u>	<u>120,440</u>	<u>(10,065)</u>	<u>1,534,357</u>	<u>1,422,585</u>	<u>(111,772)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(88,175)</u>	<u>(101,929)</u>	<u>(13,754)</u>	<u>(1,032,357)</u>	<u>(1,153,611)</u>	<u>(121,254)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(29,090)	(29,090)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,090)</u>	<u>(29,090)</u>	<u>-</u>
Net change in fund balances	<u>\$ (88,175)</u>	<u>(101,929)</u>	<u>(13,754)</u>	<u>(1,061,447)</u>	<u>(1,182,701)</u>	<u>(121,254)</u>
Fund balances - beginning		96,268			1,087,306	
Prior year encumbrances		<u>5,661</u>			<u>366,858</u>	
Fund balances - ending		<u>\$ -</u>			<u>\$ 271,463</u>	

Supplemental Local Law Enforcement (Fund 414)			Federal LLEBG Program (Fund 415)			Underground Utility (Fund 416)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
1,856,212	1,856,212	-	-	-	-	1,420,000	717,147	(702,853)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
35,000	104,349	69,349	2,000	3,341	1,341	-	-	-
<u>1,891,212</u>	<u>1,960,561</u>	<u>69,349</u>	<u>2,000</u>	<u>3,341</u>	<u>1,341</u>	<u>1,420,000</u>	<u>717,147</u>	<u>(702,853)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,506,634	1,920,733	(1,585,901)	223,235	222,817	(418)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,993,133	1,675,744	(317,389)
-	-	-	-	-	-	-	-	-
<u>3,506,634</u>	<u>1,920,733</u>	<u>(1,585,901)</u>	<u>223,235</u>	<u>222,817</u>	<u>(418)</u>	<u>1,993,133</u>	<u>1,675,744</u>	<u>(317,389)</u>
<u>(1,615,422)</u>	<u>39,828</u>	<u>1,655,250</u>	<u>(221,235)</u>	<u>(219,476)</u>	<u>1,759</u>	<u>(573,133)</u>	<u>(958,597)</u>	<u>(385,464)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(9,000)	(9,000)	-
-	-	-	-	-	-	(9,000)	(9,000)	-
<u>(1,615,422)</u>	<u>39,828</u>	<u>1,655,250</u>	<u>(221,235)</u>	<u>(219,476)</u>	<u>1,759</u>	<u>(582,133)</u>	<u>(967,597)</u>	<u>(385,464)</u>
	899,343			245,130			4,397,364	
	732,559			418			1,133	
	<u>\$ 1,671,730</u>			<u>\$ 26,072</u>			<u>\$ 3,430,900</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	State Drug Forfeiture			Library Parcel Tax		
	(Fund 417)			(Fund 418)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	6,300,000	6,461,630	161,630
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Interest and other revenues	<u>40,000</u>	<u>195,894</u>	<u>155,894</u>	<u>25,000</u>	<u>170,982</u>	<u>145,982</u>
Total revenues	<u>40,000</u>	<u>195,894</u>	<u>155,894</u>	<u>6,325,000</u>	<u>6,632,612</u>	<u>307,612</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Community services	-	-	-	5,213,257	3,520,456	(1,692,801)
Public safety	105,626	83,513	(22,113)	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	3,302,522	1,317,701	(1,984,821)
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>105,626</u>	<u>83,513</u>	<u>(22,113)</u>	<u>8,515,779</u>	<u>4,838,157</u>	<u>(3,677,622)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(65,626)</u>	<u>112,381</u>	<u>178,007</u>	<u>(2,190,779)</u>	<u>1,794,455</u>	<u>3,985,234</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	<u>(52,835)</u>	<u>(52,835)</u>	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,835)</u>	<u>(52,835)</u>	<u>-</u>
Net change in fund balances	<u>\$ (65,626)</u>	<u>112,381</u>	<u>178,007</u>	<u>(2,243,614)</u>	<u>1,741,620</u>	<u>3,985,234</u>
Fund balances - beginning		1,334,710			3,901,309	
Prior year encumbrances		<u>73,277</u>			<u>29,502</u>	
Fund balances - ending		<u>\$ 1,520,368</u>			<u>\$ 5,672,431</u>	

Federal Drug Forfeiture (Fund 419)			Residential Construction Tax Contribution (Fund 420)			Arterial and Major Collectors (Fund 421)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	250,000	311,574	61,574	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	250,000	63,560	(186,440)
-	-	-	-	-	-	-	-	-
25,000	470,606	445,606	-	-	-	40,000	53,146	13,146
25,000	470,606	445,606	250,000	311,574	61,574	290,000	116,706	(173,294)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	894,047	181,780	(712,267)	80,000	79,924	(76)
37,628	37,628	-	-	-	-	703,436	695,098	(8,338)
37,628	37,628	-	894,047	181,780	(712,267)	783,436	775,022	(8,414)
(12,628)	432,978	445,606	(644,047)	129,794	773,841	(493,436)	(658,316)	(164,880)
-	-	-	-	-	-	-	-	-
-	-	-	(1,000)	(1,000)	-	(11,000)	(11,000)	-
-	-	-	(1,000)	(1,000)	-	(11,000)	(11,000)	-
(12,628)	432,978	445,606	(645,047)	128,794	773,841	(504,436)	(669,316)	(164,880)
	882,074			1,207,071			1,355,879	
	37,628			1,047			63,436	
\$	<u>1,352,680</u>		\$	<u>1,336,912</u>		\$	<u>749,999</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Community Facility Revenue			Integrated Waste Management		
	(Funds 422,432,438)			(Fund 423)		
	<u>Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance Over (Under)</u>	<u>Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance Over (Under)</u>
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	470,313	470,313
Charges for current services	-	-	-	81,267,662	81,704,741	437,079
Rent	2,306,600	1,665,989	(640,611)	-	-	-
Interest and other revenues	<u>4,362,544</u>	<u>4,396,031</u>	<u>33,487</u>	<u>503,160</u>	<u>1,294,982</u>	<u>791,822</u>
Total revenues	<u>6,669,144</u>	<u>6,062,020</u>	<u>(607,124)</u>	<u>81,770,822</u>	<u>83,470,036</u>	<u>1,699,214</u>
EXPENDITURES						
Current:						
General government	5,138,878	4,937,904	(200,974)	-	-	-
Community services	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Sanitation	-	-	-	92,421,431	89,037,072	(3,384,359)
Capital maintenance	758,821	356,931	(401,890)	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>5,897,699</u>	<u>5,294,835</u>	<u>(602,864)</u>	<u>92,421,431</u>	<u>89,037,072</u>	<u>(3,384,359)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>771,445</u>	<u>767,185</u>	<u>(4,260)</u>	<u>(10,650,609)</u>	<u>(5,567,036)</u>	<u>5,083,573</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	4,200,000	4,780,000	580,000	-	4,794,120	4,794,120
Transfers out	<u>(2,432,829)</u>	<u>(6,077,632)</u>	<u>(3,644,803)</u>	<u>(1,530,435)</u>	<u>(1,530,435)</u>	<u>-</u>
Total other financing sources (uses)	<u>1,767,171</u>	<u>(1,297,632)</u>	<u>(3,064,803)</u>	<u>(1,530,435)</u>	<u>3,263,685</u>	<u>4,794,120</u>
Net change in fund balances	\$ <u>2,538,616</u>	(530,447)	<u>(3,069,063)</u>	<u>(12,181,044)</u>	(2,303,351)	<u>9,877,693</u>
Fund balances - beginning		5,214,080			5,297,879	
Prior year encumbrances		<u>889</u>			<u>7,831,697</u>	
Fund balances - ending		\$ <u>4,684,522</u>		\$ <u>10,826,225</u>		

Tobacco Settlement (Fund 426)			Building and Structures Construction Tax (Fund 429)			Development Enhancement (Fund 439)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	9,690,000	10,641,999	951,999	-	-	-
-	-	-	6,414,000	1,134,573	(5,279,427)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>9,407,000</u>	<u>9,932,503</u>	<u>525,503</u>	<u>893,000</u>	<u>1,800,010</u>	<u>907,010</u>	<u>354,000</u>	<u>327,171</u>	<u>(26,829)</u>
<u>9,407,000</u>	<u>9,932,503</u>	<u>525,503</u>	<u>16,997,000</u>	<u>13,576,582</u>	<u>(3,420,418)</u>	<u>354,000</u>	<u>327,171</u>	<u>(26,829)</u>
12,073,217	11,668,149	(405,068)	-	-	-	1,389,484	637,835	(751,649)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	19,858,350	8,271,593	(11,586,757)	-	-	-
-	-	-	31,056,564	21,632,567	(9,423,997)	-	-	-
<u>12,073,217</u>	<u>11,668,149</u>	<u>(405,068)</u>	<u>50,914,914</u>	<u>29,904,160</u>	<u>(21,010,754)</u>	<u>1,389,484</u>	<u>637,835</u>	<u>(751,649)</u>
<u>(2,666,217)</u>	<u>(1,735,646)</u>	<u>930,571</u>	<u>(33,917,914)</u>	<u>(16,327,578)</u>	<u>17,590,336</u>	<u>(1,035,484)</u>	<u>(310,664)</u>	<u>724,820</u>
1,500,000	1,500,000	-	-	-	-	-	-	-
<u>(1,572,871)</u>	<u>(1,572,871)</u>	<u>-</u>	<u>(328,000)</u>	<u>(328,000)</u>	<u>-</u>	<u>(69,099)</u>	<u>(69,099)</u>	<u>-</u>
<u>(72,871)</u>	<u>(72,871)</u>	<u>-</u>	<u>(328,000)</u>	<u>(328,000)</u>	<u>-</u>	<u>(69,099)</u>	<u>(69,099)</u>	<u>-</u>
<u>(2,739,088)</u>	<u>(1,808,517)</u>	<u>930,571</u>	<u>(34,245,914)</u>	<u>(16,655,578)</u>	<u>17,590,336</u>	<u>(1,104,583)</u>	<u>(379,763)</u>	<u>724,820</u>
	3,902,816			25,820,498			2,920,630	
	2,806,445			10,816,908			-	
	<u>\$ 4,900,744</u>			<u>\$ 19,981,828</u>			<u>\$ 2,540,867</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	<u>Community Development Block Grant</u>			<u>Economic Development Administration Loans</u>		
	<u>(Fund 441)</u>			<u>(Fund 444)</u>		
	<u>Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance Over (Under)</u>	<u>Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance Over (Under)</u>
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	11,613,709	11,904,905	291,196	58,000	60,001	2,001
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Interest and other revenues	-	-	-	-	-	-
Total revenues	<u>11,613,709</u>	<u>11,904,905</u>	<u>291,196</u>	<u>58,000</u>	<u>60,001</u>	<u>2,001</u>
EXPENDITURES						
Current:						
General government	-	-	-	56,417	54,148	(2,269)
Community services	11,752,725	9,742,313	(2,010,412)	-	-	-
Public safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	5,214,723	2,859,507	(2,355,216)	-	-	-
Capital outlay	1,259,566	1,249,229	(10,337)	-	-	-
Total expenditures	<u>18,227,014</u>	<u>13,851,049</u>	<u>(4,375,965)</u>	<u>56,417</u>	<u>54,148</u>	<u>(2,269)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,613,305)</u>	<u>(1,946,144)</u>	<u>4,667,161</u>	<u>1,583</u>	<u>5,853</u>	<u>4,270</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (6,613,305)</u>	<u>(1,946,144)</u>	<u>4,667,161</u>	<u>1,583</u>	<u>5,853</u>	<u>4,270</u>
Fund balances - beginning		9,424,045			47,546	
Prior year encumbrances		<u>1,548,112</u>			<u>1,417</u>	
Fund balances - ending		<u>\$ 9,026,013</u>		<u>\$ 54,816</u>		

Storm Drainage Service Use Charge (Funds 446, 469)			Transient Occupancy Tax (Fund 461)			Lake Cunningham (Fund 462)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	11,287,600	12,800,000	1,512,400	-	-	-
-	-	-	-	-	-	-	-	-
15,880,764	16,336,868	456,104	-	-	-	593,000	717,892	124,892
-	-	-	-	-	-	-	-	-
118,946	337,245	218,299	-	162,298	162,298	43,000	60,065	17,065
15,999,710	16,674,113	674,403	11,287,600	12,962,298	1,674,698	636,000	777,957	141,957
-	-	-	-	-	-	-	-	-
-	-	-	7,662,031	6,240,955	(1,421,076)	-	-	-
-	-	-	-	-	-	-	-	-
17,186,633	14,424,325	(2,762,308)	-	-	-	-	-	-
1,924,395	1,563,100	(361,295)	-	-	-	1,432,308	1,121,958	(310,350)
2,723,390	2,317,281	(406,109)	-	-	-	-	-	-
21,834,418	18,304,706	(3,529,712)	7,662,031	6,240,955	(1,421,076)	1,432,308	1,121,958	(310,350)
(5,834,708)	(1,630,593)	4,204,115	3,625,569	6,721,343	3,095,774	(796,308)	(344,001)	452,307
-	-	-	-	-	-	-	-	-
(475,948)	(475,948)	-	(6,338,040)	(6,338,040)	-	(553,000)	(553,000)	-
(475,948)	(475,948)	-	(6,338,040)	(6,338,040)	-	(553,000)	(553,000)	-
(6,310,656)	(2,106,541)	4,204,115	(2,712,471)	383,303	3,095,774	(1,349,308)	(897,001)	452,307
	7,309,826			3,714,565			1,537,853	
	2,256,791			78,258			64,308	
	\$ 7,460,076		\$	4,176,126		\$	705,160	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Edward Brown Memorial Justice			Municipal Golf Courses		
	(Fund 474)			(Fund 518)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	295,290	259,780	(35,510)	-	-	-
Charges for current services	-	-	-	925,000	700,562	(224,438)
Rent	-	-	-	-	-	-
Interest and other revenues	-	14,631	14,631	-	89,462	89,462
Total revenues	<u>295,290</u>	<u>274,411</u>	<u>(20,879)</u>	<u>925,000</u>	<u>790,024</u>	<u>(134,976)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Community services	-	-	-	100,668	485	(100,183)
Public safety	554,070	287,983	(266,087)	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	236,254	91,942	(144,312)
Capital outlay	-	-	-	20,764	20,764	-
Total expenditures	<u>554,070</u>	<u>287,983</u>	<u>(266,087)</u>	<u>357,686</u>	<u>113,191</u>	<u>(244,495)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(258,780)</u>	<u>(13,572)</u>	<u>245,208</u>	<u>567,314</u>	<u>676,833</u>	<u>109,519</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	1,250,000	1,250,000	-
Transfers out	-	-	-	(1,889,412)	(1,868,371)	21,041
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(639,412)</u>	<u>(618,371)</u>	<u>21,041</u>
Net change in fund balances	<u>(258,780)</u>	<u>(13,572)</u>	<u>245,208</u>	<u>(72,098)</u>	<u>58,462</u>	<u>130,560</u>
Fund balances - beginning		296,872			763,582	
Prior year encumbrances		-			10,793	
Fund balances - ending		<u>\$ 283,300</u>			<u>\$ 832,837</u>	

**Convention and Cultural Facilities
(Fund 536)**

Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-
-	-	-
2,600,000	2,671,148	71,148
6,740,000	7,565,765	825,765
-	6,791	6,791
<u>9,340,000</u>	<u>10,243,704</u>	<u>903,704</u>
-	-	-
14,591,094	14,211,662	(379,432)
-	-	-
-	-	-
550,730	546,322	(4,408)
-	-	-
<u>15,141,824</u>	<u>14,757,984</u>	<u>(383,840)</u>
<u>(5,801,824)</u>	<u>(4,514,280)</u>	<u>1,287,544</u>
6,501,245	7,064,496	563,251
<u>(214,393)</u>	<u>(214,393)</u>	<u>-</u>
<u>6,286,852</u>	<u>6,850,103</u>	<u>563,251</u>
<u>485,028</u>	<u>2,335,823</u>	<u>1,850,795</u>
	1,888,732	
	150,320	
	<u>\$ 4,374,875</u>	

**Stores Vehicle Maintenance and Operations
(Funds 551-553)**

Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-
206,550	168,670	(37,880)
24,818,693	23,559,909	(1,258,784)
-	-	-
<u>190,000</u>	<u>9,044</u>	<u>(180,956)</u>
<u>25,215,243</u>	<u>23,737,623</u>	<u>(1,477,620)</u>
21,708,097	20,418,925	(1,289,172)
-	-	-
-	-	-
-	-	-
2,664,031	2,003,141	(660,890)
3,090,574	3,090,574	-
<u>27,462,702</u>	<u>25,512,640</u>	<u>(1,950,062)</u>
<u>(2,247,459)</u>	<u>(1,775,017)</u>	<u>472,442</u>
996,562	750,000	(246,562)
<u>(909,180)</u>	<u>(909,180)</u>	<u>-</u>
<u>87,382</u>	<u>(159,180)</u>	<u>(246,562)</u>
<u>(2,160,077)</u>	<u>(1,934,197)</u>	<u>225,880</u>
	2,564,579	
	2,207,073	
	<u>\$ 2,837,455</u>	

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Nonmajor Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

The Nonmajor Debt Service Funds of the City of San José include the following:

2001 Series E Communications Center Refunding – Debt issued to refund the outstanding balance of the 1991 Certificate of Participation related to the construction of a new police and fire communications center.

2000 Series B Camden Park Refunding – Debt issued to refund the outstanding balance of the 1992 ABAG Certificate of Participation relating to the financing of the acquisition of land for Camden Park.

1993 A & B Community Facilities Financing — Debt issued to finance the acquisition, construction, and improvements of the Hayes Mansion and the Ice Rink Center. Debt repayments are funded by transfers from certain Construction and Conveyance Tax Funds and from base rental revenues received from the operations of the Hayes Mansion and the Ice Rink Center.

2000 Series C Ice Center Refunding – Debt refinancing for construction of Ice Center recreation facility. Debt repayments are funded by lease payments under the project lease.

FMC Phase II Property Acquisition – HUD Section 108 loan received to acquire FMC property and make improvements. Loan payments are funded through lease revenue and sales tax revenue generated from the property usage.

2001-2007 GO Bonds Parks, Libraries & Public Safety – Debt issued for construction of various library, parks and public safety projects. Debt repayments are funded by ad valorem property taxes.

City Hall Debt Service – To accumulate resources for the payments of debt service related to the construction of the New City Hall.

Nonmajor Debt Service Funds

City of San José
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2007

	2001 Series E Communications Center Refunding (Fund 201)	2000 Series B Camden Park Refunding (Fund 203)	1993 A&B Community Facilities Financing (Fund 204)	2000 Series C Ice Centre Refunding (Fund 206)
ASSETS				
Receivables (net of allowances for uncollectibles)	\$ 3,737	2,801	11,003	2,370
Due from outside agencies	-	-	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	396,796	297,873	1,206,196	252,071
Other investments	-	-	-	-
Total assets	<u>\$ 400,533</u>	<u>300,674</u>	<u>1,217,199</u>	<u>254,441</u>
LIABILITIES				
Accounts payable	\$ -	500	4,190	-
FUND BALANCES				
Reserved for debt service	400,533	300,174	1,213,009	254,441
Total liabilities and fund balances	<u>\$ 400,533</u>	<u>300,674</u>	<u>1,217,199</u>	<u>254,441</u>

FMC Property Phase II (Fund 208)	2001-2007 GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Totals
-	366,283	9,595	395,789
-	111,691	-	111,691
-	28,046,264	929,622	31,128,822
659,735	504,954	-	1,164,689
<u>659,735</u>	<u>29,029,192</u>	<u>939,217</u>	<u>32,800,991</u>
-	-	52,095	56,785
659,735	29,029,192	887,122	32,744,206
<u>659,735</u>	<u>29,029,192</u>	<u>939,217</u>	<u>32,800,991</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2007

	2001 Series E Communications Center Refunding (Fund 201)	2000 Series B Camden Park Refunding (Fund 203)	1993 A&B Community Facilities Financing (Fund 204)	2000 Series C Ice Centre Refunding (Fund 206)
REVENUES				
Property taxes	-	-	-	-
Interest and other revenues	52,007	11,659	45,757	12,013
Total revenues	<u>52,007</u>	<u>11,659</u>	<u>45,757</u>	<u>12,013</u>
EXPENDITURES				
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	2,363	2,800	4,190	-
Bond issuance costs	-	-	-	-
Total expenditures	<u>2,363</u>	<u>2,800</u>	<u>4,190</u>	<u>-</u>
Excess (deficiency) of revenues over(under) expenditures	<u>49,644</u>	<u>8,859</u>	<u>41,567</u>	<u>12,013</u>
OTHER FINANCING SOURCES (USES)				
Bond premium	-	-	-	-
Transfers in	2,379,000	218,000	1,136,939	-
Transfers out	<u>(2,277,102)</u>	<u>(178,052)</u>	<u>(1,101,274)</u>	<u>-</u>
Total other financing sources (uses)	<u>101,898</u>	<u>39,948</u>	<u>35,665</u>	<u>-</u>
Net change in fund balances	151,542	48,807	77,232	12,013
Fund balances - beginning	<u>248,991</u>	<u>251,367</u>	<u>1,135,777</u>	<u>242,428</u>
Fund balances - ending	<u>\$ 400,533</u>	<u>\$ 300,174</u>	<u>\$ 1,213,009</u>	<u>\$ 254,441</u>

FMC Property Phase II (Fund 208)	2001-2007 GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Totals
-	34,127,364	-	34,127,364
2,051,675	721,734	96,065	2,990,910
<u>2,051,675</u>	<u>34,849,098</u>	<u>96,065</u>	<u>37,118,274</u>
-	11,735,000	-	11,735,000
1,391,940	18,649,002	175,208	20,225,503
-	464,265	-	464,265
<u>1,391,940</u>	<u>30,848,267</u>	<u>175,208</u>	<u>32,424,768</u>
<u>659,735</u>	<u>4,000,831</u>	<u>(79,143)</u>	<u>4,693,506</u>
-	965,400	-	965,400
-	-	26,383,709	30,117,648
-	(14,677)	(25,417,444)	(28,988,549)
-	<u>950,723</u>	<u>966,265</u>	<u>2,094,499</u>
659,735	4,951,554	887,122	6,788,005
-	24,077,638	-	25,956,201
<u>659,735</u>	<u>29,029,192</u>	<u>887,122</u>	<u>32,744,206</u>

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Nonmajor Capital Project Funds

Capital Project Funds are used to account for resources designated to acquire or construct general fixed assets and major improvements other than by the Enterprise, Internal Service, and Trust Funds. Redevelopment Agency capital projects account for the majority of expenditures in this fund.

Capital Project Funds established by the City of San José fall into the following categories:

Fiber Optics Development Fund – Established to account for the installation of a fiber optic conduit system which the City will own and lease to telecommunication companies and other users.

San Antonio Fund – Used to account for the construction and installation of public improvements and acquisition of land related to the San Antonio Redevelopment Project .

Capital Improvement Funds – Used to account for assessment charges for the construction of the Alviso Ring Levee.

Civic Center Fund – To account for bond proceeds used to the construction of the new city hall complex.

Civic Center Parking Fund – Used to account for construction of a new civic center parking facility.

Hayes Mansion Phase III Fund – Used to account for proceeds of the San José Financing Authority 2001 Series B, C and D Lease Revenue Bonds financing improvements to the Hayes Renaissance Conference Center.

Redevelopment Agency Capital Projects Fund – Used to account for various capital projects in coordination with the Redevelopment Agency.

Julian Stockton Fund – Used to account for capital project construction for Julian and Stockton streets.

Route 85/87 Fund – Used to account for capital project construction at Route 85 and Route 87 junction.

Interim City Facilities Improvements Fund – Used to account for revenues and expenditures related to the former city hall facility.

Construction Excise Tax Funds – Used to account for revenues and expenditures related to traffic maintenance and improvements.

Park Center Project Contingency Fund – Used to account for the established contingency reserve for the Park Center Redevelopment projects pursuant to and for the purposes set forth in the Cooperation Agreement between the City of San José and the San José Redevelopment Agency.

Parks Bond Projects Fund – Used to account for general obligation bond proceeds for various parks construction projects.

Branch Libraries Bond Projects Fund – Used to account for general obligation bond proceeds for various library construction projects.

Civic Center Improvement Fund – Used to account for commercial paper proceeds for the new City Hall technology, furniture, equipment and relocation cost.

Neighborhood Security Bond Projects Fund – Used to account for general obligation bond proceeds to improve various libraries, parks and public safety facilities.

San José Financing Authority Funds – Established to account for the proceeds of the Authority's bonds issued for the construction of various capital improvements.

Nonmajor Capital Project Funds

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	Fiber Optics Development (Fund 007)	San Antonio (Fund 403)	Capital Improvements (Funds 408, 424)
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 19,739	103,367	449,139
Receivables (net of allowance for uncollectibles)	186	972	40
Due from other funds	-	-	-
Advances and deposits	-	-	4,472
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	-	-	-
Other investments	-	-	-
Total assets	\$ 19,925	104,339	453,651
LIABILITIES			
Accounts payable	\$ -	-	-
Accrued salaries, wages and payroll taxes	-	-	-
Due to other funds	50,000	-	-
Advances from other funds	2,203,918	-	-
Total liabilities	2,253,918	-	-
FUND BALANCE			
Reserved for:			
Encumbrances	-	-	-
Noncurrent advances and loans	-	-	4,472
Unreserved:			
Undesignated	(2,233,993)	104,339	449,179
Total fund balance	(2,233,993)	104,339	453,651
Total liabilities and fund balance	\$ 19,925	104,339	453,651

<u>Civic Center (Fund 425)</u>	<u>Civic Center Parking (Fund 433)</u>	<u>Hayes Mansion Phase III (Fund 434)</u>	<u>RDA Capital Projects (Fund 450)</u>	<u>Julian Stockton (Fund 453)</u>
-	-	-	3,305	34,435
-	-	-	719	324
-	-	-	12,251,490	-
-	-	-	-	-
-	-	-	-	-
7,561,517	4,635,072	2,489,985	-	-
<u>7,561,517</u>	<u>4,635,072</u>	<u>2,489,985</u>	<u>12,255,514</u>	<u>34,759</u>
567,005	8,190	1,737	1,776,042	-
3,138	466	245	52,658	-
763	2,086,823	2,231,650	-	-
-	-	-	-	-
<u>570,906</u>	<u>2,095,479</u>	<u>2,233,632</u>	<u>1,828,700</u>	<u>-</u>
1,235,150	12,807	14,621	3,056,708	-
-	-	-	-	-
5,755,461	2,526,786	241,732	7,370,106	34,759
<u>6,990,611</u>	<u>2,539,593</u>	<u>256,353</u>	<u>10,426,814</u>	<u>34,759</u>
<u>7,561,517</u>	<u>4,635,072</u>	<u>2,489,985</u>	<u>12,255,514</u>	<u>34,759</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	<u>Route 85/87 (Fund 455)</u>	<u>Interim City Facilities Improvements (Fund 460)</u>	<u>Construction Excise Tax (Funds 464,465)</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 99,020	-	682,643
Receivables (net of allowance for uncollectibles)	931	-	1,973,813
Due from other funds	-	-	23,025,694
Advances and deposits	-	-	34,200
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	-	-	94,856
Other investments	-	8	-
Total assets	<u>\$ 99,951</u>	<u>8</u>	<u>25,811,206</u>
LIABILITIES			
Accounts payable	-	-	2,824,438
Accrued salaries, wages and payroll taxes	-	-	302,124
Due to other funds	-	5	-
Advances from other funds	-	-	-
Total liabilities	<u>-</u>	<u>5</u>	<u>3,126,562</u>
FUND BALANCE			
Reserved for:			
Encumbrances	-	-	9,737,831
Noncurrent advances and loans	-	-	34,200
Unreserved:			
Undesignated	99,951	3	12,912,613
Total fund balance	<u>99,951</u>	<u>3</u>	<u>22,684,644</u>
Total liabilities and fund balance	<u>\$ 99,951</u>	<u>8</u>	<u>25,811,206</u>

Park Center Project Contingency (Fund 466)	Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Civic Center Improvement (Fund 473)	Neighborhood Security Bond Projects (Fund 475)
156,620	-	-	-	-
1,472	61,776	-	-	113,283
-	-	-	-	-
-	-	-	-	-
-	6,601,757	-	-	12,129,005
-	120,896,979	116,423,406	5,240	114,526,202
<u>158,092</u>	<u>127,560,512</u>	<u>116,423,406</u>	<u>5,240</u>	<u>126,768,490</u>
-	1,779,763	1,614,243	204,720	3,278,174
-	68,738	55,015	2,187	56,738
-	12,216,735	28,247,355	222,119	22,275,007
-	-	-	-	-
<u>-</u>	<u>14,065,236</u>	<u>29,916,613</u>	<u>429,026</u>	<u>25,609,919</u>
-	18,033,458	17,312,304	504,219	10,572,369
-	-	-	-	-
<u>158,092</u>	<u>95,461,818</u>	<u>69,194,489</u>	<u>(928,005)</u>	<u>90,586,202</u>
<u>158,092</u>	<u>113,495,276</u>	<u>86,506,793</u>	<u>(423,786)</u>	<u>101,158,571</u>
<u>158,092</u>	<u>127,560,512</u>	<u>116,423,406</u>	<u>5,240</u>	<u>126,768,490</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	San José Financing Authority (Funds 858-859)	Totals
ASSETS		
Equity in pooled cash and investments held in City Treasury	\$ -	1,548,268
Receivables (net of allowance for uncollectibles)	-	2,153,516
Due from other funds	-	35,277,184
Advances and deposits	-	38,672
Restricted assets:		
Equity in pooled cash and investments held in City Treasury	-	18,825,618
Other investments	14,686,899	381,225,308
Total assets	\$ 14,686,899	439,068,566
LIABILITIES		
Accounts payable	\$ -	12,054,312
Accrued salaries, wages and payroll taxes	-	541,309
Due to other funds	188,003	67,518,460
Advances from other funds	-	2,203,918
Total liabilities	188,003	82,317,999
FUND BALANCE		
Reserved for:		
Encumbrances	-	60,479,467
Noncurrent advances and loans	-	38,672
Unreserved:		
Undesignated	14,498,896	296,232,428
Total fund balance	14,498,896	356,750,567
Total liabilities and fund balance	\$ 14,686,899	439,068,566

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City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For The Year Ended June 30, 2007

	Fiber Optics Development (Fund 007)	San Antonio (Fund 403)	Capital Improvements (Funds 408, 424)
REVENUES			
Taxes	\$ -	-	-
Intergovernmental	-	-	-
Charges for current services	-	-	-
Interest and other revenues:			
Interest	859	4,492	5,524
Other revenues	-	-	-
Total revenues	<u>859</u>	<u>4,492</u>	<u>5,524</u>
EXPENDITURES			
Current:			
Capital maintenance	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	859	4,492	5,524
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	-	-
Transfers in	100,000	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	100,859	4,492	5,524
Fund balances - beginning	(2,334,852)	99,847	448,127
Fund balances - ending	<u>\$ (2,233,993)</u>	<u>104,339</u>	<u>453,651</u>

Civic Center (Fund 425)	Civic Center Parking (Fund 433)	Hayes Mansion Phase III (Fund 434)	RDA Capital Projects (Fund 450)	Julian Stockton (Fund 453)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
745,900	68,076	112,105	177,961	1,496
-	-	-	-	-
<u>745,900</u>	<u>68,076</u>	<u>112,105</u>	<u>177,961</u>	<u>1,496</u>
326,642	403,462	33,319	7,393,354	-
156,793	4,194,857	-	2,669,285	-
<u>483,435</u>	<u>4,598,319</u>	<u>33,319</u>	<u>10,062,639</u>	<u>-</u>
262,465	(4,530,243)	78,786	(9,884,678)	1,496
-	-	-	-	-
-	2,063,501	637	9,247,054	-
(294,389)	(1,840,240)	(350,000)	(617,678)	-
<u>(294,389)</u>	<u>223,261</u>	<u>(349,363)</u>	<u>8,629,376</u>	<u>-</u>
(31,924)	(4,306,982)	(270,577)	(1,255,302)	1,496
7,022,535	6,846,575	526,930	11,682,116	33,263
<u>6,990,611</u>	<u>2,539,593</u>	<u>256,353</u>	<u>10,426,814</u>	<u>34,759</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For The Year Ended June 30, 2007

	Route 85/87 (Fund 455)	Interim City Facilities Improvements (Fund 460)	Construction Excise Tax (Funds 464, 465)
REVENUES			
Taxes	\$ -	-	14,492,933
Intergovernmental	-	-	10,253,084
Charges for current services	-	-	216,114
Interest and other revenues:			
Interest	4,303	377	1,225,695
Other revenues	-	-	1,084,996
Total revenues	<u>4,303</u>	<u>377</u>	<u>27,272,822</u>
EXPENDITURES			
Current:			
Capital maintenance	-	819	20,853,994
Capital outlay	-	-	1,324,623
Total expenditures	<u>-</u>	<u>819</u>	<u>22,178,617</u>
Excess (deficiency) of revenues over (under) expenditures	4,303	(442)	5,094,205
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	-	-
Transfers in	-	4,105	-
Transfers out	-	(3,699)	(7,899,231)
Total other financing sources (uses)	<u>-</u>	<u>406</u>	<u>(7,899,231)</u>
Net change in fund balances	4,303	(36)	(2,805,026)
Fund balances - beginning	95,648	39	25,489,670
Fund balances - ending	<u>\$ 99,951</u>	<u>3</u>	<u>22,684,644</u>

Park Center Project Contingency (Fund 466)	Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Civic Center Improvement (Fund 473)	Neighborhood Security Bond Projects (Fund 475)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
6,806	5,138,908	5,670,140	128,518	2,971,704
-	-	-	-	5,804
<u>6,806</u>	<u>5,138,908</u>	<u>5,670,140</u>	<u>128,518</u>	<u>2,977,508</u>
-	-	-	-	1,218,343
-	11,651,966	24,619,232	535,363	21,087,262
-	<u>11,651,966</u>	<u>24,619,232</u>	<u>535,363</u>	<u>22,305,605</u>
6,806	(6,513,058)	(18,949,092)	(406,845)	(19,328,097)
-	22,100,000	-	-	67,900,000
-	6,458	722,219	557,723	-
-	-	-	(2,328,696)	-
-	<u>22,106,458</u>	<u>722,219</u>	<u>(1,770,973)</u>	<u>67,900,000</u>
6,806	15,593,400	(18,226,873)	(2,177,818)	48,571,903
151,286	97,901,876	104,733,666	1,754,032	52,586,668
<u>158,092</u>	<u>113,495,276</u>	<u>86,506,793</u>	<u>(423,786)</u>	<u>101,158,571</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For The Year Ended June 30, 2007

	San José Financing Authority (Funds 858-859)	Totals
REVENUES		
Taxes	\$ -	14,492,933
Intergovernmental	-	10,253,084
Charges for current services	-	216,114
Interest and other revenues:		
Interest	761,859	17,024,723
Other revenues	-	1,090,800
Total revenues	<u>761,859</u>	<u>43,077,654</u>
EXPENDITURES		
Current:		
Capital maintenance	2	30,229,935
Capital outlay	643,360	66,882,741
Total expenditures	<u>643,362</u>	<u>97,112,676</u>
Excess (deficiency) of revenues over (under) expenditures	118,497	(54,035,022)
OTHER FINANCING SOURCES (USES)		
Bonds issued	-	90,000,000
Transfers in	-	12,701,697
Transfers out	(1,439,682)	(14,773,615)
Total other financing sources (uses)	<u>(1,439,682)</u>	<u>87,928,082</u>
Net change in fund balances	(1,321,185)	33,893,060
Fund balances - beginning	15,820,081	322,857,507
Fund balances - ending	<u>\$ 14,498,896</u>	<u>356,750,567</u>

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by a governmental unit in a trustee capacity and/or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include pensions trust funds, and agency funds.

The Trust and Agency Funds of the City of San José include the following:

Federated Retirement Funds - The City of San José Federated Retirement Funds were established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all full-time and some eligible part-time City of San José employees, except members of the Police and Fire Department Retirement System.

Police and Fire Retirement Funds - The City of San José Police and Fire Retirement Funds were established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all sworn officers of the City of San José's Police and Fire departments.

Municipal Health Services Fund - The Municipal Health Services Fund was established to account for money received for the Medicare Waiver Demonstration Project funded by the Health Care Financing Administration (HCFA) of the U.S. Dept. of Health and Human Services and disbursements made by the City to various health care clinics on behalf of HCFA.

Arena Capital Reserve Fund - This fund was established to account for Arena Facilities monies that will be used to budget and defray Arena Facilities expenditures relating to normal capital repairs and replacement for the San José Arena.

Trust and Agency Funds

City of San José
Combining Statement of Pension Net Assets
Pension Trust Funds
June 30, 2007

	Federated City Employees Retirement System (Fund 134 and 140)	Police and Fire Plan (Fund 135 and 141)	Totals
ASSETS			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,924,757,322	2,889,873,337	4,814,630,659
Securities lending cash collateral investment pool	193,917,192	507,105,526	701,022,718
Receivables (net of allowance for uncollectables):			
Accrued investment income	6,742,150	7,954,719	14,696,869
Employee contributions	830,492	1,110,914	1,941,406
Employer contributions	2,462,489	2,458,821	4,921,310
Brokers and others	93,938,021	41,254,727	135,192,748
Total assets	<u>2,222,647,666</u>	<u>3,449,758,044</u>	<u>5,672,405,710</u>
LIABILITIES			
Due to brokers	164,101,071	200,801,083	364,902,154
Securities lending collateral, due to borrowers	193,917,192	507,105,526	701,022,718
Other liabilities	1,628,943	6,201,271	7,830,214
Total liabilities	<u>359,647,206</u>	<u>714,107,880</u>	<u>1,073,755,086</u>
NET ASSETS HELD IN TRUST FUND FOR PENSION BENEFIT			
Reserved for retirement plans:			
Employees' pension benefits	1,766,400,140	2,684,784,479	4,451,184,619
Employees' postemployment healthcare benefits	96,600,320	50,865,685	147,466,005
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$ 1,863,000,460</u>	<u>2,735,650,164</u>	<u>4,598,650,624</u>

City of San José
Combining Statement of Changes in Pension Net Assets
Pension Trust Funds
For the Year Ended June 30, 2007

	Federated City Employees Retirement System (Fund 134 and 140)	Police and Fire Plan (Fund 135 and 141)	Totals
ADDITIONS			
Investment income:			
Interest	\$ 31,853,834	34,450,801	66,304,635
Dividends	8,889,505	26,924,267	35,813,772
Net rental income	4,092,285	6,553,481	10,645,766
Net appreciation in fair value of plan investments	219,054,699	391,356,017	610,410,716
Investment expenses	(6,841,620)	(11,303,595)	(18,145,215)
Securities lending activities:			
Securities lending income	10,160,542	23,865,669	34,026,211
Securities lending expenses	(9,653,780)	(22,732,978)	(32,386,758)
Contributions:			
Employer	61,732,285	55,706,939	117,439,224
Employees	21,981,373	24,039,872	46,021,245
Total additions	<u>341,269,123</u>	<u>528,860,473</u>	<u>870,129,596</u>
DEDUCTIONS			
General and administrative	1,949,548	2,249,829	4,199,377
Health insurance	18,266,692	14,791,035	33,057,727
Refund of contributions	1,007,892	209,780	1,217,672
Retirement and other benefits paid:			
Death benefits	5,867,142	5,040,841	10,907,983
Retirement benefits	75,134,538	81,953,195	157,087,733
Total deductions	<u>102,225,812</u>	<u>104,244,680</u>	<u>206,470,492</u>
Net increase	239,043,311	424,615,793	663,659,104
Net assets held in trust for pension and postemployment healthcare benefits			
Beginning of year	1,623,957,149	2,311,034,371	3,934,991,520
End of year	<u>\$ 1,863,000,460</u>	<u>2,735,650,164</u>	<u>4,598,650,624</u>

City of San José
Combining Statement of Defined Benefit
and Postemployment Healthcare Plan Net Assets
Federated City Employees Retirement System
June 30, 2007

	Federated Retirement (Fund 134)		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 134
ASSETS			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,349,646,766	99,205,115	1,448,851,881
Securities lending cash collateral investment pool	137,842,627	10,132,053	147,974,680
Receivables (net of allowance for uncollectables):			
Accrued investment income	4,810,716	353,609	5,164,325
Employee contributions	360,464	363,751	724,215
Employer contributions	1,566,223	427,967	1,994,190
Brokers and Others	66,772,768	4,908,099	71,680,867
Total assets	<u>1,560,999,564</u>	<u>115,390,594</u>	<u>1,676,390,158</u>
LIABILITIES			
Due to brokers	116,648,361	8,574,180	125,222,541
Securities lending collateral, due to borrowers	137,842,627	10,132,053	147,974,680
Other liabilities	1,171,720	84,041	1,255,761
Total liabilities	<u>255,662,708</u>	<u>18,790,274</u>	<u>274,452,982</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFIT			
Reserved for retirement plans:			
Employees' pension benefits	1,305,336,856	-	1,305,336,856
Employees' postemployment healthcare benefits	-	96,600,320	96,600,320
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$ 1,305,336,856</u>	<u>96,600,320</u>	<u>1,401,937,176</u>

**Federated Cost of Living
(Fund 140)**

<u>Defined Benefit Pension Plan</u>	<u>Postemployment Healthcare Plan</u>	<u>Total Fund 140</u>	<u>Totals</u>
475,905,441	-	475,905,441	1,924,757,322
45,942,512	-	45,942,512	193,917,192
1,577,825	-	1,577,825	6,742,150
106,277	-	106,277	830,492
468,299	-	468,299	2,462,489
22,257,154	-	22,257,154	93,938,021
<u>546,257,508</u>	<u>-</u>	<u>546,257,508</u>	<u>2,222,647,666</u>
38,878,530	-	38,878,530	164,101,071
45,942,512	-	45,942,512	193,917,192
373,182	-	373,182	1,628,943
<u>85,194,224</u>	<u>-</u>	<u>85,194,224</u>	<u>359,647,206</u>
461,063,284	-	461,063,284	1,766,400,140
-	-	-	96,600,320
<u>461,063,284</u>	<u>-</u>	<u>461,063,284</u>	<u>1,863,000,460</u>

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Assets
Federated City Employees Retirement System
For the Year Ended June 30, 2007

	Federated Retirement (Fund 134)		
	<u>Defined Benefit Pension Plan</u>	<u>Postemployment Healthcare Plan</u>	<u>Total Fund 134</u>
ADDITIONS			
Investment income:			
Interest	\$ 22,669,341	1,649,452	4,318,793
Dividends	6,326,700	460,339	6,787,039
Net rental income	2,911,062	211,813	3,122,875
Net appreciation in fair value of plan investments	155,969,749	11,348,568	167,318,317
Investment expenses	(4,850,156)	(352,904)	(5,203,060)
Securities lending activities:			
Securities lending income	7,232,364	526,236	7,758,600
Securities lending expenses	(6,871,672)	(499,992)	(7,371,664)
Contributions:			
Employer	39,262,000	10,728,243	49,990,243
Employees	9,524,783	9,611,635	19,136,418
Total additions	<u>232,174,171</u>	<u>33,683,390</u>	<u>265,857,561</u>
DEDUCTIONS			
General and administrative	1,439,181	104,717	1,543,898
Health insurance	-	18,266,692	18,266,692
Refund of contributions	813,143	-	813,143
Retirement and other benefits paid:			
Death benefits	3,633,661	-	3,633,661
Retirement benefits	60,438,306	-	60,438,306
Total deductions	<u>66,324,291</u>	<u>18,371,409</u>	<u>84,695,700</u>
Net increase	165,849,880	15,311,981	181,161,861
Net assets held in trust for pension and postemployment healthcare benefits			
Beginning of year	1,139,486,976	81,288,339	1,220,775,315
End of year	<u>\$ 1,305,336,856</u>	<u>96,600,320</u>	<u>1,401,937,176</u>

**Federated Cost of Living
(Fund 140)**

Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 140	Totals
7,535,041	-	7,535,041	31,853,834
2,102,466	-	2,102,466	8,889,505
969,410	-	969,410	4,092,285
51,736,382	-	51,736,382	219,054,699
(1,638,560)	-	(1,638,560)	(6,841,620)
2,401,942	-	2,401,942	10,160,542
(2,282,116)	-	(2,282,116)	(9,653,780)
11,742,042	-	11,742,042	61,732,285
2,844,955	-	2,844,955	21,981,373
<u>75,411,562</u>	<u>-</u>	<u>75,411,562</u>	<u>341,269,123</u>
405,650	-	405,650	1,949,548
-	-	-	18,266,692
194,749	-	194,749	1,007,892
2,233,481	-	2,233,481	5,867,142
14,696,232	-	14,696,232	75,134,538
<u>17,530,112</u>	<u>-</u>	<u>17,530,112</u>	<u>102,225,812</u>
57,881,450	-	57,881,450	239,043,311
403,181,834	-	403,181,834	1,623,957,149
<u>461,063,284</u>	<u>-</u>	<u>461,063,284</u>	<u>1,863,000,460</u>

City of San José
Combining Statement of
Defined Benefit and Postemployment Healthcare Plan Net Assets
Police and Fire Department Retirement Plan
June 30, 2007

	Police and Fire Retirement (Fund 135)		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 135
ASSETS			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,991,201,653	53,006,345	2,044,207,998
Securities lending cash collateral investment pool	349,351,270	9,299,829	358,651,099
Receivables (net of allowance for uncollectables):			
Accrued investment income	5,481,902	145,930	5,627,832
Employee contributions	528,579	364,293	892,872
Employer contributions	1,151,164	395,206	1,546,370
Brokers and others	28,420,440	756,560	29,177,000
Total assets	2,376,135,008	63,968,163	2,440,103,171
LIABILITIES			
Due to brokers	138,334,351	3,682,499	142,016,850
Securities lending collateral, due to borrowers	349,351,270	9,299,829	358,651,099
Other liabilities	4,516,508	120,150	4,636,658
Total liabilities	492,202,129	13,102,478	505,304,607
NET ASSETS HELD IN TRUST FOR PENSION BENEFIT			
Reserved for retirement plans:			
Employees' pension benefits	1,883,932,879	-	1,883,932,879
Employees' postemployment healthcare benefits	-	50,865,685	50,865,685
Net assets held in trust for pension and postemployment healthcare benefits	\$ 1,883,932,879	50,865,685	1,934,798,564

**Police and Fire Cost of Living
(Fund 141)**

Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 141	Totals
845,665,339	-	845,665,339	2,889,873,337
148,454,427	-	148,454,427	507,105,526
2,326,887	-	2,326,887	7,954,719
218,042	-	218,042	1,110,914
912,451	-	912,451	2,458,821
12,077,727	-	12,077,727	41,254,727
<u>1,009,654,873</u>	<u>-</u>	<u>1,009,654,873</u>	<u>3,449,758,044</u>
58,784,233	-	58,784,233	200,801,083
148,454,427	-	148,454,427	507,105,526
1,564,613	-	1,564,613	6,201,271
<u>208,803,273</u>	<u>-</u>	<u>208,803,273</u>	<u>714,107,880</u>
800,851,600	-	800,851,600	2,684,784,479
-	-	-	50,865,685
<u>800,851,600</u>	<u>-</u>	<u>800,851,600</u>	<u>2,735,650,164</u>

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Assets
Police and Fire Department Retirement Plan
For the Year Ended June 30, 2007

	Police and Fire Retirement (Fund 135)		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 135
ADDITIONS			
Investment income:			
Interest	\$ 23,808,867	623,276	24,432,143
Dividends	18,595,763	486,806	19,082,569
Net rental income	4,551,883	119,162	4,671,045
Net appreciation in fair value of plan investments	270,063,198	7,069,794	277,132,992
Investment expenses	(7,826,785)	(204,893)	(8,031,678)
Securities lending activities:			
Securities lending income	16,500,740	431,961	16,932,701
Securities lending expenses	(15,717,584)	(411,459)	(16,129,043)
Contributions:			
Employer	25,116,882	9,082,012	34,198,894
Employees	11,347,424	7,988,963	19,336,387
Total additions	346,440,388	25,185,622	371,626,010
DEDUCTIONS			
General and administrative	1,711,599	44,807	1,756,406
Health insurance	-	14,791,035	14,791,035
Refund of contributions	163,149	-	163,149
Retirement and other benefits paid:			
Death benefits paid	2,967,612	-	2,967,612
Retirement benefits paid	64,470,906	-	64,470,906
Total deductions	69,313,266	14,835,842	84,149,108
Net increase	277,127,122	10,349,780	287,476,902
Net assets held in trust for pension and postemployment healthcare benefits			
Beginning of year	1,606,805,757	40,515,905	1,647,321,662
End of year	\$ 1,883,932,879	50,865,685	1,934,798,564

**Police and Fire Cost of Living
(Fund 141)**

<u>Defined Benefit Pension Plan</u>	<u>Postemployment Healthcare Plan</u>	<u>Total Fund 141</u>	<u>Total</u>
10,018,658	-	10,018,658	34,450,801
7,841,698	-	7,841,698	26,924,267
1,882,436	-	1,882,436	6,553,481
114,223,025	-	114,223,025	391,356,017
(3,271,917)	-	(3,271,917)	(11,303,595)
6,932,968	-	6,932,968	23,865,669
(6,603,935)	-	(6,603,935)	(22,732,978)
21,508,045	-	21,508,045	55,706,939
4,703,485	-	4,703,485	24,039,872
<u>157,234,463</u>	<u>-</u>	<u>157,234,463</u>	<u>528,860,473</u>
493,423	-	493,423	2,249,829
-	-	-	14,791,035
46,631	-	46,631	209,780
2,073,229	-	2,073,229	5,040,841
17,482,289	-	17,482,289	81,953,195
<u>20,095,572</u>	<u>-</u>	<u>20,095,572</u>	<u>104,244,680</u>
137,138,891	-	137,138,891	424,615,793
663,712,709	-	663,712,709	2,311,034,371
<u>800,851,600</u>	<u>-</u>	<u>800,851,600</u>	<u>2,735,650,164</u>

City of San José
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2007

	Municipal Health Services (Fund 132)	Arena Capital Reserve (Fund 459)	Total
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 20,703	1,651,595	1,672,298
Receivables (net of allowances for uncollectibles):			
Accrued interest	-	15,530	15,530
	<u>20,703</u>	<u>1,667,125</u>	<u>1,687,828</u>
Total assets	\$ <u>20,703</u>	<u>1,667,125</u>	<u>1,687,828</u>
LIABILITIES			
Accrued salaries, wages, and payroll taxes	6,882	-	6,882
Other liabilities	13,821	1,667,125	1,680,946
	<u>20,703</u>	<u>1,667,125</u>	<u>1,687,828</u>
Total liabilities	\$ <u>20,703</u>	<u>1,667,125</u>	<u>1,687,828</u>

City of San José
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For The Year Ended June 30, 2007

<u>Municipal Health Services (Fund 132)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 1,074,952	4,486,085	5,540,334	20,703
Receivables (net of allowances for uncollectibles):				
Accrued interest	8,985	-	8,985	-
Other	1,235,373	1,235,373	2,470,746	-
Total assets	<u>\$ 2,319,310</u>	<u>5,721,458</u>	<u>8,020,065</u>	<u>20,703</u>
LIABILITIES				
Accounts payable	1,242,876	5,164,655	6,407,531	-
Accrued salaries, wages, and payroll taxes	11,486	6,882	11,486	6,882
Other liabilities	1,064,948	3,224,267	4,275,394	13,821
Total liabilities	<u>\$ 2,319,310</u>	<u>8,395,804</u>	<u>10,694,411</u>	<u>20,703</u>
<u>Arena Capital Reserve (Fund 459)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 1,496,659	1,731,810	1,576,874	1,651,595
Receivables (net of allowances for uncollectibles):				
Accrued interest	9,789	15,530	9,789	15,530
Total assets	<u>\$ 1,506,448</u>	<u>1,747,340</u>	<u>1,586,663</u>	<u>1,667,125</u>
LIABILITIES				
Accounts payable	-	1,543,321	1,543,321	-
Other liabilities	1,506,448	1,703,998	1,543,321	1,667,125
Total liabilities	<u>\$ 1,506,448</u>	<u>3,247,319</u>	<u>3,086,642</u>	<u>1,667,125</u>
<u>Total Agency Funds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 2,571,611	6,217,895	7,117,208	1,672,298
Receivables (net of allowances for uncollectibles):				
Accrued interest	18,774	15,530	18,774	15,530
Other	1,235,373	1,235,373	2,470,746	-
Total assets	<u>\$ 3,825,758</u>	<u>7,468,798</u>	<u>9,606,728</u>	<u>1,687,828</u>
LIABILITIES				
Accounts payable	1,242,876	6,707,976	7,950,852	-
Accrued salaries, wages, and payroll taxes	11,486	6,882	11,486	6,882
Other liabilities	2,571,396	4,928,265	5,818,715	1,680,946
Total liabilities	<u>\$ 3,825,758</u>	<u>11,643,123</u>	<u>13,781,053</u>	<u>1,687,828</u>

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Statistical Section

Statistical Section

Statistical Section

This part of the comprehensive annual financial report for the City of San José presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. During fiscal year 2005-2006, the City implemented this statement and added new information that financial statement users have identified as important and eliminated certain schedules previously required.

Contents	Schedule
Financial Trends	I - IV
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	V - VIII
<i>These schedules contain information to help the reader assess the City's most significant local revenue source, which is property tax.</i>	
Debt Capacity	IX - XIII
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	XIV-XVI
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information	XVII-XVIII
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF SAN JOSE
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$ 000's)

SCHEDULE I

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities						
Invested in capital assets, net of related debt	\$ 6,629,815	\$ 6,252,648	\$ 6,118,214	\$ 5,755,755	\$ 5,402,375	\$ 5,193,578
Restricted	376,155	551,968	229,871	380,102	735,931	501,391
Unrestricted	508,517	266,281	217,204	181,646	(107,947)	79,524
Total governmental activities net assets	<u>\$ 7,514,487</u>	<u>\$ 7,070,897</u>	<u>\$ 6,565,289</u>	<u>\$ 6,317,503</u>	<u>\$ 6,030,359</u>	<u>\$ 5,774,493</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 462,193	\$ 513,697	\$ 651,130	\$ 672,893	\$ 689,045	\$ 750,334
Restricted	292,446	256,821	261,303	262,554	279,505	248,039
Unrestricted	289,510	312,930	248,221	251,010	257,944	250,515
Total business-type activities net assets	<u>\$ 1,044,149</u>	<u>\$ 1,083,448</u>	<u>\$ 1,160,654</u>	<u>\$ 1,186,457</u>	<u>\$ 1,226,494</u>	<u>\$ 1,248,888</u>
Primary government						
Invested in capital assets, net of related debt	\$ 7,092,008	\$ 6,766,345	\$ 6,769,344	\$ 6,428,648	\$ 6,091,420	\$ 5,943,912
Restricted	668,601	808,789	491,174	642,656	1,015,436	749,430
Unrestricted	798,027	579,211	465,425	432,656	149,997	330,039
Total primary government net assets	<u>\$ 8,558,636</u>	<u>\$ 8,154,345</u>	<u>\$ 7,725,943</u>	<u>\$ 7,503,960</u>	<u>\$ 7,256,853</u>	<u>\$ 7,023,381</u>

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

CITY OF SAN JOSE
CHANGE IN NET ASSETS
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$ 000's)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental activities:						
General government	\$ 130,963	\$ 125,482	\$ 143,335	\$ 108,070	\$ 180,633	\$ 120,362
Public safety	305,906	323,461	353,009	326,029	351,331	393,449
Capital maintenance	586,231	652,748	502,819	502,586	514,025	528,727
Community services	268,633	222,250	277,404	210,936	220,719	276,343
Sanitation	82,562	77,001	76,889	89,159	91,353	99,720
Unallocated interest and fiscal charges	105,077	121,647	127,052	136,955	144,444	154,135
Total governmental activities expenses	1,479,372	1,522,589	1,480,508	1,373,735	1,502,505	1,572,736
Business-type activities:						
Norman Y. Mineta San José						
International Airport	109,814	112,723	117,122	122,882	125,770	139,623
Wastewater Treatment System	108,491	102,148	101,627	111,026	108,510	111,435
Municipal Water System	16,295	15,577	19,089	18,328	19,896	22,618
Parking System	6,931	7,479	9,952	8,652	10,058	9,787
Total business-type activities expenses	241,531	237,927	247,790	260,888	264,234	283,463
Total primary government expenses	1,720,903	1,760,516	1,728,298	1,634,623	1,766,739	1,856,199
Program Revenues						
Governmental activities:						
Charges for services:						
General government	18,570	10,533	18,646	34,550	51,449	56,125
Public Safety	17,306	19,569	18,856	21,411	18,377	21,776
Capital maintenance	28,029	32,871	28,359	27,365	28,998	26,559
Community services	54,381	55,361	53,635	67,276	78,736	73,671
Sanitation	74,440	71,794	80,265	86,166	86,957	95,548
Operating grants and contributions	54,319	51,691	46,034	63,909	76,004	93,090
Capital grants and contributions	110,551	70,726	81,229	48,715	60,337	68,835
Total governmental program revenues	357,596	312,545	327,024	349,392	400,858	435,604
Business-type activities:						
Charges for services						
Norman Y. Mineta San José						
International Airport	114,952	113,047	113,758	112,273	117,983	118,978
Wastewater Treatment System	102,446	103,041	99,511	113,850	109,567	113,772
Municipal Water System	17,298	17,538	20,013	19,149	20,284	22,399
Parking System	8,284	10,144	9,583	9,473	9,756	9,777
Operating grants and contributions	2,404	5,685	5,724	5,570	8,398	8,284
Capital grants and contributions	21,499	16,821	80,651	21,584	32,956	17,927
Total business-type activities program revenues	266,883	286,276	329,240	281,899	298,964	291,137
Total primary government revenues	\$ 624,479	\$ 578,821	\$ 656,264	\$ 631,291	\$ 699,822	\$ 726,741

CITY OF SAN JOSE
CHANGE IN NET ASSETS
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$ 000's)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Net (Expenses) Revenues						
Governmental activities	\$ (1,121,776)	\$ (1,210,044)	\$ (1,153,484)	\$ (1,024,343)	\$ (1,101,647)	\$ (1,137,132)
Business-type activities	25,352	28,349	81,450	21,011	34,730	7,674
Total primary government	<u>(1,096,424)</u>	<u>(1,181,695)</u>	<u>(1,072,034)</u>	<u>(1,003,332)</u>	<u>(1,066,917)</u>	<u>(1,129,458)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes:						
Property	356,136	351,902	338,210	398,541	430,426	467,917
Utility	66,889	65,785	68,455	73,081	75,489	79,129
Franchise	34,432	32,093	31,712	33,722	36,760	40,415
Transit and Occupancy	6,820	14,600	14,166	15,957	19,214	21,400
Sales taxes shared revenues	133,241	122,757	126,426	128,822	136,031	145,340
State of California in-lieu	51,306	53,787	41,455	20,850	5,817	5,911
Business license fee	35,401	35,594	36,201	36,936	37,236	39,502
Unrestricted interest and investment earnings	70,124	59,287	17,040	17,594	23,682	39,359
Other revenue	21,262	22,994	26,368	44,343	42,076	35,875
Gain on sale of capital assets	706	317	4,487	-	-	-
Transfers	5,842	7,338	(48,782)	6,711	7,772	6,418
Special items	-	-	(7,862)	-	-	-
Total governmental activities	<u>782,159</u>	<u>766,454</u>	<u>647,876</u>	<u>776,557</u>	<u>814,503</u>	<u>881,286</u>
Business-type activities						
Unrestricted interest and investment earnings	26,619	15,861	3,024	11,503	13,079	21,138
Transfers	(5,842)	(7,338)	(7,268)	(6,711)	(7,772)	(6,418)
Total business-type activities	<u>20,777</u>	<u>8,523</u>	<u>(4,244)</u>	<u>4,792</u>	<u>5,307</u>	<u>14,720</u>
Total primary government	<u>\$ 802,936</u>	<u>\$ 774,977</u>	<u>\$ 643,632</u>	<u>\$ 781,349</u>	<u>\$ 819,810</u>	<u>\$ 895,986</u>
Change in Net Assets						
Governmental activities	\$ (339,617)	\$ (443,590)	\$ (505,608)	\$ (247,786)	\$ (287,144)	\$ (255,866)
Business-type activities	46,129	36,872	77,206	25,803	40,037	22,394
Total Primary government	<u>\$ (293,488)</u>	<u>\$ (406,718)</u>	<u>\$ (428,402)</u>	<u>\$ (221,983)</u>	<u>\$ (247,107)</u>	<u>\$ (233,472)</u>

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

SCHEDULE III

CITY OF SAN JOSE
 FUND BALANCE, GOVERNMENTAL FUNDS
 LAST SIX FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$ 000's)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
General Fund						
Reserved	\$ 52,218	\$ 33,918	\$ 29,582	\$ 29,514	\$ 33,267	\$ 35,708
Unreserved	197,311	163,735	153,757	162,517	203,703	244,889
Total General Fund	\$ 249,529	\$ 197,653	\$ 183,339	\$ 192,031	\$ 236,970	\$ 280,597
Other Governmental Funds						
Reserved	\$ 557,551	\$ 894,117	\$ 666,185	\$ 633,171	\$ 573,567	\$ 539,761
Unreserved, reported in:						
Special revenue funds	207,677	202,580	191,129	248,863	268,344	285,532
Debt service funds	-	-	-	-	(15,109)	(31,493)
Capital project funds	323,377	202,475	284,743	301,019	293,622	307,713
Total Other Governmental Funds	\$ 1,088,605	\$ 1,299,172	\$ 1,142,057	\$ 1,183,053	\$ 1,120,424	\$ 1,101,513

Note: As certain data required by GASB 44 was not readily available for years prior to 2002, the City of San José has elected to show six years of data for this schedule.

CITY OF SAN JOSE
 CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
 LAST SIX FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$ 000's)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
REVENUES						
Taxes and special assessments	\$ 663,580	\$ 676,229	\$ 646,732	\$ 666,088	\$ 730,905	\$ 786,690
Licenses, permits, and fines	70,803	73,687	83,631	86,518	90,351	88,611
Intergovernmental	79,756	78,946	67,254	81,352	80,003	92,051
Charges for current services	173,942	177,567	202,564	225,397	250,975	265,381
Rent	10,705	9,142	7,866	8,211	9,836	10,326
Interest and other revenues	185,944	133,246	68,062	97,499	106,571	140,631
Total revenues	1,184,730	1,148,817	1,076,119	1,185,065	1,268,641	1,385,690
EXPENDITURES						
General government	176,880	185,256	190,132	198,319	212,964	227,255
Public safety	284,259	307,991	325,301	334,169	343,576	370,575
Capital maintenance	288,203	338,504	177,688	178,262	210,032	233,910
Community services	249,222	194,959	249,079	194,509	203,273	254,525
Sanitation	82,760	76,799	77,507	88,368	91,908	99,746
Capital outlay	228,996	201,069	278,536	289,985	203,573	130,669
Debt service:						
Principal	41,897	45,056	54,966	50,752	63,567	67,487
Interest and fiscal charges	91,800	126,531	129,641	138,253	145,698	150,600
Bond issuance costs	11,025	10,443	11,175	6,822	6,676	20,664
Payment to refunded bond escrow agent	6,429	17,331	14,916	2,022	9,282	14,974
Total expenditures	1,461,471	1,503,929	1,508,941	1,482,461	1,490,549	1,570,405
Excess (deficiency) of revenues over (under) expenditures	(276,741)	(355,112)	(432,822)	(297,396)	(221,908)	(184,715)
OTHER FINANCING SOURCES (USES)						
Bonds issued	434,858	541,493	216,725	245,025	151,320	171,300
Refunding bonds issued	191,725	21,555	373,610	195,870	277,520	737,740
Premium / (Discount) on bonds	(189)	(3,778)	16,795	3,127	20,477	30,124
Payment to refunded bond escrow agent	(189,650)	(53,122)	(352,829)	(126,899)	(288,673)	(745,137)
Proceeds from sale of capital assets	2,277	317	4,487	4,482	11,449	8,491
Loan proceeds	-	-	3,200	19,427	25,094	-
Transfers in	182,943	569,750	187,128	192,968	231,092	221,671
Transfers out	(177,101)	(562,412)	(179,860)	(186,916)	(223,061)	(214,758)
Total other financing sources (uses)	444,863	513,803	289,256	347,084	204,218	209,431
Loss at transition	-	-	(7,862)	-	-	-
Net change in fund balance	\$ 168,122	\$ 158,691	\$ (171,428)	\$ 49,688	\$ (17,690)	\$ 24,716
Debt service as a percentage of noncapital expenditures	12.36%	15.55%	18.10%	19.00%	19.71%	18.39%

Note: 1. As certain data required by GASB 44 was not readily available for years prior to 2002, the City of San José has elected to show only six years of data for this schedule.
 2. Debt ratio was calculated by dividing debt service (principal, interest, and fiscal charges) by total government expenditures excluding capital outlay.

SCHEDULE V

CITY OF SAN JOSE
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (\$ 000's)

Fiscal Year	City				Redevelopment Agency ¹				Total Direct Tax Rate		
	Secured	Unsecured	Less: Exemptions	Net Taxable Assessed Value	Direct Rate	Secured	Unsecured	Less: Exemptions		Net Taxable Assessed Value	Direct rate
1998	\$47,736,697	\$5,932,618	\$1,183,528	\$52,485,787	0.107%						0.107%
1999	52,911,450	6,866,240	1,337,055	58,440,635	0.111%						0.111%
2000	58,813,662	6,503,332	1,369,113	63,947,881	0.112%						0.112%
2001	54,647,708	4,008,056	1,480,468	57,175,296	0.141%	\$10,355,892	\$3,420,451	\$0	\$13,776,343	1.032%	0.314%
2002	61,143,626	4,676,212	1,844,586	63,975,252	0.138%	12,296,146	5,583,448	0	17,879,594	1.054%	0.338%
2003	65,530,209	4,371,115	1,985,708	67,915,616	0.137%	13,266,320	5,466,624	0	18,732,944	1.057%	0.336%
2004	71,389,828	4,062,051	2,373,902	73,077,977	0.134%	11,685,532	5,277,110	0	16,962,642	1.003%	0.298%
2005	76,286,940	3,979,113	2,733,404	77,532,649	0.133%	11,197,792	3,843,039	0	15,040,831	0.997%	0.274%
2006	84,455,121	3,800,649	3,020,934	85,234,836	0.139%	11,211,222	3,822,707	0	15,033,929	0.997%	0.268%
2007	92,922,334	3,908,432	3,214,283	93,616,483	0.136%	12,116,350	3,975,452	0	16,091,802	1.006%	0.264%

1. The Redevelopment Agency (RDA) became a separate entity in 2001. Prior to 2001, the RDA data was combined with the City.

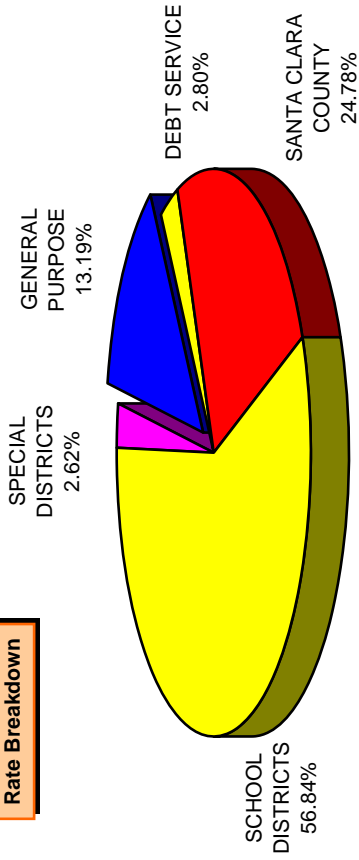
Note:

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Department of Finance, County of Santa Clara

PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

2007 Property Tax Rate Breakdown



Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
City of San José:										
General purpose	0.155	0.155	0.155	0.155	0.155	0.155	0.156	0.156	0.156	0.156
Debt service	0.000	0.000	0.000	0.000	0.009	0.019	0.026	0.026	0.029	0.033
	<u>0.155</u>	<u>0.155</u>	<u>0.155</u>	<u>0.155</u>	<u>0.164</u>	<u>0.174</u>	<u>0.182</u>	<u>0.182</u>	<u>0.185</u>	<u>0.189</u>
Santa Clara County	0.292	0.292	0.285	0.289	0.290	0.292	0.292	0.292	0.292	0.292
School districts	0.574	0.589	0.605	0.608	0.622	0.667	0.656	0.656	0.669	0.670
Special districts	0.033	0.032	0.032	0.031	0.030	0.032	0.039	0.039	0.031	0.031
	<u>1.054</u>	<u>1.068</u>	<u>1.077</u>	<u>1.083</u>	<u>1.105</u>	<u>1.166</u>	<u>1.169</u>	<u>1.169</u>	<u>1.177</u>	<u>1.182</u>

Note:

- The above tax rates are applied per \$100 of assessed valuation.
- In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

Source: Department of Finance, County of Santa Clara

SCHEDULE VII

CITY OF SAN JOSE
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 (\$ 000's)

Taxpayer	2007		1998	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Cisco Technology, Inc.	\$ 691,402	0.63%	\$ -	-
Hitachi Global Storage Techs, Inc.	609,203	0.56%	-	-
Equity Office Properties	480,076	0.44%	-	-
Irvine Community Development Co.	477,066	0.43%	-	-
VF Mall LLC	454,101	0.41%	-	-
Sobrato Group / Sobrato Development Co.	376,527	0.34%	168,098	0.32%
Carramerica Realty Operating Partnership LP	294,116	0.27%	171,171	0.33%
Legacy Partners	287,495	0.26%	-	-
Mission West Properties LP	271,996	0.25%	-	-
Frit San Jose Town & Country Village LLC	268,104	0.24%	-	-
Xilinx, Inc.	250,814	0.23%	-	-
International Business Machines Corp.	222,250	0.20%	1,085,034	2.07%
San Jose Water Works	217,318	0.20%	-	-
Oakridge Mall LP	214,840	0.20%	-	-
Novellus Systems Inc.	212,624	0.19%	-	-
Bay Apartment Communities Inc.	212,492	0.19%	-	-
Adobe Systems Inc.	210,021	0.19%	-	-
Essex Enclave Apartments LP	199,886	0.18%	-	-
Woods LP	156,617	0.14%	-	-
eBay Inc.	133,207	0.12%	-	-
Total assessed property valuation, local secured net	\$ 6,240,155	5.69%	\$ 1,424,303	2.71%
Total City of San José net assessed property valuation (including RDA):			\$ 52,485,787	
FY 1997-1998				
FY 2006-2007	\$ 109,708,285			

Note: As some information required by GASB 44 is not readily available, certain data for 1998 is not shown in the schedule.

Source: California Municipal Statistics, Inc.

CITY OF SAN JOSE
 PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN FISCAL YEARS
 (\$ 000's)

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1998	\$ 56,157	\$ 55,906	99.6	\$ 0	\$ 55,906	99.6
1999	65,071	64,815	99.6	0	64,815	99.6
2000	71,504	71,971	100.7	0	71,971	100.7
2001	80,510	80,694	100.2	0	80,694	100.2
2002	88,526	88,286	99.7	0	88,286	99.7
2003	93,189	93,592	100.4	0	93,592	100.4
2004	97,748	95,407	97.6	0	95,649	97.9
2005	103,465	105,486	102.0	0	105,702	102.2
2006	118,803	117,360	98.8	209	117,570	99.0
2007	127,693	127,141	99.6	213	127,354	99.7

Source: Finance Department, Santa Clara County
 Finance Department, City of San José

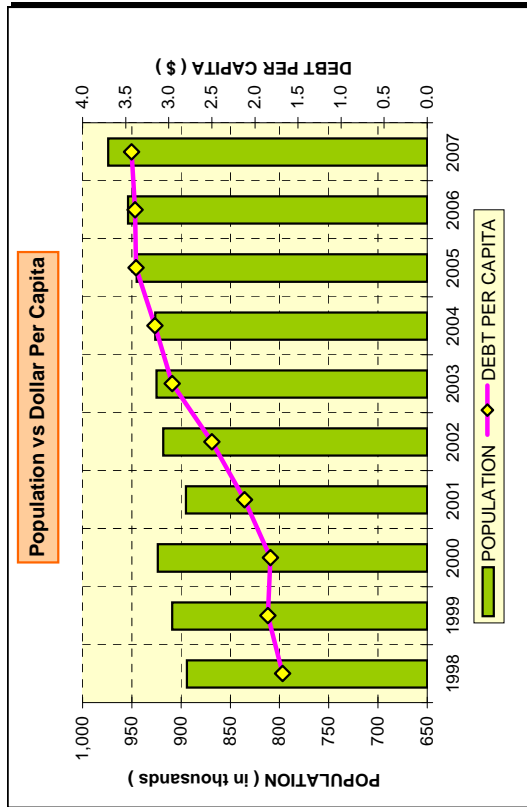
CITY OF SAN JOSE
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (\$ 000's)

Fiscal Year	Governmental Activities									
	General Obligation Bonds	Tax Allocation Bonds	Loans	Lease Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Revenue Bonds	Total Governmental Activities	Debt Per Capita	Percentage of Property Value
1998	\$ 0	\$ 998,425	\$ 13,540	\$ 140,795	\$ 111,508	\$ 248,430	\$ 1,512,698			
1999	0	1,223,560	4,945	108,560	101,049	247,552	1,685,666	2.15	1.56%	
2000	0	1,207,000	4,805	154,036	70,420	247,805	1,684,066	2.18	1.44%	
2001	71,000	1,230,560	4,655	260,741	90,827	246,150	1,903,933	2.48	1.26%	
2002	71,000	1,628,780	4,490	204,839	96,096	295,905	2,301,110	3.00	1.12%	
2003	184,720	1,605,925	4,315	578,100	80,708	291,985	2,745,753	3.43	1.07%	
2004	178,480	1,735,480	4,125	581,978	85,142	346,760	2,931,965	3.88	1.03%	
2005	337,240	1,782,775	23,347	655,235	79,434	339,595	3,217,626	4.09	1.02%	
2006	432,445	1,745,275	92,786	646,070	75,007	331,870	3,323,453	4.14	0.95%	
2007	510,710	1,796,345	89,926	641,551	71,580	322,460	3,432,572	4.15	0.89%	

Fiscal Year	Business-type Activities					Total Business-type Activities	Total Primary Government	Debt Per Capita	Percentage of Property Value
	Airport Revenue Bonds	Clean Water Revenue Bonds	Clean Water Financing Authority Loans	Other Business-type Activities	Total Business-type Activities				
1998	\$ 147,975	\$ 134,085	\$ 0	\$ 282,060	\$ 1,794,758	\$ 2.01	1.70%		
1999	134,739	133,790	0	268,529	1,954,195	2.15	1.56%		
2000	136,515	124,665	69,260	330,440	2,014,506	2.18	1.44%		
2001	130,470	115,085	66,058	311,613	2,215,546	2.48	1.26%		
2002	282,485	104,960	62,798	450,243	2,751,353	3.00	1.12%		
2003	268,770	99,285	59,479	427,534	3,173,287	3.43	1.07%		
2004	512,500	95,745	56,099	664,344	3,596,309	3.88	1.03%		
2005	503,885	92,035	52,658	648,578	3,866,204	4.09	1.02%		
2006	494,910	81,150	49,153	625,213	3,948,666	4.14	0.95%		
2007	485,545	77,185	45,585	608,315	4,040,887	4.15	0.89%		

Sources: Department of Finance, City of San José
 Department of Finance, County of Santa Clara

CITY OF SAN JOSE
 RATIO OF GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS
 (\$ 000'S)



Fiscal Year	General Obligation Bonds		Tax Allocation Bonds		Lease Revenue Bonds		Special Assessment Bonds		Revenue Bonds	Total	Percent of Assessed Value		Debt Per Capita
	\$		\$		\$		\$				Population		
1998	0	998,425	140,795	111,508	248,430	1,499,158	2.86%	893,969	\$	1.68			
1999	0	1,223,560	108,560	101,049	247,552	1,680,721	2.88%	909,100		1.85			
2000	0	1,207,000	154,036	70,420	247,805	1,679,261	2.63%	923,591		1.82			
2001	71,000	1,230,560	260,741	90,827	246,150	1,899,278	2.68%	894,943		2.12			
2002	71,000	1,628,780	204,839	96,096	295,905	2,296,620	2.81%	917,971		2.50			
2003	184,720	1,605,925	578,100	80,708	291,985	2,741,438	3.16%	925,000		2.96			
2004	178,480	1,735,480	581,978	85,142	346,760	2,927,840	3.25%	926,200		3.16			
2005	337,240	1,782,775	655,235	79,434	339,595	3,194,279	3.45%	945,000		3.38			
2006	432,445	1,745,275	646,070	75,007	331,870	3,230,667	3.22%	954,000		3.39			
2007	510,710	1,796,345	641,551	71,580	322,460	3,342,646	3.05%	974,000		3.43			

Source: Finance Department, City of San José

CITY OF SAN JOSE
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2007

SCHEDULE XI

City Net Assessed Valuation		\$ 93,616,483,000	
Redevelopment Agency Incremental Valuation		16,091,802,000	
Total Assessed Valuation		<u>\$ 109,708,285,000</u>	
	<u>% Applicable</u>	<u>Outstanding Debt as of 06/30/07</u>	<u>Estimated Share of Overlapping Debt</u>
<i><u>Direct and Overlapping Tax and Assessment Debt:</u></i>			
City of San Jose Community Facilities Districts	100.00%	\$ 38,085,000	\$ 38,085,000
City of San Jose Special Assessment Bonds	100.00%	33,495,000	33,495,000
West Valley Community College District	27.62%	91,585,000	25,261,891
Santa Clara Unified School District	3.95%	183,855,000	7,267,788
Gavilan Joint Community College District	8.27%	27,470,000	2,272,868
San José Community College District and Certificates of Participation	86.92%	159,912,177	138,990,867
Foothill Community College District	4.61%	486,686,935	22,450,868
San José Unified School District and Certificates of Participation	97.78%	457,427,986	447,291,382
Morgan Hill Unified School District	21.83%	76,954,040	16,796,758
East Side Union High School District	94.47%	413,029,477	390,188,947
East Side Union High School District Benefit Obligations	94.47%	32,050,000	30,277,635
Fremont Union High School District	9.86%	135,495,000	13,355,742
Los Gatos Union School District	1.50%	87,550,000	1,310,624
Los Gatos Joint Union H.S. District and Certificates of Participation	0.66%	67,790,000	445,380
Alum Rock Union School District and Certificates of Participation	74.02%	46,627,782	34,513,884
Berryessa Union School District	93.74%	47,338,031	44,376,090
Burbank School District	16.02%	5,444,962	872,011
Cambrian School District	66.86%	20,209,944	13,512,166
Campbell Union High School District	59.78%	115,790,000	69,223,894
Campbell Union School District	45.51%	105,737,674	48,120,158
Cupertino Union School District	16.27%	121,617,087	19,781,019
Evergreen School District	99.48%	107,434,701	106,874,966
Evergreen School District Community Facilities District #92-1	100.00%	5,100,000	5,100,000
Franklin-McKinley School District	98.21%	53,282,329	52,326,444
Milpitas Unified School District	0.00%	55,090,000	165
Moreland School District	76.20%	103,473,266	78,841,455
Mount Pleasant School District	87.06%	10,344,992	9,006,557
Oak Grove School District	99.78%	69,247,559	69,091,752
Orchard School District	100.00%	28,609,177	28,609,177
Union School District	72.09%	81,743,243	58,927,069
Santa Clara Valley Water District Benefit Assessment District	40.00%	<u>173,070,000</u>	<u>69,226,269</u>
Total Direct and Overlapping Tax and Assessment Debt		<u>3,441,546,362</u>	<u>1,875,893,826</u>
<i><u>Overlapping Other Debt:</u></i>			
Santa Clara County General Fund Obligations	40.00%	826,480,000	330,583,735
Santa Clara County Board of Education Certificates of Participation	40.00%	16,325,000	6,529,837
Community College District Certificates of Participation	16.86%	63,620,000	10,726,215
San Jose Unified School District Certificates of Participation	97.78%	112,339,371	109,849,931
Santa Clara Unified School District Certificates of Participation	3.95%	12,980,000	513,099
Los Gatos - Saratoga Joint Union High School District Certificates of Participation	0.66%	3,985,000	26,181
Alum Rock Union School District Certificates of Participation	74.02%	755,000	558,851
Cupertino Union School District Certificates of Participation	16.27%	3,475,000	565,209
Franklin - McKinley School District Certificates of Participation	98.21%	6,155,000	6,044,579
Santa Clara County Vector Control District	40.00%	4,420,000	1,767,956
Midpeninsula Regional Open Space Park District General Fund Obligations	0.02%	<u>108,465,193</u>	<u>17,354</u>
Total Gross Direct and Overlapping General Fund Debt		<u>1,158,999,564</u>	467,182,947
Total Overlapping Debt		<u>\$ 4,600,545,926</u>	
City Direct Debt			<u>510,710,000</u>
Total Direct and Overlapping Debt			<u>\$ 977,892,947</u>

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and business of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.
Finance Department, County of Santa Clara

SCHEDULE XII

CITY OF SAN JOSE
 LEGAL DEBT MARGIN INFORMATION
 Last Ten Fiscal Years
 (\$ 000's)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<u>Calculation of Debt Limit</u>										
Gross assessed value for fiscal year	\$ 53,669,315	59,777,691	65,316,993	72,432,107	83,689,432	88,634,267	92,414,521	95,306,884	103,289,698	112,922,568
Debt limit at 15% of assessed value (1)	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15
Debt limit applicable to fiscal year	\$ 8,050,397	8,966,654	9,797,549	10,864,816	12,554,915	13,295,140	13,862,178	14,296,033	15,493,455	16,938,385
<u>Calculation of Legal Debt Margin</u>										
Debt limit applicable to fiscal year	\$ 8,050,397	8,966,654	9,797,549	10,864,816	12,554,915	13,295,140	13,862,178	14,296,033	15,493,455	16,938,385
Less: total general obligation bonds	0	0	0	71,000	71,000	184,720	178,480	337,240	432,445	510,710
Legal debt margin	\$ 8,050,397	8,966,654	9,797,549	10,793,816	12,483,915	13,110,420	13,683,698	13,958,793	15,061,010	16,427,675
Total debt applicable to the limit	0.0%	0.0%	0.0%	0.7%	0.6%	1.4%	1.3%	2.4%	2.8%	3.0%
as a percentage of debt limit										

Note: (1) Section 12.16 of the San José City Charter limits the general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits.

Source: Department of Finance, County of Santa Clara

CITY OF SAN JOSE
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(\$ 000's)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service		Debt Service Requirements			Coverage
			Debt Service	Principal	Interest	Total		
1998	\$ 75,542	\$ 38,212	\$ 37,330	\$ 5,183	\$ 8,566	\$ 13,749	2.72	
1999	85,118	44,345	40,773	5,458	7,985	13,443	3.03	
2000	91,389	50,932	40,457	5,801	7,710	13,511	2.99	
2001	124,537	61,248	63,289	6,041	7,382	13,423	4.71	
2002	115,856	71,564	44,292	6,124	7,884	14,008	3.16	
2003	127,816	73,300	54,516	6,610	11,036	17,646	3.09	
2004	125,664	71,313	54,351	5,993	11,460	17,453	3.11	
2005	127,425	73,654	53,771	7,608	10,324	17,932	3.00	
2006	137,412	78,320	59,092	8,975	12,448	21,423	2.76	
2007	140,901	86,509	54,392	8,776	12,061	20,837	2.61	

1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges.

2) Includes operating expenses less depreciation and expenses paid from sources other than revenues.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

MUNICIPAL WATER SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service		Debt Service Requirements			Coverage
			Debt Service	Principal	Interest	Total		
1998	\$ 14,949	\$ 10,599	\$ 4,350	\$ 0	\$ 0	\$ 0	0.00	
1999	14,822	9,999	4,823	0	0	0	0.00	
2000	16,294	13,247	3,047	0	0	0	0.00	
2001	19,526	14,644	4,882	0	0	0	0.00	
2002	18,580	12,999	5,581	0	0	0	0.00	
2003	18,233	13,500	4,733	0	0	0	0.00	
2004	20,080	16,837	3,243	0	0	0	0.00	
2005	19,494	15,989	3,505	0	0	0	0.00	
2006	20,679	17,323	3,356	0	0	0	0.00	
2007	23,015	19,886	3,129	0	0	0	0.00	

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Finance Department, City of San José

CITY OF SAN JOSE
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(\$ 000's)

SCHEDULE XIII
(Concluded)

PARKING SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1998	\$ 6,857	\$ 4,359	\$ 2,498	\$ 250	\$ 6	\$ 256	9.76
1999	7,066	4,597	2,469	0	0	0	0.00
2000	7,680	5,093	2,587	0	0	0	0.00
2001	9,383	8,923	460	0	0	0	0.00
2002	9,134	6,443	2,691	0	0	0	0.00
2003	10,861	7,001	3,860	0	0	0	0.00
2004	9,710	7,710	2,000	0	0	0	0.00
2005	9,902	6,978	2,924	0	0	0	0.00
2006	10,198	8,209	1,989	0	0	0	0.00
2007	10,382	7,941	2,441	0	0	0	0.00

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Finance Department, City of San José

WASTEWATER TREATMENT SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1998	\$ 124,394	\$ 54,890	\$ 69,504	\$ 7,675	\$ 8,229	\$ 15,904	4.37
1999	126,552	84,662	41,890	8,775	6,737	15,512	2.70
2000	124,017	93,073	30,944	12,269	7,683	19,952	1.55
2001	121,070	80,220	40,850	12,781	7,269	20,050	2.04
2002	118,409	84,059	34,350	13,385	5,881	19,266	1.78
2003	112,333	78,798	33,535	8,994	5,385	14,379	2.33
2004	101,281	78,393	22,888	6,920	5,057	11,977	1.91
2005	119,995	87,749	32,246	7,151	5,037	12,188	2.65
2006	116,453	85,936	30,517	14,389	4,775	19,164	1.59
2007	124,754	89,313	35,441	7,533	3,786	11,319	3.13

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Environmental Services Department, City of San José

CITY OF SAN JOSE
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Calendar Year	Population (1), (2)	Taxable Assessed Values (3) (\$000's)	Per Capita Taxable Property Values (3)	Average Unemployment Rate % (4)
1998	893,969	\$ 52,485,787	\$ 58,711	3.6
1999	909,100	58,440,633	64,284	3.2
2000	923,591	63,947,881	69,238	3.0
2001 (*)	894,943	70,951,639	79,281	2.3
2002 (**)	917,971	81,854,846	89,169	4.2
2003 (**)	925,000	86,648,560	93,674	9.8
2004 (**)	926,200	90,040,619	97,215	9.6
2005 (**)	945,000	92,573,480	97,961	7.2
2006 (**)	954,000	100,268,765	105,104	6.0
2007 (**)	974,000	109,708,285	112,637	5.0

Note: Data pertaining to personal income is not readily available, thus the City used taxable assessed values to calculate per capita taxable property values.

Sources:

1. City of San José Planning Department, Census 2000(*)
2. State Department of Finance (**)
3. Department of Finance, County of Santa Clara
4. State of California, Employment Development Department, Labor Market Information Division

CITY OF SAN JOSE
 PRINCIPAL EMPLOYERS
 2007

Taxpayer	Number of Employees	Percent of Total Employment
Cisco Systems	17,200	1.90%
County of Santa Clara	15,360	1.70%
City of San Jose *	6,034	0.67%
IBM	6,650	0.73%
San Jose State University	3,030	0.33%
eBay Inc.	3,010	0.33%
Hitachi	2,800	0.31%
San Jose Unified School District	2,670	0.29%
Xilinx, Inc.	2,440	0.27%
Kaiser Permanente	2,120	0.23%
Adobe Systems Inc.	2,000	0.22%
Good Samaritan Hospital	1,850	0.20%
KLA - Tencor	1,850	0.20%
Cadence Design Systems	1,800	0.20%
Sammina - SCI	1,480	0.16%

Note: Data pertaining to principal employers for nine years ago is not readily available.

(*) Full-time employees.

Source: City of San Jose, Planning, Building & Code Enforcement Department, Finance Department

CITY OF SAN JOSE
 FULL-TIME AND PART-TIME CITY EMPLOYEES
 LAST TEN FISCAL YEARS

Full-Time and Part-Time Employees as of June 30

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
City Council Staff	54	81	88	85	100	99	97	97	94	85
City Manager's Office	70	77	84	101	115	97	95	108	109	126
City Auditor's Office	21	24	28	26	28	28	23	21	20	17
City Attorney's Office	83	92	93	98	98	93	91	88	82	87
City Clerk's Office	18	17	18	17	18	20	13	14	15	19
Information Technology	90	98	104	120	129	113	109	117	100	102
Planning, Building & Code Enforcement	281	303	315	336	349	335	336	320	309	351
Police Department	1,938	1,962	1,960	1,993	2,018	1,990	1,962	1,898	1,881	1,934
Independent Police Auditor	5	5	4	6	8	6	6	5	6	6
Fire Department	777	771	765	802	831	796	775	766	801 ⁽¹⁾	859
Library Department	529	528	540	566	577	528	543	589	621	733 ⁽²⁾
Finance Department	147	140	129	130	137	107	106	106	133	127
Human Resources	146	125	108	130	175	189	146	123	139	164
Airport	275	302	311	332	348	361	362	360	347	360
Convention, Arts and Entertainment	459	465	604	142	155	129	118	93	71	78
General Services Department	329	341	352	347	351	338	325	298	178 ⁽¹⁾	189
Transportation	412	441	444	500	519	500	480	452	447	431
Public Works Department	382	412	430	433	464	455	440	383	365	347
Office of Economic Development	14	14	16	42	44	46	54	60	85	75
Environmental Services Department	423	434	438	434	414	408	401	424	418	460
Parks, Recreation & Neighborhood Svs	1,752	1,593	2,364	3,581	3,159	2,323	1,944	1,960	2,214	1,956
Housing Department	46	54	64	66	64	67	70	66	67	80
Retirement Services	14	13	15	20	21	23	23	21	26	29
	8,265	8,292	9,274	10,307	10,122	9,051	8,519	8,369	8,528	8,615

Note:

1. Effective FY 2005-2006, the Purchasing Group was transferred from the General Services Department to the Finance Department.
2. Effective FY 2006-2007, the City opened the Evergreen and Cambrian libraries.

Source: Finance Department, City of San José

CITY OF SAN JOSE
OPERATING INDICATORS
LAST SIX FISCAL YEARS

SCHEDULE XVII

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
AIRPORT:						
Takeoffs Per Year:						
Commercial Airline Operations	145,271	129,317	113,972	98,892	97,198	97,600
Cargo Commercial Airlines Operations	6,582	5,815	4,636	3,594	3,464	3,384
Taxi / Commuter Commercial	5,690	10,385	19,032	29,672	30,756	28,806
General Aviation	97,661	78,618	62,510	63,708	61,907	55,021
Military Flights	295	211	125	99	83	103
Landings Per Day:						
Commercial	432	199	189	181	180	178
General Aviation	266	108	86	87	85	75
Number of Passengers Per Year:						
Business	6,394,000	4,320,000	5,136,000	5,148,960	5,208,960	5,113,920
Non-Business	7,367,000	6,480,000	5,564,000	5,578,040	5,643,040	5,540,080
ENVIRONMENT AND UTILITIES:						
Water:						
Gallons of Wastewater Treated Per Day (in millions)	122	118	118	116	116	116
Gallons of Municipal Water Consumption Per Year (in billions)	7.2	7.0	7.0	7.4	7.7	7.7
Recycled Materials:						
Tons of Recyclables	100,637	95,217	69,615	100,703	104,631	105,648
Tons of Yard Trimmings	123,066	127,401	135,733	141,061	146,706	161,142
Gallons of Used Motor Oil	210,135	212,276	194,645	244,647	249,477	165,357
FIRE:						
Fires Per Year	2,250	2,245	2,200	1,700	2,794	3,270
Hazardous Materials Incidents Per Year	600	500	500	350	221	330
Fire Safety Code Inspections Per Year	13,000	16,000	16,000	16,000	16,050	14,123
Emergency Medical Calls Per Year	NA	40,000	40,000	40,650	41,322	41,616
LIBRARIES:						
Circulation	9,368,248	11,635,848	13,491,212	14,170,776	14,449,984	14,200,000
Reference Questions	413,080	500,345	536,073	529,641	489,282	550,000
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:						
Annual Participant Hours / Attendance in Recreation Programs *	11,500,000	11,160,164	4,226,800	3,592,800	3,679,836	2,610,890
POLICE:						
911 Calls Per Year	220,612	212,152	202,891	235,100	317,884	368,855
311 Calls Per Year	292,922	285,214	301,144	300,700	265,548	259,834
Cases Investigated Per Year	25,000	32,472	33,202	24,262	37,399	42,000
BUILDING PERMITS:						
Number issued:						
New Buildings	789	1,023	1,166	1,206	1,201	1,534
Building Alterations	7,968	8,976	8,924	8,547	8,025	7,718
Value:						
New Buildings	673,270,409	552,699,198	473,149,068	532,785,367	466,877,910	535,783,080
Building Alterations	322,390,480	371,974,285	331,486,068	273,798,097	358,482,282	412,444,929

Note: As certain data required by GASB 44 was not readily available prior to 2002 the City of San José has elected to show six years of data in this schedule.

(*) For fiscal years 2002 and 2003, participation was measured using hours. Effective FY 2003-2004, participation was changed from hours to attendance.

Source: Norman Y. Mineta San José International Airport
City Manager's Office, City of San José

CITY OF SAN JOSE
 CAPITAL ASSET STATISTICS
 BY FUNCTION
 LAST SIX FISCAL YEARS

SCHEDULE XVIII

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
AIRPORT:						
Terminals	2	2	2	2	2	2
Runways	3	3	3	3	3	3
Public Parking Spaces:						
Short-Term Parking	3,100	2,878	2,888	2,888	2,888	2,856
Long-Term Parking	4,100	4,100	4,000	4,050	4,050	3,646
ENVIRONMENT AND UTILITIES:						
Wastewater:						
Miles of Municipal Sewer Mains	2,169	2,169	2,181	2,190	2,195	2,200
Maximum Daily Capacity (millions of gallons)	167.0	167.0	167.0	167.0	167.0	167.0
Water:						
Meters in Municipal Service Water Area	25,161	25,500	26,025	26,416	26,954	26,954
Miles of Water Mains	360	311	325	330	340	340
FIRE:						
Stations	31	31	31	31	31	31
LIBRARIES:						
Main Library	1	1	1	1	1	1
Branches	17	17	17	17	20	20
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:						
Park Sites	149	149	170	194	159	163
Community Centers	19	19	19	27	28	30
POLICE:						
Station	1	1	1	1	1	1
Vehicles and Motorcycles	451	418	412	399	384	384
Horses and Dogs	32	34	33	23	26	29
Aircraft	2	2	2	2	2	2

Note: As certain data required by GASB 44 was not readily available for years prior to 2002, the City of San José has elected to show six years of data for this schedule.

Source: City Manager's Office, City of San José