

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT  
CALIFORNIA**

Comprehensive Annual Financial Report

Prepared by the Department of Financial Services

For the Fiscal Year Ended June 30, 2011

Linda Koelling, Mayor

Art Kiesel, Vice Mayor

Rick Wykoff, Councilmember

Pam Frisella, Councilmember

Charlie Bronitsky, Councilmember

James C. Hardy, City Manager/City Treasurer

Kristi A. Chappelle, Assistant City Manager

Jean B. Savaree, City Attorney

Steve Toler, Finance Director

Ray Towne, Public Works Director

Rebecca Burnside, Human Resources Director

Craig Courtin, Police Chief

Kevin Miller, Parks & Recreation Director

Daniel Belville, Fire Chief

Richard Marks, Community Development Director

Doris Palmer, City Clerk

Cover page photo courtesy of: Francis DeGuzman

**City of Foster City and Estero Municipal Improvement District  
 Comprehensive Annual Financial Report  
 For the fiscal year ended June 30, 2011**

**Table of Contents**

---

	<u>Page</u>
<b><u>INTRODUCTORY SECTION</u></b>	
Table of Contents .....	i
Letter of Transmittal .....	v
GFOA Certificate of Achievement for Excellence in Financial Reporting .....	xi
Organization Chart .....	xii
<b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors’ Report</b> .....	1
<b>Management’s Discussion and Analysis (Required Supplemental Information)</b> .....	3
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets .....	17
Statement of Activities and Changes in Net Assets .....	18
<b>Fund Financial Statements:</b>	
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet .....	20
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets .....	21
Statement of Revenues, Expenditures and Changes in Fund Balances .....	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets .....	23
<i>Proprietary Fund Financial Statements:</i>	
Statement of Fund Net Assets .....	24
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	25
Statement of Cash Flows .....	26
<b>Notes to the Basic Financial Statements</b> .....	29
<b>Required Supplementary Information:</b>	
Budget and Budgetary Accounting .....	63
Budgetary Comparison Schedule:	
General Fund .....	64
Schedule of Funding Progress .....	66

**City of Foster City and Estero Municipal Improvement District**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended June 30, 2011**

**Table of Contents, Continued**

---

	<u>Page</u>
<b><u>FINANCIAL SECTION, Continued</u></b>	
<b>Supplementary Information:</b>	
Non-Major Governmental Funds:	
Combining Balance Sheet .....	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	68
Non-Major Special Revenue Funds:	
Combining Balance Sheet .....	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	72
Budgetary Comparison Schedules:	
Traffic Safety .....	74
Measure A .....	75
Gas Tax .....	76
Park-in-lieu.....	77
SLESF/COPS Grant .....	78
California Law Enforcement Equipment.....	79
California Opportunities .....	80
Proposition 42 .....	81
Foster City Foundation.....	82
American Recovery and Reinvestment.....	83
Affordable Housing Reimbursements Agreement.....	84
City/CDA Cooperative Services Agreement.....	85
Internal Service Funds:	
Combining Statement of Fund Net Assets.....	88
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	90
Combining Statement of Cash Flows.....	92

**City of Foster City and Estero Municipal Improvement District  
 Comprehensive Annual Financial Report  
 For the fiscal year ended June 30, 2011**

**Table of Contents, Continued**

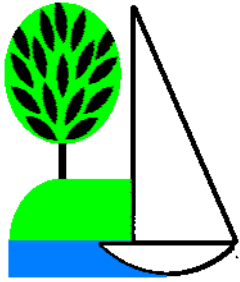
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	<u>Page</u>	
<b><u>STATISTICAL SECTION</u></b>		
Description of Statistical Section.....	95	
Financial Trends:		
Government-Wide:		
Net Assets by Component .....	96	
Changes in Net Assets.....	97	
Governmental Funds:		
Changes in Fund Balances of Governmental Funds.....	98	
Fund Balances, Governmental Funds .....	99	
Revenue Capacity:		
Assessed Value of Taxable Property .....	100	
Property Tax Rates-Direct and Overlapping Governments .....	101	
Principal Property Tax Payers .....	102	
Property Tax Levies and Collections .....	103	
Water Sales by Type of Customer .....	104	
Water and Sewer Rates .....	105	
Debt Capacity:		
Ratios of Outstanding Debt by Type.....	106	
Direct and Overlapping Governmental Activities Debt .....	107	
Legal Debt Margin Information.....	108	
Demographic and Economic Information:		
Demographic and Economic Statistics.....	109	
Principal Employers .....	110	
Operating Information:		
Full-Time Equivalent City Government Employees by Function/Program.....	111	
Operating Indicators by Function/Program.....	112	
Capital Asset Statistics by Function/Program .....	113	
<b>Report on Internal Control over Financial Reporting and on        Compliance and Other Matters Based on        An Audit of Financial Statements Performed in Accordance        With Government Auditing Standards .....</b>		<b>115</b>

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# INTRODUCTORY SECTION

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## *City of Foster City*

### **ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**610 FOSTER CITY BOULEVARD  
FOSTER CITY, CA 94404-2222  
(650) 286-3200  
FAX (650) 574-3483**

December 28, 2011

Honorable Mayor and Members of the City Council,  
Board of Directors of the Estero Municipal Improvement District  
and Citizens of Foster City  
City of Foster City, California

### **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

The Comprehensive Annual Financial Report (CAFR) of the City of Foster City (City) and the Estero Municipal Improvement District (District) for the fiscal year ended June 30, 2011 is hereby submitted. This report was prepared by the Financial Services Department, which is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation of this report, including all disclosures. We believe the data, as presented, are accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and results of operations of the City / District as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain the maximum understanding of the City / District's financial affairs have been included.

The City / District prepared the CAFR using the financial reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. This GASB Statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

The CAFR is organized into three sections:

The *Introductory Section* is intended to familiarize the reader with the organizational structure of the City / District, and nature and scope of the services it provides, and the specifics of its legal operating environment.

The *Financial Section* includes the MD&A and the basic financial statements, including notes and other required supplementary information. The basic financial statements include the government-wide financial statements that present an overview of the City / District's entire financial operations and the fund financial statements that present the financial information of each of the City / District's major funds, as well as nonmajor governmental and other funds. Also included in this section is the independent auditor's report on the financial statements and schedules.

The *Statistical Section* contains comprehensive statistical data on the City / District's financial, physical, economic, social and political characteristics.

## **INDEPENDENT AUDIT**

The City / District requires that its financial statements be audited annually by an independent certified public accountant selected by the City Council / District Board. The City / District has contracted with Caporicci and Larson Inc., a subsidiary of Marcum LLP Certified Public Accountants, to conduct the audit for FY 2010-2011 and the independent auditor's opinion is included in this report.

In addition, the City / District is required to file financial and operational information to the State of California and the County of San Mateo. All required reporting information has been filed in a timely manner.

## **PROFILE OF THE GOVERNMENT**

The District was created by the California State Legislature in 1960 as a general-purpose district with municipal power, including the power to issue municipal bonds. The Board of Directors of the District was created and issued over \$80 million in bonds to provide the infrastructure for a new, master-planned community, which was to be built on what then was a dairy farm and salt ponds adjacent to the San Francisco Bay. The bond proceeds were used to fill and reclaim the land and to finance construction of a man-made lagoon for storm drainage and recreation, a water system, a sewer system, a street system which included roads, bridges and street lights, a parks system, and a fire station. The first residents of this new community known as "Foster City" moved into their homes in 1964.

After several years, the City was officially incorporated on April 27, 1971. The newly elected City Council also began to serve as the Board of Directors for the District. The City is a general law city, and has a Council-Manager form of government. It provides a full range of municipal services including police, fire, public works (lagoons, levees, streets, sewer, water and public improvements), parks and recreation, community development (planning, zoning, building and redevelopment) and general administrative support services.

The Community Development Agency (Agency) was created by ordinance in May 1981 under the provisions of Part I (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the Community Redevelopment Law). The Agency was created primarily to eliminate and reduce many aspects of economic, physical and social blight existing within the City / District due to large, undeveloped tracts of land whose development were essential to the completion of the master-planned community. These parcels were included within the boundaries of the Foster City Community Development Project Area (the Project Area), and goals and objectives were set forth in the redevelopment plan (the Plan) for the Project Area which was adopted by ordinance in November 1981.

The CAFR includes the funds of the primary government, which includes several enterprise activities that are not considered separate legal entities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same board as the City / District and provide services entirely to the City / District.



The City / District continues to provide a wide range of services to its citizens, including:

- Upgrading and maintaining the street system, resurfacing, and modifying of traffic signals at various locations;
- Providing police services at a low per capita cost while maintaining a very low crime rate within the community through neighborhood watch programs and community-oriented policing;
- Providing fire suppression, prevention and advanced life support programs designed to protect the lives and property of the citizens of Foster City;
- Providing quality and innovative leisure and recreational programs to meet the community's needs and making the City a more enjoyable place to live through high quality parks and recreational amenities, entertaining and educational programs, provided in a safe atmosphere;
- Guiding City / District development while maintaining and protecting its physical environment; overseeing the proposed development and construction of properties, structures and facilities; and,
- Assessing the cost effective delivery of services provided by all City / District departments.

## **LOCAL ECONOMY**

Historically, Foster City is an area that has enjoyed relatively high property values and significant economic vitality. Recently, however, the national, state and local economies have suffered in one of the worst recessionary periods since the Great Depression of the 1920's and 1930's.

The commercial and light-industrial developments that have been completed since 1980 have added substantial property and sales tax revenues, employment opportunities for residents within the region, and a substantial daytime population that frequent Foster City businesses. The major employers in the City / District are VISA International, Life Technologies, Gilead Sciences, IBM, Electronics for Imaging and Sony Computer Entertainment America. Major sources of sales and use tax revenues are generated by companies in the business-to-business, general retail, food products, biotech, and electronic equipment industries.

While Foster City has weathered the economic storm of the past three years, revenues have softened from their previous growth patterns:

- Property taxes continue to be the primary source of revenues for the City / District, contributing nearly 59% of General Fund revenues. Property tax increased by \$1.2 million mainly due to the Community Development Agency's Project One Area reaching its tax increment cap during fiscal year 2010-2011. The tax increment revenues were allocated back to the taxing entities based on their respective apportionment allocations.
- General Fund sales tax revenues declined 5% from the prior year as a result of the continued deterioration of the economy.
- Other key revenue sources such as transient occupancy tax, franchise taxes, licenses and permits, and charges for current services increased a combined 16% from the prior year.
- Investment and rental income declined 36% from fiscal year 2009-2010, primarily due to the decline in interest yields associated with fixed-income securities from government agencies in which the City / District primarily invests.

## **LONG-TERM FINANCIAL PLAN**

The City / District's minimum reserve policy for its General Fund is 33-1/3% of annual operating expenditures, and for its Water and Wastewater Funds the policy is 25% of annual operating expenses. In addition, a \$2 million emergency reserve is established for each of the three Capital Projects Funds programs – City, Water and Wastewater. The unassigned fund balance for the General Fund is \$19.3 million, or 66% of annual operating expenditures. The City Capital Projects fund balance ended the year with a balance of \$8.5 million. Water and Wastewater net assets stand at \$8.1 million and \$12.7 million, respectively, well above the minimum reserve levels.

The City has adopted a five-year financial projection model as its basis for developing a long-term financial plan. The plan takes into consideration various financial and economic factors received from various resources. Such information includes residential and commercial property value trends, assessed valuation data, unemployment rates, consumer spending trends, consumer price indices, interest rates, investment performance of the CalPERS investment portfolio, State budget and financial forecasts, and qualitative data received from discussions and interviews with key business leaders in Foster City.

The City / District's long-term financial forecast indicates that General Fund revenues will fall short of expenditures by approximately \$2.8 million, or approximately 9% of annual operating expenditures. The City Council / District Board will need to work with the City Manager and staff to develop a financial plan that will balance the budget by FY 2013-2014 and maintaining the minimum reserve of 33-1/3% of annual operating expenditures through a combination of expenditure reductions and revenue enhancements.

The City's long-term financial forecast as of June 30, 2011 incorporates several key assumptions to maintain the health, safety and welfare of the community. The City / District will set aside \$1.4 million in General Fund resources for long-term capital improvement projects to maintain or replace aging infrastructure. Development is expected to be slower over the next several years, however redevelopment plans for the Pilgrim-Triton and Gilead Sciences Campus development projects are moving forward with developers. These projects will generate property tax, sales tax, and Park-in-Lieu fees. Water and wastewater operations will continue to be self-funded while water supply availability will be a key issue in the community, requiring stronger water conservation programs and implementation of a tiered-rate structure to incent customers to conserve water.

Land development decisions will play a key role in the City / District's long-term financial plans. The 15-acre vacant site between the Government Center and the North Peninsula Jewish Campus remains the most significant undeveloped parcel of publicly owned land in the City and represents a very valuable public asset. The City Council has selected the Foster City Community Partners Team to enter into an exclusive negotiating period to negotiate and establish the business terms that will govern the development of the City-owned 15-acres by February 2012. The proposed land development will be a mixed use development incorporating a continuing care retirement community, assisted living apartments, retail, and a public plaza. The mixed use developments like Metro Center, Marlin Cove, and the planned redevelopment of the Pilgrim-Triton area, will serve to promote the retention of existing businesses, encourage new business development, and help the City meet its state-mandated fair share housing requirements.

One of the key issues facing the City is the potential elimination of redevelopment agencies through the passage of ABx1 26 and ABx1 27 by the California Legislature in June 2011. The State's action is being challenged by the League of California Cities and the California Redevelopment Association. At risk for Foster City is \$19.1 million in affordable housing funds and \$600,000 in public improvements funding if the State's action is upheld by the California Supreme Court. A ruling on this matter is expected by January 15, 2012.

## MAJOR INITIATIVES

The following major initiatives were completed or in progress as of June 30, 2011:

- Park Infrastructure Improvements – The capital projects related to the installation of central irrigation controllers throughout 18 parks to support the water conservation program. In addition, the City has installed and replaced park pathway, concrete sidewalk, curbs and gutters throughout 13 parks.
- Bridge Inspection and Repair – This project consisted of the maintenance and repair of the four bridges in Foster City (Foster City Boulevard, Shell Boulevard, East Hillsdale Boulevard - Rainbow, and Beach Park Boulevard-Bicentennial). It included the replacement of bridge joint seals, installation of concrete joint headers, repairing spalled concrete areas, concrete crack sealing, sealing bridge decks with methacrylate, and placing polyester concrete overlay.
- Other Capital Improvement Projects – Several public works construction projects were completed, including wastewater treatment plant expansion and wastewater system rehabilitation. In addition, several capital improvement projects are underway, including sanitary sewer lift station improvements, Levee Pedway improvements and repair, residential street resurfacing and repair, and synthetic turf soccer and baseball fields at Sea Cloud Park and Port Royal Park.
- Development Plans – Plans for various land use development projects were approved or well under way, including Pilgrim-Triton, Gilead Sciences, Chess Drive Offices, and Visa Incorporated, which stand to generate significant long-term revenues to the City / District.

## ACCOUNTING AND BUDGETING SYSTEMS

The City / District's financial picture is more readily understood with a general introduction to our accounting and budgeting systems. These systems provide the means for allocation of available resources and for the proper control and recording of revenues and expenditures.

As part of our ongoing effort to maintain fiscal stewardship and financial accountability, the City / District uses a fully computerized accounting system. Modifications and enhancements have been made continuously to the accounting system to keep abreast of changing accounting techniques and principles. In developing and evaluating the City / District's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: 1) the safeguarding of assets against loss from unauthorized use or disposition, and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The City / District's internal accounting controls are designed to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City / District's budget is a detailed operating plan that identifies estimated costs and results in relation to estimated revenues. The budget includes: 1) the programs, projects, services and activities to be carried on during the fiscal year; 2) the estimated revenue available to finance the operating plan; and, 3) the estimated spending requirements of the operating plan. The budget represents a process where policy decisions by the City Council / District Board of Directors are made then implemented.

In addition to internal controls, the City / District also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embedded in the annual appropriated budget approved by the City Council / District Board. The City / District is required to adopt an annual budget on or before June 30<sup>th</sup> for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various departments.

The City Council and District Board may amend the budget by resolution. All appropriations lapse at the end of the fiscal year. The budget is adopted at the object level of expenditure within departments. The City Manager may transfer appropriations from one program, activity, or object to another within a department within the same fund but not between departments or funds. Accordingly, the lowest level of budgetary control established by the City Council / District Board is at the department level.

The City / District also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end.

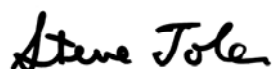
### **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City / District for the year ended June 30, 2010. In order to be awarded a Certificate of Achievement, the City / District published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the report in a timely manner is the result of the dedicated service of the members of the entire Financial Services Department to whom I wish to express my appreciation, especially Lin-Lin Cheng, Assistant Finance Director, and Fiti Rusli, Accountant. I would like to also thank the audit team from Caporicci and Larson for their assistance.

Finally, I also wish to express my sincere thanks and appreciation to the Mayor and the members of the City Council, the City Manager, all of the operating departments, and the Audit Committee for their interest and support towards conducting the financial operations of the City / District in a responsible and progressive manner.

Respectfully submitted,



Steve Toler  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Foster City and Estero  
Municipal Improvement District  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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.



*Linda C. Dandson*

President

*Jeffrey R. Emer*

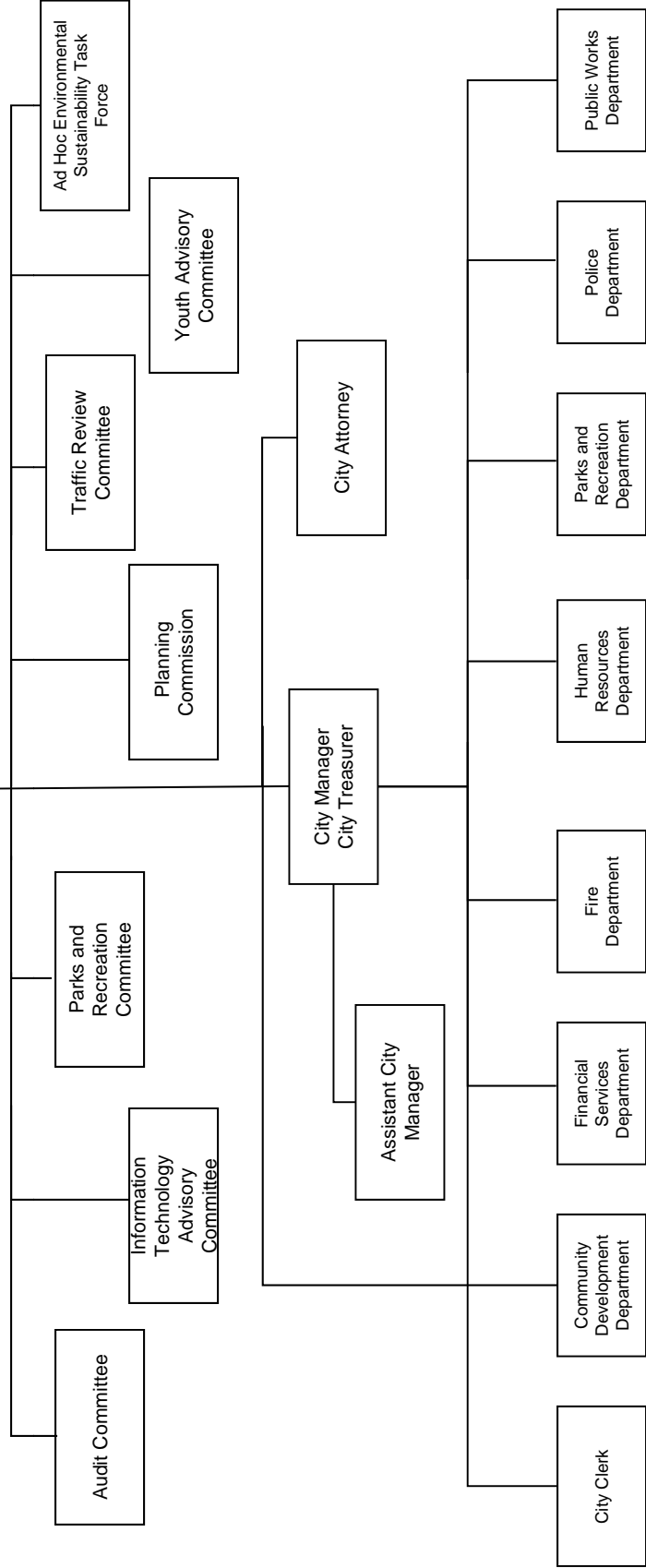
Executive Director

# Foster City Organization Chart

Foster City Residents



**City Council**



# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California

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 Foster City and the Estero Municipal Improvement District, California (City/District), as of and for the year ended June 30, 2011, which collectively comprise the City/District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City/District'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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/District'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 the 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/District's as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 16 of the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

As described in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and Governmental Accounting Standards Board (GASB) Statement No. 59, Financial Instruments Omnibus, as of July 1, 2010.

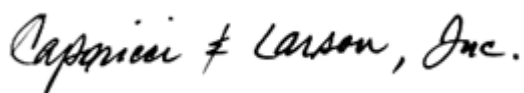


To the Honorable Mayor and Members of the City Council  
of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011 on our consideration of the City/District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 63 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City/District's financial statements as a whole. The introductory section, combining and individual non major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.



Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
December 28, 2011

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

This section of the City of Foster City / Estero Municipal Improvement District's (City / District) Comprehensive Annual Financial Report presents a narrative overview and analysis of the City / District's financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with our letter of transmittal.

**FINANCIAL HIGHLIGHTS**

- The assets of the City / District exceeded liabilities at the close of the fiscal year 2010-2011 by \$269.2 million (*net assets*). Of this amount, \$71.2 million may be used to meet the City / District's ongoing obligations to citizens and creditors (*unrestricted net assets*), \$28.3 million is restricted for specific purposes (*restricted net assets*), and \$169.7 million is invested in capital assets, net of related debt.
- The government's total net assets increased by approximately \$7.6 million during the fiscal year. Governmental activities account for an increase in net assets in the amount of approximately \$5.2 million, and business-type activities account for an increase in net assets by nearly \$2.4 million.
- As of June 30, 2011, the City / District's governmental funds reported combined ending fund balances of \$57.9 million
- The City / District implemented the provisions of Governmental Accounting Standards Board Statement No. 54 – "Fund Balance Reporting and Governmental Fund Type Definitions", reflecting the new categories for fund balances. With respect to the General Fund, the City / District reiterated its reserve policy as of June 30, 2011 to maintain a minimum of 33-1/3% of annual operating expenditures. Unassigned General Fund reserves totaled \$19.3 million, or 66% of annual operating expenditures, nearly double the City / District's minimum reserve policy.
- In spite of the economic recession, General Fund revenues increased by \$842,000, due primarily to a \$1.2 million increase in property taxes as a result of the Community Development Agency's Project Area One reaching its tax increment cap of \$170 million in fiscal year 2010-2011. Those tax increment revenues will now flow back to taxing entities based on their apportionment allocations. General Fund expenditures decreased by \$565,000 due to conscious cost-cutting measures implemented by the City / District during the fiscal year.
- The General Fund reported a deficit of \$3.9 million, or 15% of revenues, during the 2010-2011 fiscal year, of which \$2.4 million was due to expenditures exceeding revenues, and \$1.5 million was due to transfers to Public Transportation Enterprise activities of approximately \$108,000 and City Capital Projects fund of \$1.4 million. Nevertheless, General Fund reserves available for appropriation were \$1.5 million higher than was anticipated in the original budget projections for fiscal year 2010-2011, primarily due to expenditure savings and revenues exceeding forecasts.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The City / District's annual report comprises of four parts: 1) *management's discussion and analysis* (this section); 2) *basic financial statements*; 3) *required supplementary information*; and, 4) an optional section that presents *combining statements* for non-major governmental funds, internal service funds, and *budgetary comparison schedules* for non-major governmental funds.

The *basic financial statements* are comprised of three components: 1) Government-wide financial statements; 2) fund financial statements; and, 3) notes to the basic financial statements.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

The *required supplementary information* includes a General Fund budgetary comparison schedule as well as a schedule of funding progress for employee pension plans.

The **Government-Wide Financial Statements** are designed to provide readers with a broad overview of City / District finances in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City / District's net assets changed during the current 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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the City / District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended 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 / District include general government, public safety, public works, community development, and parks and recreation. The business-type activities of the City / District include water, wastewater and public transportation operations.

The **Fund Financial Statements** are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City / District, like other states and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City / District can be divided into two primary categories: *governmental funds* and *proprietary funds*.

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds 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 determining what financial resources are available in the near future to finance the City / District's programs.

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 this comparison between *governmental funds* and *governmental activities*.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

The City / District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Affordable Housing Reimbursement Agreement, City Capital Project, and Community Development Agency, all of which are considered to be *major funds*. Data from the remaining governmental funds are combined into a single, aggregated column entitled "Other Funds." Individual and combining fund data for each of these non-major governmental funds is provided as *other supplementary information* in this report.

**Proprietary funds** are generally used to account for services for which the City / District charges customers – either outside customers, or internal units of departments of the City / District. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City / District maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City / District uses enterprise funds to account for the water, wastewater and public transportation operations.
- *Internal service funds* are used to report activities that provide supplies and services for certain City / District programs and activities. The City / District uses internal service funds to account for the City / District's vehicle rental, equipment replacement, self-insurance, information technology, building maintenance, longevity recognition benefits, and the Public Employees Medical and Hospital Care Act (PEMHCA) benefits services. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

**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.

The **required supplementary information** includes the City / District's General Fund budgetary comparison schedule and the Schedule of Funding Progress for the City / District's pension plan obligations. The City / District adopts an annual appropriated budget for its General Fund, and a budgetary comparison schedule is provided to demonstrate compliance with this budget.

The **other supplementary information** contains the combining and individual fund statements and schedules, which provide information for non-major governmental funds and the internal service funds, all of which are presented immediately following the required supplementary information.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Assets** - The City / District's combined net assets increased by \$7.7 million, or 2.93%, from the prior year, as depicted in the following table.

Condensed Statement of Net Assets  
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
<b>Assets:</b>							
Current and other assets	\$ 88,325,559	\$ 75,758,536	\$ 24,111,010	\$ 22,611,968	\$ 112,436,569	\$ 98,370,504	14.30%
Capital assets	108,007,645	111,894,545	61,718,653	60,575,907	169,726,298	172,470,452	-1.59%
Total assets	196,333,204	187,653,081	85,829,663	83,187,875	282,162,867	270,840,956	4.18%
<b>Liabilities:</b>							
Current and other liabilities	6,249,504	3,336,826	1,933,073	1,823,993	8,182,577	5,160,819	58.55%
Long-term liabilities	4,233,228	3,678,171	518,204	431,684	4,751,432	4,109,855	15.61%
Total Liabilities	10,482,732	7,014,997	2,451,277	2,255,677	12,934,009	9,270,674	39.52%
<b>Net assets:</b>							
Invested in capital assets, net of related debt	108,007,645	111,894,545	61,718,653	60,575,907	169,726,298	172,470,452	-1.59%
Restricted	28,263,106	22,043,974	-	-	28,263,106	22,043,974	28.21%
Unrestricted	49,579,722	46,699,565	21,659,733	20,356,291	71,239,455	67,055,856	6.24%
Total net assets	\$ 185,850,472	\$ 180,638,084	\$ 83,378,386	\$ 80,932,198	\$ 269,228,858	\$ 261,570,282	2.93%

The net assets of the City / District's government activities increased by approximately \$5.2 million, which consists of three components:

- Amounts invested in capital assets** – this amount decreased by \$3.9 million due to depreciation on those assets net of capitalized assets.
- Restricted assets** – this amount increased by \$6.2 million. The one-time infusion of \$4 million in park-in-lieu fees from the developer of the Pilgrim-Triton site accounts for a majority of this increase, which after reimbursement of \$1.8 million to the City Capital Investments fund for prior capital expenditures left a \$2.2 million net increase in fund balance. As discussed earlier, the Community Development Agency's Project Area One reached its tax increment cap of \$170 million in fiscal year 2010-2011. The tax increment received from that project area was intended to be used to support affordable housing needs and public improvement in the community. Legislation was being proposed by the State as early as January 2011 to eliminate redevelopment agencies and strip those agencies of their unencumbered assets. During the time that versions of this legislation were winding their way through the State Capitol, the Agency determined to not spend some of those funds given the legislation's proposed "claw-back" provisions to undo commitments made by the Agency from January 1, 2011 through the date it was enacted in State law. The Legislature eventually approved ABX1 26 and ABx1 27, which was signed by the Governor on June 29, 2011. This legislation poses significant uncertainty surrounding the use of redevelopment agency funds, and is currently under appeal at the California Supreme Court. If the Legislation is upheld, the State could potentially take those unencumbered funds from the City / District and redistribute those funds to other taxing entities unless the City pays a \$6.1 million payment to allow the Agency to continue. As such, there was an increase of approximately \$5.4 million in the net assets generated by Project Area One during the year given the uncertainty of the legislation. Finally, there was a transfer from restricted to unrestricted Capital Improvement funds of \$1.2 million for funds that were previously restricted to certain projects for which restrictions were released.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

3. **Unrestricted net assets** – this balance increased by \$2.9 million. Of this amount, \$2.2 million was related to net increases in Internal Service Funds net assets, primarily due to increases in the investment portfolio associated with the Longevity Recognition and PEMCHA Benefits Funds. Unrestricted Capital Improvement funds increased by \$2.5 million, due primarily to the aforementioned \$1.8 million in Park-In-Lieu funds transferred from restricted assets to unrestricted assets for reimbursement of capital projects expended in prior years, transfer of restricted to unrestricted funds of \$1.2 million, net of \$700,000 operating losses for the fund. Offsetting these increases were reductions in General Fund unrestricted net assets of \$2.7 million due to expenditures exceeding revenues.

The net assets of the City / District's business-type activities increased by approximately \$2.5 million, primarily from water and wastewater revenues exceeding expenses in anticipation of future capital improvement projects and water usage penalties paid as part of the conservation-based tiered water rate structure implementation.

**Changes in Net Assets** – The following table identifies the changes in net assets for governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
<b>Program Revenues</b>							
Charges for services	\$ 3,056,814	\$ 2,406,176	\$ 16,029,471	\$ 14,074,895	\$ 19,086,285	\$ 16,481,071	15.81%
Operating grants and contributions	1,374,103	813,296	140,709	-	1,514,812	813,296	86.26%
Capital grants and contributions	4,157,426	680,355	-	-	4,157,426	680,355	511.07%
<b>General Revenues</b>							
Taxes	29,478,906	32,863,516	-	-	29,478,906	32,863,516	-10.30%
Contributions not restricted to specific purposes	4,225,824	4,365,018	-	-	4,225,824	4,365,018	-3.19%
Unrestricted investment and rental income	2,409,846	2,193,541	256,984	296,930	2,666,830	2,490,471	7.08%
Other	117,764	253,121	140,335	132,999	258,099	386,120	-33.16%
<b>Total Revenues</b>	<b>44,820,683</b>	<b>43,575,023</b>	<b>16,567,499</b>	<b>14,504,824</b>	<b>61,388,182</b>	<b>58,079,847</b>	<b>5.70%</b>
<b>Expenses</b>							
General government	3,135,273	3,715,494	-	-	3,135,273	3,715,494	-15.62%
Public safety	17,646,960	17,561,979	-	-	17,646,960	17,561,979	0.48%
Public works	4,924,309	4,792,866	-	-	4,924,309	4,792,866	2.74%
Community development	5,904,547	10,058,917	-	-	5,904,547	10,058,917	-41.30%
Parks and recreation	7,889,206	7,486,684	-	-	7,889,206	7,486,684	5.38%
Interest on long-term debt	-	71,079	-	-	-	71,079	-100.00%
Water operations	-	-	8,690,887	8,272,135	8,690,887	8,272,135	5.06%
Wastewater operations	-	-	5,334,103	5,875,701	5,334,103	5,875,701	-9.22%
Public transportation	-	-	204,321	298,964	204,321	298,964	-31.66%
<b>Total Expenses</b>	<b>39,500,295</b>	<b>43,687,019</b>	<b>14,229,311</b>	<b>14,446,800</b>	<b>53,729,606</b>	<b>58,133,819</b>	<b>-7.58%</b>
<b>Excess (deficiency) of revenues over (under) expenses before transfers</b>							
	<b>5,320,388</b>	<b>(111,996)</b>	<b>2,338,188</b>	<b>58,024</b>	<b>7,658,576</b>	<b>(53,972)</b>	<b>-14289.91%</b>
Transfers in (out)	(108,000)	(10,519)	108,000	10,519	-	-	0.00%
<b>Change in net assets</b>	<b>5,212,388</b>	<b>(122,515)</b>	<b>2,446,188</b>	<b>68,543</b>	<b>7,658,576</b>	<b>(53,972)</b>	<b>-14289.91%</b>
Net assets, beginning of year	180,638,084	180,760,599	80,932,198	80,863,655	261,570,282	261,624,254	-0.02%
Net assets, end of year	\$ 185,850,472	\$ 180,638,084	\$ 83,378,386	\$ 80,932,198	\$ 269,228,858	\$ 261,570,282	2.93%

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

Key changes to **revenue** categories are explained below:

- Charges for Services – Increase in Governmental Activities is primarily attributed to increases planning and building permit revenues associated with key development projects in the City as well as increases to fees in the Master Fees and Charges Schedule to enhance revenues to the General Fund based on the costs of providing those services. Increases in Business-Type Activities were due to increases in water and wastewater rates of 9% and 5%, respectively. Also, the introduction of a conservation-based water rate structure generated nearly \$600,000 of excess revenues above forecast due to penalties associated with that rate structure. These excess revenues are being put back into water conservation rebate and educational programs.
- Operating Grants and Contributions – The increase in Governmental Activities was due primarily to an increase in gas tax revenues due to rising fuel prices. The \$141,000 in Business-Type Activities relates to operating grants received from the City / County Association of Governments and the San Mateo County Transportation Authority that funds over 50% of the operations of the Connections Shuttle.
- Capital Grants and Contributions – The significant increase in 2011 was due to \$4 million in Park-In-Lieu fees received from the developer of the Pilgrim-Triton site.
- Taxes – The largest portion of these taxes is property taxes (\$26.2 million), which decreased from the prior year as tax increment from the Project Area One area of the Community Development Agency reached its tax increment cap, and as such a portion of the tax increment revenues previously received by the Agency was reapportioned to the various taxing agencies. All other tax revenues (transient occupancy, franchise, and other taxes) increased by 4%, primarily from increases in transient occupancy tax revenues due to increased occupancy rates at the two hotels in Foster City.
- Contributions not restricted to specific purposes – Sales and use taxes comprise the entirety of this line-item, which fell by 3.2% from the prior year due to softer retail sales from the larger sales tax producers.
- Unrestricted investment and rental income – The increase in this line item comes primarily increased investment income on assets in the Longevity Recognition and PEMCHA funds due to gains in market value and investment earnings.
- Other revenues – The decrease in Government-wide revenues was primarily due a \$162,500 payment in 2010 from Allied Waste required under their contract on their rate balancing account. The contract with Allied Waste expired in 2011 and this payment was not required of the new solid waste company.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

Key changes in **expense** categories are explained below:

- General government, Public safety and Public works – General government expenditures decreased due to planned reorganizations and other cost-cutting measures in various departments that reduced costs by 15%. Public safety costs grew by less than 1%. Reduced personnel and supplies costs were made, including a shared services model for Fire administration through a partnership with the City of San Mateo sharing a Fire Chief position. These reductions, however, were offset by increases in pension costs and OPEB liabilities. Public works costs rose by 2.7%, mainly from costs associated with the replacement of more than 260 street lights to energy-saving LED lights, costs for which were fully paid from federal grants and rebates from Pacific Gas & Electric.
- Community development – the decrease in this category is primarily due to the fact that the State took \$5.6 million away from the Community Development Agency in 2010, whereas the takeaway in 2011 was \$1.2 million. Other decreases were as a result of expenditures deferred pending the outcome of the State's legislation to eliminate redevelopment agencies (see above).
- Parks and recreation – increases in this category were primarily due to increased water costs associated with the rate increases provided by the District and increased pension costs.
- Interest on long-term debt – the City / District paid off the last of its bonded indebtedness in September 2009.
- Water operations – the increase in water operations expenses were due primarily to the 15% increase in the cost of water purchased from the City and County of San Francisco due to the costs of a \$4.6 billion seismic retrofit project on the Hetch Hetchy water system, partially offset by reduced water consumption from the prior year.
- Wastewater operations – decreases in expenditures were due primarily to decreased costs associated with the San Mateo WWTP operations costs billed to the District as result of decreased flows from Foster City as well as reduced capital improvement costs on the WWTP.
- Public transportation – the City eliminated one of the bus lines servicing Foster City, thereby reducing the costs of the program.

**FINANCIAL ANALYSIS OF THE CITY / DISTRICT'S FUNDS**

**Governmental funds.** As of June 30, 2011, the City / District's governmental funds reported combined fund balances of \$57.9 million. Of this total, \$28.6 million are considered restricted funds, \$8.9 million are committed by the City Council / District Board for specified projects or uses, another \$1.0 million are assigned by the City Manager (as duly authorized by Council policy) for specified uses, and the remaining \$19.3 million are unassigned and available for general use.



**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

Total revenues, expenditures and changes in fund balances for the fiscal year ended June 30, 2011 are shown below in comparison to the year ended June 30, 2010.

	2011		2010		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
<b>Revenues by Source</b>						
Taxes	32,846,406	74.93%	36,445,627	82.78%	(3,599,221)	-9.88%
Licenses and permits	1,289,106	2.94%	1,050,758	2.39%	238,348	22.68%
Intergovernmental	1,522,599	3.47%	1,546,873	3.51%	(24,274)	-1.57%
Charges for current services	1,659,773	3.79%	1,392,205	3.16%	267,568	19.22%
Fines and forfeitures	159,303	0.36%	158,199	0.36%	1,104	0.70%
Park-in-lieu fees	4,000,000	9.13%	-	0.00%	4,000,000	100.00%
Investment and rental income	1,796,472	4.10%	2,608,180	5.92%	(811,708)	-31.12%
Other	559,764	1.28%	827,083	1.88%	(267,319)	-32.32%
<b>Total revenues</b>	<b>43,833,423</b>	<b>100.00%</b>	<b>44,028,925</b>	<b>100.00%</b>	<b>(195,502)</b>	<b>-0.44%</b>
<b>Expenditures by Function</b>						
General Government	2,689,200	7.41%	3,271,525	6.87%	(582,325)	-17.80%
Public safety	17,280,819	47.60%	17,412,155	36.56%	(131,336)	-0.75%
Public works	2,603,647	7.17%	2,426,798	5.09%	176,849	7.29%
Community development	5,825,075	16.04%	10,017,098	21.03%	(4,192,023)	-41.85%
Parks and recreation	6,780,921	18.68%	6,340,330	13.31%	440,591	6.95%
Capital outlay	970,235	2.67%	2,391,675	5.02%	(1,421,440)	-59.43%
Debt service	-	0.00%	4,956,391	10.41%	(4,956,391)	-100.00%
Interest on interfund loans	156,685	0.43%	815,021	1.71%	(658,336)	-80.78%
<b>Total expenditures</b>	<b>36,306,582</b>	<b>100.00%</b>	<b>47,630,993</b>	<b>100.00%</b>	<b>(11,324,411)</b>	<b>-23.78%</b>
<b>Revenues over (under) expenditures</b>	<b>7,526,841</b>		<b>(3,602,068)</b>		<b>11,128,909</b>	
Other financing sources (uses)	(108,000)		(1,311,500)		1,203,500	
<b>Net change in fund balances</b>	<b>7,418,841</b>		<b>(4,913,568)</b>		<b>12,332,409</b>	
Fund balances, beginning of year	50,492,197		55,405,765			
Fund balances, end of year	57,911,038		50,492,197			

Key changes to **revenue** categories are explained below:

- **Taxes** – as previously discussed, tax revenues decreased primarily because Project Area One reached its tax increment cap during 2011, thereby apportioning nearly \$4.8 million in previously received tax increment to other taxing agencies. The District, as one of those taxing agencies received nearly \$1.2 million of these “spillover” tax increment revenues.
- **Licenses and permits** – Building permit revenues (including electrical, mechanical, and plumbing permits) were the primary cause of the increase in this revenue category, due to the construction occurring at the Gilead Sciences Campus and Pilgrim-Triton projects.
- **Intergovernmental** – this revenue category was fairly consistent with the prior year, with increases of \$175,000 in reimbursements from other government agencies in a variety of expenses (e.g., curb repairs, mutual aid response) offset by \$200,000 reduction in funds received under the federal American Recovery and Reinvestment Act program.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

- Charges for current services – Plan checking and related fees increased by \$243,000 due to the activity associated with the Gilead Sciences Campus and Pilgrim-Triton redevelopment projects, and an additional increase of \$25,000 in recreation program revenues due to enhanced enrollment and increased fees.
- Fines and forfeitures – this revenue category was consistent with the prior year.
- Investment and rental income – falling interest rates on fixed-income securities was predominantly responsible for the decrease in the revenues associated with this category.
- Other revenues – the decrease in this category was primarily due to the elimination of payments from Allied Waste as previously discussed (total \$162,500), and various other minor accounts in this category (e.g., elimination of PenTV cablecasting services and US Passport acceptance services due to service level reductions).

Key changes in **expense** categories are explained below:

- General government – as indicated previously, planned reorganizations and other cost-cutting measure led to the decrease in this category.
- Public safety – these costs reduced due to personnel cuts and the implementation of the shared service model for Fire administration services for a Fire Chief with the City of San Mateo, which was counterbalanced by increased pension costs.
- Public works – As mentioned previously, these costs increased primarily due to the expenditure of \$157,000 to replace 260 street lights with energy-saving LED lights, which was paid entirely from federal and utilities grants. Various cost reduction measures were offset by increased pension costs.
- Community development – as indicated previously, the decrease in this category is primarily due to the fact that the State took \$5.6 million away from the Community Development Agency in 2010, whereas the takeaway in 2011 was \$1.2 million. Other decreases were as a result of expenditures deferred pending the outcome of the State's legislation to eliminate redevelopment agencies (see above).
- Parks and recreation – as previously discussed, increases in parks maintenance costs were primarily the result of utilities increases associated with water costs and increased pension costs.
- Capital outlay – Projects in 2010 related to roadway improvements and the completion of the Catamaran Park Bulkhead improvement project, whereas current year projects included primarily roadway improvements and small parks improvement projects.
- Debt service – the final payment of the coupons associated with the Community Development Agency's Tax Allocation Refunding Bonds and the City / District's Vintage Park Special Assessment Bonds were made in 2010. The City / District is now free of any bonded indebtedness.
- Interest on interfund loans – the last loan balance from the Community Development Agency to the City / District General Fund was paid off in full in 2011.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

The following provides highlights of the four (4) **Major Governmental Funds**.

**General Fund** – The General Fund represents the single most important operating fund of the City / District. The legislative body and executive staff spend a significant amount of time during the year closely monitoring the financial health and operations of this fund, which provides core municipal services to the public. Total fund balance at June 30, 2011 was \$21.2 million, which declined \$3.9 million in fiscal year 2010-2011. Unassigned fund balances finished the year at a balance of \$19.3 million, decreasing by \$3.2 million from the prior year. The overall decline in fund balance was due to the continued decline of revenues as a result of the economic recession being experienced locally, statewide and nationally, transfers to the City Capital Projects of \$1.4 million to being to fund future capital improvement projects, and conscious decisions by the City Council to use reserves in order to maintain service levels as much as possible. Unassigned fund balances, however, is the key financial indicator of the overall health of the General Fund, which finished the year nearly \$2.8 million higher than originally anticipated in the budget. General Fund Unassigned and total fund balance represent 65.8% and 72.4%, respectively, of annual operating expenditures.

**Affordable Housing Reimbursement Agreement** – The Community Development Agency entered into an agreement with the City to manage its affordable housing programs and administer the expenditure of net available tax increment collected by its Project Area One, Marlin Cove, and Hillsdale/Gull projects over the remaining life of those project areas. As Project Area One reached its tax increment cap in 2011, all remaining assets, including cash and loans receivable under the first-time homebuyers program and the Metro Center Senior Housing project, were transferred to the City in accordance with the terms of that agreement. The net funds available for disbursement under the agreement totaled \$19.1 million as of June 30, 2011. The availability of those funds is in question pending the outcome of the lawsuit filed by the League of California Cities and the California Redevelopment Association against the State of California contending that the passage of ABx1 26 and ABx1 27 on June 29, 2011, which stand to eliminate redevelopment agencies unless they make a continuation payment to the State, is unconstitutional. The City continues to operate its affordable housing properties, and makes the necessary payments (known as “enforceable obligations”) of the Agency pending the outcome of the aforementioned lawsuit.

**City Capital Projects Fund** – The City Capital Projects fund is also a key fund of the City / District, which pays for infrastructure improvement and significant maintenance projects for which other resources (e.g., Gas Tax, Measure A, or Proposition 42 funds) do not pay. The primary source of funding of these projects is the General Fund, short of any funds received from federal, state or local grants. Restricted Funds of \$607,000 originate from Project Area One of the Community Development Agency under the terms of a Public Improvements Reimbursement Agreement under which the City is obligated to implement various public improvement projects on behalf of the Agency since that project area no longer received tax increment revenue. Committed fund balances total \$7.9 million, which increased by \$2.5 million from the prior year due to a transfer of \$1.4 million from the General Fund for the purpose of funding future capital improvement projects, a \$1.8 million transfer from Park-in-Lieu fees in reimbursement of previously funded synthetic turf projects anticipated to be funded from such fees, net of the expenditure of capital improvement funds for currently funded projects underway.

**Community Development Agency Funds** – the Agency accounts for revenues from property tax increment derived from the Agency's investment in upgrading properties for development. Project Area One, which comprised 93% of the total tax increment collected by the Agency, reached its tax increment cap in FY 2010-2011. The remaining funds for that Project Area were transferred to the City under the terms of three agreements: the Affordable Housing Reimbursement Agreement and Public

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

Improvements Reimbursement Agreement (see above), and a Cooperative Services Agreement (to administer the final debt payments to the San Mateo Union High School District under the terms of a stipulated judgment and settlement agreement). Total funds transferred from the Agency to the City under those agreements totaled \$22 million. The remaining fund balance of \$518,000 represents funds associated with the Marlin Cove and Hillsdale/Gull project areas.

The following provides highlights of the operations of the four (4) **Proprietary Funds** for the year.

**Water** – Estero Municipal Improvement District provides water services to customers located within the District's area, primarily the "94404" zip code which encompasses all of Foster City and a portion of San Mateo. Unrestricted net assets for the water fund total \$8.1 million as of June 30, 2011, which increased by approximately \$1.2 million from the prior year. The increase was planned in order to smooth the future rate increases anticipated from the San Francisco Public Utilities Commission (SFPUC) to fund its \$4.6 billion Hetch Hetchy System improvement project. However, the increase included \$633,000 in excess revenues collected as a result of the conservation-based tiered water rate structure implemented in FY 2010-2011 to incent conservation by water customers. Those excess revenues will be used to fund water conservation rebate and education programs. The reserve requirements for the Water fund is 25% of annual operating expenses plus \$2 million reserve for capital improvement projects. Unrestricted net assets exceeds these reserve requirements by \$3.9 million at June 30, 2011, however \$1.8 million of these excess reserves has been set aside for future equipment replacement needs. Accordingly, the fund has sufficient reserves to fund future capital improvement projects and to offset large increases anticipated from the SFPUC.

**Wastewater** – The District provides wastewater collection services to customers in Foster City, and participates in a joint powers authority with the City of San Mateo, which operates the Wastewater Treatment Plant (WWTP). Unrestricted net assets as of June 30, 2011 totaled \$12.6 million, which decreased by approximately \$112,000 from the prior year. Operational costs associated with the WWTP have declined due to a reassessment of the flow volume generated by Foster City in comparison to total flows being treated at the WWTP. This cost reduction will help offset and reduce the magnitude of future rate increases to customers. The reserve requirements for the Wastewater fund is 25% of annual operating expenses plus \$2 million reserve for capital improvement projects. Unrestricted net assets exceeds these reserve requirements by \$9.3 million at June 30, 2011, however \$4.4 million of this balance has been earmarked for approved capital improvement projects and future equipment replacement needs.

**Non-major Public Transportation Fund** – the City / District operates a shuttle service with two routes that connect Foster City residents and businesses with facilities and shopping centers in Foster City, as well as two shopping centers located in San Mateo. These services are provided through a contract with the Peninsula Traffic Congestion Relief Alliance, and through 50% funding from the City / County Association of Governments. The fund ended the year with \$25,000 in unrestricted net assets.

**Internal Service Funds** – these funds provide services and funding mechanisms to allow the operating departments within the City to provide services to the community. Services included vehicle / fleet rental, equipment replacement, self-insurance risk management, information technology, building maintenance, and funding for the Longevity Recognition and PEMCHA post-retirement medical programs. Total unrestricted net assets as of June 30, 2011 were \$23.5 million, which was a \$2.3 million increase from the prior year. The increase was due to investment gains in the Longevity Recognition and PEMCHA funds, as well as internal service charges in excess of expenditures in order to set aside funds for the replacement of capital assets in the future.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original General Fund budget for fiscal year 2010-2011 included \$33.1 million in appropriations and transfers out to other funds, with estimated revenues totaling \$27.7 million, and the remainder coming from unassigned reserves.

Total revenues for 2011 were \$809,000 (2.9%), below budgeted projections. Property taxes fell \$900,000 below projections due to an error made in the original estimate of "spillover" tax increment that would be collected from the Project Area One project area after the Agency reached its tax increment cap. Permit revenues also fell below projections, primarily due to the fact that the Pilgrim-Triton development project was delayed by two months in submitting its building permit applications until after June 30, 2011. Recreation revenues also fell below projections as class enrollment did not reach originally projected levels. However, transient occupancy tax revenues finished over \$201,000 greater than projections due to higher-than-anticipated occupancy at hotels. Other revenue categories with significant variances greater than projection included sales tax, franchise taxes, and service fees.

Total actual expenditures for 2011 were \$2.3 million (6.9%) below final budgeted appropriations. This was the result primarily of salary savings from vacant positions and the conservative financial management of department managers in light of the projected ongoing structural deficit.

**CAPITAL ASSETS**

The City / District's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$169.7 million (net of accumulated depreciation). This investment in capital assets includes land, building, infrastructure, structures and improvements, equipment, vehicles, and construction in progress.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	11,680,881	11,680,881	3,553,474	3,553,474	15,234,355	15,234,355
Infrastructure, structures and improvements	92,608,235	95,915,572	33,107,640	34,214,451	125,715,875	130,130,023
Equipment, vehicles and software	3,172,838	3,738,699	331,309	371,358	3,504,147	4,110,057
Sewer Capacity Rights	-	-	21,718,188	22,027,078	21,718,188	22,027,078
Construction in progress	545,691	559,393	3,008,043	419,546	3,553,734	978,939
<b>Total</b>	<b>108,007,645</b>	<b>111,894,545</b>	<b>61,718,654</b>	<b>60,585,907</b>	<b>169,726,299</b>	<b>172,480,452</b>

The most significant change in capital assets during the current fiscal year related to the Wastewater Lift Station Capital Improvement Project, which increased construction in progress by \$2.6 million. Otherwise, decreases in capital assets was a result of annual depreciation charges.

**DEBT ADMINISTRATION**

As of June 30, 2011, the City / District had total long-term obligations outstanding of \$4.8 million, which was comprised of compensated absences of \$3.1 million, OPEB liability of \$1.6 million, and claims liability of approximately \$68,000.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City / District continues to feel the impacts of the economic recession that is affecting the local, state and national economy. The adopted General Fund budget for FY 2011-2012 includes a \$2.5 million drawdown of unassigned fund balances. In addition, the City / District's five-year forecast projects a structural deficit of \$2.8 million per year that, if not corrected, would drawdown the City's General Fund unassigned fund balances to nearly \$6.3 million by FY 2015-2016. The forecast calls for a combination of on-going expenditure reductions and / or revenue enhancements of \$1.4 million per year in FY 2012-2013 and 2013-2014 in order to achieve a balanced budget. The City Council will need to work with the City Manager and staff to develop a financial plan that will eliminate the structural deficit by FY 2013-2014, and maintain General Fund reserve levels above 33-1/3% of annual operating expenditures.

On November 8, 2011, the voters of Foster City approved an amendment to the Transient Occupancy Tax (TOT) Ordinance that will raise the TOT rate from 8% to 9.5% effective January 1, 2012. It is anticipated that the rate increase will generate an additional \$250,000 per year in TOT revenues from the two hotels in Foster City. This will reduce the structural deficit mentioned above to \$2.55 million per year.

Key economic indicators that are being watched closely are as follows:

- Property Taxes –housing prices have softened within the region and in Foster City, and the commercial property market has seen declines in values which has prompted commercial real estate owners to appeal their assessed valuation with the San Mateo County Assessor's Office. As more and more property owners file for assessment appeals to reduce the assessed value of their commercial property, tax collections are at risk.
- State Budget Woes and Termination of Redevelopment Agencies – the State of California continues to face multi-billion dollar deficits. Continued concerns are raised as to whether or not the State will seek additional sources of revenues from local government, or push services to the local level, in order to balance their budget. Revenue projections by the State Controller indicate that the State may have to implement further cuts in January 2012 in order to stave off a deficit. The State's actions to terminate redevelopment are continuing to be fought by redevelopment agencies and cities at the California Supreme Court, with a ruling anticipated by January 15, 2012. The Court's ruling could have a significant impact on the City's redevelopment agency and its financial resources, which could have a negative ripple effect on the potential for development of affordable housing on the City-owned 15-acre site adjacent to City Hall and on the City's ability to meet its State-mandated affordable housing obligations.
- Interest rates – Yields on 2- and 5-year Treasury securities, the benchmark securities for fixed-income investments, continue to fall given the economic uncertainty in the Europe and based on investors' flight to safety given the stock market declines of 3Q 2011. This could have a further negative impact on investment income generated on the City / District's investment portfolio.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT**

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011**

- CalPERS Pension Rates – The CalPERS investment portfolio noted a return rate of 20.9% for FY 2010-2011. Since the economic recession started in 2007, the CalPERS investment portfolio has noted a net positive return of 3.1%, however during that same period, the actuarial assumptions anticipated growth totaling 31%. Accordingly, employer rates are increasing as the portfolio continues to underperform actuarial assumptions. CalPERS is projecting employer rate increases of 2-5% per year over the next three years. In an effort to reduce its pension costs, the City / District reached agreement with its Police and Fire represented employees to implement a two-tier retirement system which will reduce the benefit for newly hired Police and Fire employees as of January 1, 2012 to a 2% @ 50 retirement formula. These will have long-term positive financial impacts on the City / District's pension obligations.
- Unemployment – Unemployment in California stood at 11.9% as of September 30, 2011, which is mirrored in the Bay Area and on the San Francisco Peninsula. Until the workforce is once again employed by the business community, retail sales and housing prices will likely not rebound, thereby keeping sales tax and property tax revenues at no- or low-growth patterns for the coming years, and keeping interest rates low.
- Water Supply Assurance / Water Costs – the City / District entered into a successor Water Supply Assurance agreement with the City and County of San Francisco that guarantees the District with water supplies totaling 5.9 million gallons per day on an average annual basis. The District's water conservation measures and its tiered water rate structure will serve to provide financial incentives and educational resources necessary for the District to stay within its means of water availability. Nevertheless, the cost of water increased by 38% on July 1, 2011, and is expected to increase by 77% by FY 2017-2018 as a result of the Hetch Hetchy System upgrades. These costs will need to be passed along to customers using the rate smoothing policies adopted by the District Board in previous years.

The City / District is poised with healthy unassigned General Fund balances to be able to implement the changes necessary to retain its fiscal health and maintain fund balances above its minimum reserve levels, maintaining the health and safety of the community.

# BASIC FINANCIAL STATEMENTS

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**City of Foster City and Estero Municipal Improvement District**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 85,746,084	\$ 19,182,562	\$ 104,928,646
Receivable, net	1,850,424	3,690,566	5,540,990
Internal balances	(915,801)	915,801	-
Inventory	138,194	322,081	460,275
Prepays and deposits	22,337	-	22,337
Restricted cash and investments	211,900	-	211,900
Loans receivable (net)	1,272,421	-	1,272,421
Capital assets:			
Nondepreciable	12,226,572	6,561,517	18,788,089
Depreciable, net of accumulated depreciation	95,781,073	55,157,136	150,938,209
<b>Total assets</b>	<b>196,333,204</b>	<b>85,829,663</b>	<b>282,162,867</b>
<b>LIABILITIES</b>			
Accounts payable	1,908,145	1,534,622	3,442,767
Accrued payroll	1,067,450	108,945	1,176,395
Refundable deposits	3,015,139	289,506	3,304,645
Unearned revenue	258,770	-	258,770
Long-term liabilities:			
Due within one year	1,171,059	153,136	1,324,195
Due in more than one year	3,062,169	365,068	3,427,237
<b>Total liabilities</b>	<b>10,482,732</b>	<b>2,451,277</b>	<b>12,934,009</b>
<b>NET ASSETS</b>			
Invested in capital assets	108,007,645	61,718,653	169,726,298
Restricted for:			
Housing	22,181,080	-	22,181,080
Public safety	24,621	-	24,621
Roads	3,428,514	-	3,428,514
Other purposes	2,628,891	-	2,628,891
Unrestricted	49,579,722	21,659,733	71,239,455
<b>Total net assets</b>	<b>\$ 185,850,472</b>	<b>\$ 83,378,386</b>	<b>\$ 269,228,858</b>

See accompanying Notes to Basic Financial Statements.

**City of Foster City and Estero Municipal Improvement District**  
**Statement of Activities and Changes in Net Assets**  
**For the fiscal year ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 3,135,273	\$ 25,538	\$ 111,230	\$ -
Public safety - Police	9,635,944	175,026	144,228	-
Public safety - Fire	8,011,016	79,364	30,403	-
Public works	4,924,309	150,183	823,064	157,426
Community development	5,904,547	1,361,997	-	-
Parks and recreation	7,889,206	1,264,706	265,178	4,000,000
Total governmental activities	<u>39,500,295</u>	<u>3,056,814</u>	<u>1,374,103</u>	<u>4,157,426</u>
<b>Business-type activities:</b>				
Water	8,690,887	9,166,844	-	-
Sewer	5,334,103	6,862,627	-	-
Public transportation	204,321	-	140,709	-
Total business-type activities	<u>14,229,311</u>	<u>16,029,471</u>	<u>140,709</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 53,729,606</u>	<u>\$ 19,086,285</u>	<u>\$ 1,514,812</u>	<u>\$ 4,157,426</u>

**General revenues and transfers:**

Taxes:

Property taxes

Transient occupancy tax

Franchise tax

Other taxes

Contributions not restricted to specific programs:

Sales and use tax and sales tax in lieu

Unrestricted investment income

Other

Transfers

**Total general revenues and transfers**

**Change in net assets**

**Net assets - beginning of year, as restated**

**Net assets - end of year**

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (2,998,505)	\$ -	\$ (2,998,505)
(9,316,690)	-	(9,316,690)
(7,901,249)	-	(7,901,249)
(3,793,636)	-	(3,793,636)
(4,542,550)	-	(4,542,550)
(2,359,322)	-	(2,359,322)
<u>(30,911,952)</u>	<u>-</u>	<u>(30,911,952)</u>
-	475,957	475,957
-	1,528,524	1,528,524
-	(63,612)	(63,612)
<u>-</u>	<u>1,940,869</u>	<u>1,940,869</u>
<u>(30,911,952)</u>	<u>1,940,869</u>	<u>(28,971,083)</u>
26,225,287	-	26,225,287
1,341,224	-	1,341,224
1,088,266	-	1,088,266
824,129	-	824,129
4,225,824	-	4,225,824
2,409,846	256,984	2,666,830
117,764	140,335	258,099
(108,000)	108,000	-
<u>36,124,340</u>	<u>505,319</u>	<u>36,629,659</u>
5,212,388	2,446,188	7,658,576
180,638,084	80,932,198	261,570,282
<u>\$ 185,850,472</u>	<u>\$ 83,378,386</u>	<u>\$ 269,228,858</u>

**City of Foster City and Estero Municipal Improvement District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	Major Funds					Total
	General Fund	Affordable Housing Reimbursement Agreement	City Capital Projects	Community Development Agency	Non-Major Governmental Funds	
<b>ASSETS</b>						
Cash and investments	\$ 21,568,791	\$ 19,105,539	\$ 11,247,230	\$ 1,021,837	\$ 8,748,725	\$ 61,692,122
Receivables, net of allowance:						
Accrued interest	285,937	-	-	-	-	285,937
Intergovernmental	95,922	-	-	-	117,585	213,507
Taxes	1,227,593	-	-	-	-	1,227,593
Other	97,689	-	-	-	13,250	110,939
Due from other funds	18,716	-	43,000	-	-	61,716
Prepays and deposits	17,826	-	-	-	-	17,826
Inventory	16,900	-	-	-	-	16,900
Restricted cash and investments	211,900	-	-	-	-	211,900
Loans receivables, net of allowance	-	1,272,421	-	-	-	1,272,421
<b>Total assets</b>	<b>\$ 23,541,274</b>	<b>\$ 20,377,960</b>	<b>\$ 11,290,230</b>	<b>\$ 1,021,837</b>	<b>\$ 8,879,560</b>	<b>\$ 65,110,861</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	567,850	\$ 26,505	248,944	503,992	\$ 239,108	\$ 1,586,399
Accrued payroll	1,010,260	-	-	100	2,375	1,012,735
Refundable deposits	500,712	7,022	2,507,405	-	-	3,015,139
Due to other funds	-	-	-	-	54,359	54,359
Deferred revenue	258,770	1,272,421	-	-	-	1,531,191
<b>Total liabilities</b>	<b>2,337,592</b>	<b>1,305,948</b>	<b>2,756,349</b>	<b>504,092</b>	<b>295,842</b>	<b>7,199,823</b>
<b>Fund Balances:</b>						
Non-Spendable	33,527	-	-	-	-	33,527
Restricted	-	19,072,012	607,376	517,745	8,411,107	28,608,240
Committed	812,807	-	7,926,505	-	172,611	8,911,923
Assigned	1,052,366	-	-	-	-	1,052,366
Unassigned	19,304,982	-	-	-	-	19,304,982
<b>Total fund balances</b>	<b>21,203,682</b>	<b>19,072,012</b>	<b>8,533,881</b>	<b>517,745</b>	<b>8,583,718</b>	<b>57,911,038</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,541,274</b>	<b>\$ 20,377,960</b>	<b>\$ 11,290,230</b>	<b>\$ 1,021,837</b>	<b>\$ 8,879,560</b>	<b>\$ 65,110,861</b>

See accompanying Notes to Basic Financial Statements.

**City of Foster City and Estero Municipal Improvement District**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2011**

**Total Fund Balances - Total Governmental Funds** \$ 57,911,038

Amounts reported for governmental activities in the Statement of Net Assets were reported differently because:

Capital assets used in governmental activities are not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below (Government-Wide Statement of Net Assets capital asset balance of \$108,007,645 consisted of \$3,172,833 capital assets accounted for in the City's internal service funds and \$104,834,812 which were purchased for governmental activities)

	<u>Government-Wide Statement of Net Assets</u>	<u>Internal Service Funds</u>	
Non-depreciable	\$ 12,226,572	\$ -	12,226,572
Depreciable, net	95,781,073	(3,172,833)	<u>92,608,240</u>
Total capital assets	<u>\$ 108,007,645</u>	<u>\$ (3,172,833)</u>	<u>104,834,812</u>

Loans receivable and other long-term receivables are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.

	<u>Governmental Funds Balance Sheets</u>	<u>Government-Wide Statement of Net Assets</u>	
	\$ 1,531,191	\$ (258,770)	\$ 1,272,421

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Assets.

25,710,861

Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental funds.

	<u>Government-Wide Statement of Net Assets</u>	<u>Internal Service Funds</u>	
Long term liabilities - due within one year	(1,171,059)	135,428	(1,035,631)
Long term liabilities - due more than one year	(3,062,169)	219,140	<u>(2,843,029)</u>

**Net Assets of Governmental Activities** \$ 185,850,472

**City of Foster City and Estero Municipal Improvement District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the fiscal year ended June 30, 2011**

	Major Funds					Total
	General Fund	Affordable Housing Reimbursement Agreement	City Capital Projects	Community Development Agency	Non-Major Governmental Funds	
<b>REVENUES:</b>						
Property taxes	\$ 15,728,351	\$ -	\$ -	\$ 10,341,676	\$ -	\$ 26,070,027
Sales and use and sales tax in lieu	3,757,173	-	-	-	468,651	4,225,824
Transient occupancy tax	1,341,224	-	-	-	-	1,341,224
Franchise tax	1,088,266	-	-	-	-	1,088,266
Other taxes	121,065	-	-	-	-	121,065
Licenses and permits	1,289,106	-	-	-	-	1,289,106
Intergovernmental	486,009	-	-	-	1,036,590	1,522,599
Charges for current services	1,659,773	-	-	-	-	1,659,773
Fines and forfeitures	37,668	-	-	-	121,635	159,303
Park-in-lieu	-	-	-	-	4,000,000	4,000,000
Investment and rental income	1,233,919	-	118,565	392,881	51,107	1,796,472
Other	134,953	-	33,053	5,555	386,203	559,764
<b>Total revenues</b>	<b>26,877,507</b>	<b>-</b>	<b>151,618</b>	<b>10,740,112</b>	<b>6,064,186</b>	<b>43,833,423</b>
<b>EXPENDITURES:</b>						
Current:						
General government	2,494,237	-	-	-	194,963	2,689,200
Public safety - Police	9,262,378	-	-	-	100,475	9,362,853
Public safety - Fire	7,910,103	-	-	-	7,863	7,917,966
Public works	1,646,368	-	114,173	-	843,106	2,603,647
Community development	1,268,902	-	-	4,556,173	-	5,825,075
Parks and recreation	6,718,273	-	53,362	-	9,286	6,780,921
Capital outlay	4,589	-	674,267	-	291,379	970,235
Debt service:						
Interest on interfund loans from other funds	-	-	-	156,685	-	156,685
<b>Total expenditures</b>	<b>29,304,850</b>	<b>-</b>	<b>841,802</b>	<b>4,712,858</b>	<b>1,447,072</b>	<b>36,306,582</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,427,343)</b>	<b>-</b>	<b>(690,184)</b>	<b>6,027,254</b>	<b>4,617,114</b>	<b>7,526,841</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	4,980	19,072,012	3,812,806	-	2,501,692	25,391,490
Transfers out	(1,478,000)	-	-	(22,185,947)	(1,835,543)	(25,499,490)
<b>Total other financing sources (uses)</b>	<b>(1,473,020)</b>	<b>19,072,012</b>	<b>3,812,806</b>	<b>(22,185,947)</b>	<b>666,149</b>	<b>(108,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,900,363)</b>	<b>19,072,012</b>	<b>3,122,622</b>	<b>(16,158,693)</b>	<b>5,283,263</b>	<b>7,418,841</b>
<b>FUND BALANCES:</b>						
Beginning of year	25,104,045	-	5,411,259	16,676,438	3,300,455	\$ 50,492,197
End of year	\$ 21,203,682	\$ 19,072,012	\$ 8,533,881	\$ 517,745	\$ 8,583,718	\$ 57,911,038

See accompanying Notes to Basic Financial Statements.

**City of Foster City and Estero Municipal Improvement District**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the fiscal year ended June 30, 2011**

**Net Change in Fund Balances - Total Governmental Funds** \$ 7,418,841

Governmental activities in the Statement of Activities were reported differently because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities and Changes in Net Assets, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets additions (Total capital asset additions for the City for the fiscal year ended for governmental activities were \$1,490,618, which consisted of \$500,236 in additions attributable to internal service fund activity and \$990,382 in additions attributable to governmental funds)	\$ 990,382	
Loss on capital asset disposal (net of accumulated depreciation)	(103,492)	
Less current year depreciation. This amount is net of depreciation expense of the internal service funds in the amount of \$1,065,842	<u>(4,207,928)</u>	(3,321,038)

Revenues from new loans that are funded in this fiscal year that will not be collected for several months after the City/District's fiscal year ends are not considered "available" revenue and are classified as deferred revenue in the governmental funds.	142,903
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Some expenses 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.

OPEB liabilities	(430,920)	
Change in long-term compensated absences. This amount is net of changes in compensated absences of the internal service funds in the amount of \$10,639	<u>(82,584)</u>	(513,504)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities	<u>1,485,186</u>
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**Change in Net Assets of Governmental Activities** \$ 5,212,388

See accompanying Notes to Basic Financial Statements.

**City of Foster City and Estero Municipal Improvement District**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Non-Major - Public Transportation	Total	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 6,811,000	\$ 12,371,562	\$ -	\$ 19,182,562	\$ 24,053,962
Receivables, net of allowance:					
Billed utility, net of allowance for uncollectibles	636,909	612,984	-	1,249,893	-
Unbilled utility	1,496,854	883,629	-	2,380,483	-
Other	8,880	-	51,310	60,190	12,448
Due from other funds	-	-	-	-	103,431
Deposits and prepaid items	-	-	-	-	4,511
Inventory	98,202	223,879	-	322,081	121,294
<b>Total current assets</b>	<b>9,051,845</b>	<b>14,092,054</b>	<b>51,310</b>	<b>23,195,209</b>	<b>24,295,646</b>
Noncurrent assets:					
Capital assets:					
Nondepreciable	3,553,474	3,008,043	-	6,561,517	-
Depreciable, net of accumulated depreciation	22,138,681	33,018,455	-	55,157,136	3,172,833
<b>Total noncurrent assets</b>	<b>25,692,155</b>	<b>36,026,498</b>	<b>-</b>	<b>61,718,653</b>	<b>3,172,833</b>
<b>Total assets</b>	<b>34,744,000</b>	<b>50,118,552</b>	<b>51,310</b>	<b>84,913,862</b>	<b>27,468,479</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	627,073	888,372	19,177	1,534,622	321,746
Accrued payroll	55,205	53,740	-	108,945	54,715
Refundable deposits	31,798	257,008	700	289,506	-
Due to other funds	-	-	7,357	7,357	103,431
Claims liability	-	-	-	-	68,474
Compensated absences - current portion	81,388	71,748	-	153,136	66,954
<b>Total current liabilities</b>	<b>795,464</b>	<b>1,270,868</b>	<b>27,234</b>	<b>2,093,566</b>	<b>615,320</b>
Noncurrent liabilities:					
Compensated absences - noncurrent portion	103,256	90,516	-	193,772	131,876
OPEB liability	87,264	84,032	-	171,296	87,264
<b>Total noncurrent liabilities</b>	<b>190,520</b>	<b>174,548</b>	<b>-</b>	<b>365,068</b>	<b>219,140</b>
<b>Total liabilities</b>	<b>985,984</b>	<b>1,445,416</b>	<b>27,234</b>	<b>2,458,634</b>	<b>834,460</b>
<b>NET ASSETS</b>					
Invested in capital assets	25,692,155	36,026,498	-	61,718,653	3,172,833
Unrestricted	8,065,861	12,646,638	24,076	20,736,575	23,461,186
<b>Total net assets</b>	<b>\$ 33,758,016</b>	<b>\$ 48,673,136</b>	<b>\$ 24,076</b>	<b>82,455,228</b>	<b>\$ 26,634,019</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				923,158	
Net assets of business-type activities				<b>\$ 83,378,386</b>	

See accompanying Notes to Basic Financial Statements.



**City of Foster City and Estero Municipal Improvement District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
**For the fiscal year ended June 30, 2011**

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Non-Major - Public Transportation		
<b>OPERATING REVENUES:</b>					
Sales and service charges	\$ 9,166,844	\$ 6,862,627	\$ -	\$ 16,029,471	\$ -
Charges for service - internal	-	-	-	-	5,419,965
Other	7,787	124,208	140,709	272,704	96,272
<b>Total operating revenues</b>	<b>9,174,631</b>	<b>6,986,835</b>	<b>140,709</b>	<b>16,302,175</b>	<b>5,516,237</b>
<b>OPERATING EXPENSES:</b>					
Personnel	1,520,075	1,399,974	-	2,920,049	1,544,867
Utilities	4,449,327	191,916	-	4,641,243	-
Program supplies	171,789	131,755	-	303,544	-
Repairs and maintenance	12,601	27,653	-	40,254	1,124,389
General and administration	1,330,966	1,253,623	2,483	2,587,072	666,295
Depreciation and amortization	1,101,151	893,033	-	1,994,184	1,065,843
Contractual service	120,070	1,468,313	201,411	1,789,794	192,176
Insurance	64,500	64,500	-	129,000	242,547
<b>Total operating expenses</b>	<b>8,770,479</b>	<b>5,430,767</b>	<b>203,894</b>	<b>14,405,140</b>	<b>4,836,117</b>
<b>OPERATING INCOME (LOSS)</b>	<b>404,152</b>	<b>1,556,068</b>	<b>(63,185)</b>	<b>1,897,035</b>	<b>680,120</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Gains (loss) on sales of capital assets	7,889	451	-	8,340	7,069
Investment income	85,163	171,821	-	256,984	970,078
<b>Total nonoperating revenues (expenses)</b>	<b>93,052</b>	<b>172,272</b>	<b>-</b>	<b>265,324</b>	<b>977,147</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>497,204</b>	<b>1,728,340</b>	<b>(63,185)</b>	<b>2,162,359</b>	<b>1,657,267</b>
<b>CONTRIBUTIONS AND TRANSFERS:</b>					
Capital contributions	-	-	-	-	28,484
Transfers in	-	-	108,000	108,000	1,139,738
Transfers out	-	-	-	-	(1,164,474)
<b>Total contributions and transfers</b>	<b>-</b>	<b>-</b>	<b>108,000</b>	<b>108,000</b>	<b>3,748</b>
<b>Change in net assets</b>	<b>497,204</b>	<b>1,728,340</b>	<b>44,815</b>	<b>2,270,359</b>	<b>1,661,015</b>
<b>NET ASSETS:</b>					
Beginning of the year	33,260,812	46,944,796	(20,739)		24,973,004
End of the year	<u>\$ 33,758,016</u>	<u>\$ 48,673,136</u>	<u>\$ 24,076</u>		<u>\$ 26,634,019</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				175,829	
Change in net assets of business-type activities				<u>\$ 2,446,188</u>	

See accompanying Notes to Basic Financial Statements.

**City of Foster City and Estero Municipal Improvement District**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the fiscal year ended June 30, 2011**

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Nonmajor - Public Transportation	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 8,589,847	\$ 6,805,113	\$ 127,300	\$ 15,522,260	\$ -
Cash received from other funds	-	-	(24,026)	(24,026)	5,535,159
Cash payments to suppliers for goods and services	(6,199,275)	(2,983,545)	(211,274)	(9,394,094)	(2,135,594)
Cash payments to employees for services	(1,470,628)	(1,360,707)	-	(2,831,335)	(1,504,485)
<b>Net cash provided (used) by operating activities</b>	<b>919,944</b>	<b>2,460,861</b>	<b>(108,000)</b>	<b>3,272,805</b>	<b>1,895,080</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers received	-	-	108,000	108,000	1,139,738
Transfer paid	-	-	-	-	(1,164,474)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>108,000</b>	<b>108,000</b>	<b>(24,736)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from sale of capital assets	7,889	451	-	8,340	7,069
Capital contributions received	-	-	-	-	28,484
Acquisition and construction of capital assets	(403,574)	(2,733,356)	-	(3,136,930)	(500,236)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(395,685)</b>	<b>(2,732,905)</b>	<b>-</b>	<b>(3,128,590)</b>	<b>(464,683)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Investment income	85,163	171,821	-	256,984	970,078
<b>Net cash provided (used) by investing activities</b>	<b>85,163</b>	<b>171,821</b>	<b>-</b>	<b>256,984</b>	<b>970,078</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>609,422</b>	<b>(100,223)</b>	<b>-</b>	<b>509,199</b>	<b>2,375,739</b>
<b>CASH AND CASH EQUIVALENTS:</b>					
Beginning of year	6,201,578	12,471,785	-	18,673,363	21,678,223
End of year	\$ 6,811,000	\$ 12,371,562	\$ -	\$ 19,182,562	\$ 24,053,962

(Continued)

**City of Foster City and Estero Municipal Improvement District**  
**Statement of Cash Flows, Continued**  
**Proprietary Funds**  
**For the fiscal year ended June 30, 2011**

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	NonMajor - Public Transportation		
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 404,152	\$ 1,556,068	\$ (63,185)	\$ 1,897,035	\$ 680,120
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,101,151	893,033	-	1,994,184	1,065,843
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Billed receivables	(175,192)	(156,871)	-	(332,063)	-
Unbilled receivables	(400,712)	(25,161)	-	(425,873)	-
Other receivables	(8,880)	310	(13,409)	(21,979)	18,922
Due from other funds	-	-	-	-	(103,431)
Deposit and prepaid items	924	2,143	-	3,067	(1,042)
Inventory	(19,804)	6,664	-	(13,140)	(44,163)
Increase (decrease) in:					
Accounts payable and claims liability	(46,372)	(111,600)	(8,080)	(166,052)	138,106
Accrued payroll	(1,137)	3,331	-	2,194	2,041
Refundable deposits	15,230	257,008	700	272,938	(6,300)
Due to other funds	-	-	(24,026)	(24,026)	103,431
Claims liability	-	-	-	-	3,212
Compensated absences	22,882	9,260	-	32,142	10,639
OPEB liability	27,702	26,676	-	54,378	27,702
Total adjustments	515,792	904,793	(44,815)	1,375,770	1,214,960
<b>Net cash provided (used) by operating activities</b>	<b>\$ 919,944</b>	<b>\$ 2,460,861</b>	<b>\$ (108,000)</b>	<b>\$ 3,272,805</b>	<b>\$ 1,895,080</b>

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**NOTES TO  
BASIC FINANCIAL  
STATEMENTS**

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements**  
**For the fiscal year ended June 30, 2011**

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**1. DESCRIPTION OF REPORTING ENTITY**

The City of Foster City (City) was incorporated in 1971. The Estero Municipal Improvement District (District) was formed in 1960. The District was created by the California Legislature to issue general obligation bonds to fill and reclaim the land that later became the City upon incorporation. The City is a general law city and operates under a Council-Manager form of government, providing such services as public safety (police, fire and building inspection), highways and streets, sewer, water, parks and recreation, public improvements, planning and zoning, and general administrative services. The District, although a separate entity, encompasses the same basic geographical area, is inhabited by the same citizens and is governed, administered and budgeted by the same governmental body and procedures as the City and is included with the operations of the City in the accompanying financial statements.

Blended Component Units

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the City and District (Primary Government) and the City of Foster City Community Development Agency (Agency) and the Foster City Public Financing Authority (Authority) as its component units. The Agency and the Authority, although legally separate entities, are in substance part of the City/District's operations. The members of the City Council and the District Board of Directors also serve on the boards of the Agency and the Authority. The Agency and the Authority are blended into the operations of the City/District in the accompanying financial statements.

The Agency functions as an independent entity, but its policies are determined by the City Council and District Board of Directors acting in a separate capacity as board members of the Agency pursuant to Section 33000 of the Community Redevelopment Law. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition or in need of development.

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency. The Authority functions as an independent entity and its policies are determined by the members of the City Council and District Board of Directors acting in a separate capacity as board members of the Authority pursuant to Section 6500 of the Government Code of the State of California. The Authority is a separate entity constituting a public instrumentality of the State, and was formed for the public purpose of assisting the City and the Agency in financing capital projects. The Authority did not have any financial balances or activity as of and for the fiscal year ended June 30, 2011.

Complete financial statements for the Agency may be obtained through the City/District's Financial Services Department, 610 Foster City Boulevard, Foster City, CA 94404.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting and Measurement Focus**

*Government-Wide Financial Statements*

The Statement of Net Assets and Statement of Activities and Changes in Net Assets display information about the primary government (City/District) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the City/District. 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 and Changes in Net Assets presents a comparison between direct expenses and program revenues for each function of the City/District's governmental activities and for each segment of the business-type activities of the City/District. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 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 presented as general revenues.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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. Nonexchange transactions, in which the City/District 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 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.

*Fund Financial Statements*

The fund financial statements provide information about the City/District's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds and each is displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Governmental Major Funds

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City/District that are not accounted for through other funds.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Basis of Accounting and Measurement Focus, Continued**

*Fund Financial Statements, Continued*

Governmental Major Funds, continued

The *Affordable Housing Reimbursement Agreement Fund* accounts for transfers received by the City from the Community Development Agency Project One Area housing fund to continue funding the existing and future low-to moderate-income housing, senior housing and first time homebuyer programs.

The *City Capital Projects Fund* accounts for development, construction or acquisition of approved capital projects funded by general fund, special revenues fund, state and federal grants.

The *Community Development Agency Fund* accounts for revenues from the property tax increments raised from the Agency's investment in upgrading properties for further development.

Governmental Non-Major Funds

The following *Special Revenue Funds* are used to account for revenues that are restricted by law or committed administrative action to expenditures for specified purposes:

- *Traffic Safety Fund*: accounts for the revenues received by the City as its share of fines generated from violations of the State Motor Vehicles Code and expended for traffic safety programs.
- *Measure A Fund*: accounts for revenues generated by a special one-half cent sales tax that was approved by the voters of San Mateo County during 1988, which was reauthorized by voters in 2004. These funds are restricted for engineering, construction and maintenance of the City / District streets and transportation-related purposes.
- *Gas Tax Fund*: accounts for the revenues apportioned to the City from State collected gasoline taxes and expended for engineering, construction, and maintenance of City / District streets.
- *The Park-In-Lieu Fund* accounts for the revenues from construction projects for the acquisition, construction and improvement of parks and recreational facilities.
- *SLESF/COPS Grant Fund*: accounts for the State of California monies received to fund supplemental law enforcement services such as anti-gang and community crime prevention programs. Supplemental law enforcement services include costs for personnel, equipment and program operating expenditures.
- *California Law Enforcement Equipment Fund*: accounts for revenues received for the California Law Enforcement Equipment Purchase Program. The grant is to be used to purchase technology equipment.
- *California Opportunities Fund*: accounts for revenues received from other local government agencies which participate in the CalOpps online recruitment website. These funds have been committed to support the CalOpps program by City Council action.



**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Basis of Accounting and Measurement Focus, Continued**

*Fund Financial Statements, Continued*

Governmental Non-Major Funds, continued

- *Proposition 42 Transportation Fund:* accounts for revenues received from dedicated funds of sales tax on gasoline to State and local transportation programs under Proposition 42 approved by California voters in 2002. The funds received from the State may only be used on maintenance of local roads.
- *Foster City Foundation Fund:* accounts for revenues received from any person or organization for charitable contributions to Foster City for the benefit of the City and its residents. The donations are received with restrictions by donors and must be spent according to the intent of those donors.
- *American Recovery and Reinvestment Fund:* accounts for revenues received from the United State federal government under the provisions of the American Recovery and Reinvestment Act of 2009. These funds represent grants which were received and used for transportation-related infrastructure projects in accordance with the provisions of the Act.
- *City/CDA Cooperative Services Agreement Fund:* accounts for funds received from the Cooperative Services Agreement entered into on April 18, 2011, which calls for the City to act on the Agency's behalf in administering the Agency's final financial obligations to the San Mateo Union High School District (SMUHSD) under the terms of the Stipulated Judgment and Mutual Release between the Agency and SMUHSD dated June 27, 1991.

Enterprise Major Funds

The *Water Fund* accounts for activities associated with providing water services including construction of water plant facilities.

The *Sewer Fund* accounts for activities associated with sewage transmissions and treatment including construction of sewer plant facilities.

In addition, the City/District uses *Internal Service Funds* to account for the City/District's vehicle rental, equipment replacement, self-insurance, longevity recognition benefits, information technology, and building maintenance services provided to other departments of the City/District on a cost-reimbursement basis.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Basis of Accounting and Measurement Focus, Continued**

*Fund Financial Statements, Continued*

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Sales and use tax, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty to ninety days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds.

Under the terms of various grant agreements, the City/District funds certain programs by a combination of specific cost-reimbursement 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/District's policy to first apply cost-reimbursement grant resources (restricted) to such programs and then use general revenues (unrestricted).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a fund's principal ongoing operations. The principal operating revenues of the City/District's enterprise and internal service funds are charges for customer services, including water and sewer charges, public transportation fares, vehicle, equipment and building maintenance and usage fees, insurance charges, and information services support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the business type activities in the government-wide financial statements and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City/District applies all applicable GASB pronouncements currently in effect, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

**B. Cash and Cash Equivalents**

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Cash and Cash Equivalents, Continued**

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California entitled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**C. Investments**

Investments are stated at fair value. The fair value of investments is determined annually and is based on current market prices. The method of allocating interest earned on pooled deposits and investments among governmental and proprietary funds is based upon average investment balances and is performed on a quarterly basis.

**D. Inventory**

Inventory, consisting of expendable supplies, is valued at cost on a first-in first-out basis. The cost of governmental funds inventory is recorded as expenditure when consumed.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Loans Receivable*

For the purposes of the fund financial statements, expenditures related to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred revenue account. The balance of the long-term loans receivable includes loans that may be forgiven if certain terms and conditions of the loans are met. For purposes of the government-wide financial statements, long-term loans are not offset by deferred revenue, nor is activity reflected in the Statement of Activities.

*F. Capital Assets*

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include building and improvements, machinery and equipment, vehicles and public domain (infrastructure). Infrastructure consists of improvements including the roadway/street network, park system, and the storm drain, sanitary sewer and water distribution systems. The City/District has a policy whereby assets with an initial, individual cost of more than \$5,000 and \$100,000 for its noninfrastructure and infrastructure assets, respectively, and an estimated useful life in excess of three years will be capitalized. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide and proprietary funds statements.

The estimated useful lives are as follows:

Infrastructure:	
Roadway/street network (including levee)	10 to 100 years
Park systems	8 to 50 years
Storm drain, sanitary sewer, and water distribution systems	12 to 50 years
Buildings and improvements	45 to 50 years
Sewer capacity rights	50 years
Equipment	3 to 10 years
Vehicles	4 to 25 years

The cost of normal maintenance and repairs that does not add to the value of the assets or materially extend asset lives is not capitalized. Improvements are capitalized and, for government-wide and proprietary funds statements, are depreciated over the remaining useful lives of the related capital assets.

Intangible Assets - Sewer Capacity Rights

The City/District entered into a Joint Powers Agreement (JPA) with the City of San Mateo (San Mateo) to construct sewer facilities (see Note 11). A portion of the payments made to the City/District under the JPA represents reimbursement for capital facilities costs. All capital facilities costs are capitalized in the Sewer Enterprise Fund and once placed in service, these costs are amortized using the straight-line method over 50 years.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*G. Compensated Absences (Vacation and Sick Pay)*

The City/District reports compensated absences for accrued vacation leave, sick pay, administrative leave and compensatory leave. In the event of termination, employees are paid for all allowed unused vacation at their current hourly rate in effect. For management and safety employees, vacation pay may be accrued up to three years without forfeiture. For AFSCME employees, vacation pay may be accrued up to two years. The vested portion is available for current use or, if unused, is payable upon termination. After six months of employment, 25% to 50% of an employee’s accrued sick leave vests at the current rate of pay.

*H. Property Tax Levy, Collection and Maximum Rates*

State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value (\$1 per \$100 of assessed value) plus an additional amount for general obligation debt approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature determines the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

The County of San Mateo assesses properties and bills for and collects property taxes as follows:

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

The term “unsecured” refers to taxes on personal property other than land and buildings. These “unsecured” taxes are secured by liens on the personal property being taxed. The County of San Mateo distributes to the City/District the entire amount of each year’s levy and in return receives all penalties and interest on delinquent payments.

*I. Revenue Recognition for Water and Sewer Enterprise Funds*

Revenue is recorded as billed to customers on a cyclical basis. All accounts are billed bi-monthly except irrigation accounts are billed monthly. Amounts unbilled at June 30 are accrued and recognized as revenue. At June 30, 2011, the billed and unbilled receivables are shown net of an allowance for uncollectibles for the Water and the Sewer Enterprise Funds in the amount of \$2,133,763 and \$1,496,613 respectively.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. *Interfund Transactions***

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans reported as receivables and payables as appropriate, are subject to elimination upon consolidation in the Government-Wide Financial Statements and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund 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 between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

**K. *Estimates***

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**L. *New Pronouncements***

In 2011, the City/District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions – This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.
- GASB Statement No. 59, Financial Instruments Omnibus – This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**3. CASH AND INVESTMENTS**

Cash Deposits

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 104,928,646
Restricted cash and investments	211,900
<b>Total</b>	<b>\$ 105,140,546</b>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 6,000
Deposits with financial institutions	835,576
Local Agency Investment Funds (LAIF)	39,462,112
Investments	64,836,858
<b>Total</b>	<b>\$ 105,140,546</b>

Investments Authorized by the City/District's Investment Policy

The City/District maintains a cash and investment pool that is available for use by all funds. Under the provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City is authorized to invest or deposit in the following.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	5%	5%
U.S. Treasury Obligations	5 years	100%	100%
U.S. Agency Securities	5 years	100%	50%
Bankers Acceptances	270 days	25%	5%
Commercial Paper	90 days	20%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	1 year	50%	50%
Medium-Term Notes	5 years	5%	5%
Shares of Beneficial Interest (Mutual Funds)	N/A	10%	10%
Certificates of Deposit	1 years	10%	Max with FDIC
San Mateo County Pooled Investment Program	N/A	10%	10%
State Local Agency Investment Fund (LAIF)	N/A	100%	100%

Investments Authorized by the City/District's Investment Policy, continued

In connection with the California Code's Sections #56301 and #53635 mandates for safety, liquidity and yield with respect to the investments of public funds, as of June 30, 2011 the City/District's investment pool had a valuation of 100.33% (market value of securities as a percentage of amortized book cost), a weighted average maturity of 889 days, and a portfolio weighted average 365 day yield of 1.44%.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**3. CASH AND INVESTMENTS, continued**

During fiscal year ended June 30, 2005, the City/District started to invest funds set aside for the Longevity Recognition Plan. These funds are actively managed in a portfolio consisting of government and corporate bonds and mutual funds. Investment of funds in stocks is not permitted under the City/District's policy.

Risk Disclosures

*Interest Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City/District's investment policy limits the weighted average maturity of the City/District's cash and investment pool to less than five years.

Investments held in City Treasury grouped by maturity date at June 30, 2011, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years
Securities of U.S. Government						
Treasury and Agencies:						
Federal National Mortgage Associations Bonds-Coupon	\$ 12,021,290	\$ -	\$ -	\$ -	\$ 2,046,320	\$ 9,974,970
Federal Farm Credit Bank Bonds-Coupon	15,213,639	-	-	-	9,102,600	6,111,039
Federal Home Loan Bank Bonds-Coupon	17,654,697	-	-	1,008,220	9,071,310	7,575,167
Federal Home Loan Mortgage Corporation Bonds-Coupon	9,008,920	-	-	-	1,002,730	8,006,190
Corporate Notes	2,990,879	-	-	-	-	2,990,879
Equity Mutual Funds-open end funds	7,947,433	7,947,433	-	-	-	-
<b>Total</b>	<b>\$ 64,836,858</b>	<b>\$ 7,947,433</b>	<b>\$ -</b>	<b>\$ 1,008,220</b>	<b>\$ 21,222,960</b>	<b>\$ 34,658,245</b>

*Credit Risk:* Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is usually measured by the assignment of a rating by a nationally recognized statistical rating organization. The City/District's investment policy limits its pooled investments to that of securities and obligations of the U.S. Government and mutual funds and to the highest ranking or the highest letter and numerical rating by not less than two of the three nationally recognized rating services.

At June 30, 2011, the City's deposits and investments subject to credit quality ratings were as follows:

	Credit Quality Ratings	
	Moody's	S&P
Securities of U.S. Government Agencies:		
Federal Farm Credit Bank Bonds (FFCB)	Aaa	AA+
Federal Home Loan Bank Bonds (FHLB)	Aaa	AA+
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AA+
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AA+
Money Market Funds	Aaa	AA+

The City/District diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. At June 30, 2011, the City/District did not have more than 18 percent invested in any one issuer.



**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**3. CASH AND INVESTMENTS**

Risk Disclosures, continued

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the City/District's deposits may not be returned. The City/District does not have a policy for custodial credit risk on deposits except for certificates of deposits. As of June 30, 2011, the carrying amount of the City/District's deposits was \$841,575 and the bank balance was \$1,104,737. Of the bank balance, \$661,900 was covered by federal depository insurance and \$442,837 was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code.

Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 105% to 150% of the total amount deposited by the public agencies depending on specific securities pledged as collateral.

*Custodial Credit Risk – Investments:* 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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City/District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments with the exception of repurchase agreements for which the City/District requires a collateralization level of 102% of the market value of the investment.

*Investment in State Investment Pool:* The City/District is a voluntary participant in LAIF, a State of California external investment pool, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF determines the fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and based on amortized cost or best estimate for those securities where market value is not readily available.

The City/District valued its investments in LAIF as of June 30, 2011, by multiplying its account balance with LAIF (\$39,400,000) times a fair value factor (1.001576470) computed by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate amortized cost by total aggregate fair value. Accordingly, as of June 30, 2011, the City/District's investments in LAIF, stated at fair value, equaled \$39,462,112.

The District's investments with LAIF at June 30, 2011, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities.

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or have embedded forwards or options.
- Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the City/District had \$39,462,112 (stated at fair value) invested in LAIF, which had invested 5.01% of the pool investment fund in Structured Notes and Asset-Backed Securities.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**4. LOANS RECEIVABLE**

At June 30, 2011, Loans Receivable amounted to:

	Amount	Allowance	Net Amount
Metro Center Senior Homes Project	\$ 6,463,870	\$ (6,463,870)	\$ -
First Time Home Buyer Program	1,272,421	-	1,272,421
<b>Total</b>	<b>\$ 7,736,291</b>	<b>\$ (6,463,870)</b>	<b>\$ 1,272,421</b>

Metro Center Senior Homes Project

On July 1, 1995, the Agency agreed to loan \$6,879,774 to Metro Senior Associates (Metro) for the construction of a senior housing project (Project) to be known as the Metro Center Senior Homes Project. The loan bears a two percent interest rate. To the extent there is residual cash flow from the Project, Metro shall pay the entire residual cash flow to the Agency within ninety days of the end of each calendar year, in satisfaction of principal and interest owed. Residual cash flow is defined as all rents and revenues derived from the Project less operation and other related costs of the Project. Any outstanding principal and interest is due and payable in full in forty years.

To finance the loan of \$6,879,774 to Metro, the Agency sold tax allocation bonds of \$5,000,000 on July 27, 1995. The Agency financed the remainder of the loan through its accumulated tax increment funds. At June 30, 2011, the Agency provided a 100% valuation allowance equal to the loan balance outstanding in the amount of \$6,463,870 which includes principal of \$5,917,695 and accumulated interest in the amount of \$546,175 because there remains significant doubt as to the ability of the Project to generate sufficient and recurring annual residual cash flows from which to repay its obligation to the Agency.

First Time Homebuyer Program

The Agency started the First Time Homebuyer Program to provide low interest second mortgages for people who live and/or work in the City/District who can afford moderate monthly mortgage payments and require assistance with the down payment in order to purchase their first home. These loans have an interest rate of 3% and a term of 30 years. However, there are no payments and no accrued interest for the first five years. Beginning in year six, equal monthly payments of principal and interest will commence and continue for the remaining 25 years. The outstanding balance of these loans is \$1,272,421 at June 30, 2011.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**5. INTERFUND TRANSACTIONS**

Due To and From Other Funds

		Due to other funds			
Due from other funds		Non-Major Governmental Funds	Non-Major Public Transportation	PEMHCA	Total
	General Fund	\$ 11,359	\$ 7,357	\$ -	\$ 18,716
	City Capital Projects	43,000	-	-	43,000
Longevity Recognition Benefits	-	-	103,431	103,431	
<b>Total</b>	<b>\$ 54,359</b>	<b>\$ 7,357</b>	<b>\$ 103,431</b>	<b>\$ 165,147</b>	

Transfers

Transfers are made for the purposes of funding capital projects or debt service, subsidies of various City/District operations and re-allocations of special revenues. The following schedule summarizes the City/District's transfer activity:

		Transfers in						
Transfers out		Affordable Housing			Non-Major Governmental Funds	Non-Major Public Transportation	Internal Service Funds	Total
		General Fund	Reimbursement Agreement	City Capital Projects				
	General Fund	\$ -	\$ -	\$ 1,370,000	\$ -	\$ 108,000	\$ -	\$ 1,478,000
Community Development Agency	-	19,072,012	612,243	2,501,692	-	-	22,185,947	
Non-Major Governmental Funds	4,980	-	1,830,563	-	-	-	1,835,543	
Internal Service Funds	-	-	-	-	-	1,139,738	1,139,738	
<b>Total</b>	<b>\$ 4,980</b>	<b>\$ 19,072,012</b>	<b>\$ 3,812,806</b>	<b>\$ 2,501,692</b>	<b>\$ 108,000</b>	<b>\$ 1,139,738</b>	<b>\$ 26,639,228</b>	

Transfers between funds were made during the fiscal year to subsidize the shuttle operation; to fund capital improvement projects; to fund Other Post-Employment Benefit obligations; and to transition from Community Development Agency to City to carry out the Agency's obligations for housing and capital projects funds of the terminated Project One Area.

The internal service funds recorded a transfer out in the amount of \$24,736 to transfer capital assets to the governmental activities. The transfer in to the governmental activities is only recorded in the government-wide financial statements and therefore, transfers in and out do not reconcile on the fund statements.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**6. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2011 follows:

	July 1, 2010	Additions	Retirements	Transfers	June 30, 2011
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 11,680,881	\$ -	\$ -	\$ -	\$ 11,680,881
Construction in progress	559,393	965,645	-	(979,347)	545,691
Total capital assets, not being depreciated	<u>12,240,274</u>	<u>965,645</u>	<u>-</u>	<u>(979,347)</u>	<u>12,226,572</u>
Capital assets, being depreciated:					
Infrastructure	98,203,827	24,736	(224,389)	979,347	98,983,521
Buildings	50,530,939	-	-	-	50,530,939
Improvements	6,139,556	-	-	-	6,139,556
Equipment	5,331,771	224,232	(125,684)	-	5,430,319
Vehicles	4,959,725	276,005	(76,333)	-	5,159,397
Software	792,016	-	-	-	792,016
Total capital assets, being depreciated	<u>165,957,834</u>	<u>524,973</u>	<u>(426,406)</u>	<u>979,347</u>	<u>167,035,748</u>
Less accumulated depreciation for:					
Infrastructure	(47,981,633)	(2,836,456)	120,897	-	(50,697,192)
Buildings	(9,644,086)	(1,168,862)	-	-	(10,812,948)
Improvements	(1,333,031)	(202,610)	-	-	(1,535,641)
Equipment	(3,752,008)	(514,481)	125,429	-	(4,141,060)
Vehicles	(3,091,400)	(425,120)	76,333	-	(3,440,187)
Software	(501,405)	(126,242)	-	-	(627,647)
Total accumulated depreciation	<u>(66,303,563)</u>	<u>(5,273,771)</u>	<u>322,659</u>	<u>-</u>	<u>(71,254,675)</u>
Total capital assets, being depreciated, net	<u>99,654,271</u>	<u>(4,748,798)</u>	<u>(103,747)</u>	<u>979,347</u>	<u>95,781,073</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 111,894,545</u>	<u>\$ (3,783,153)</u>	<u>\$ (103,747)</u>	<u>\$ -</u>	<u>\$ 108,007,645</u>

Total capital asset additions for the City for the fiscal year ended for governmental activities were \$1,490,618, which consisted of \$500,237 in additions attributable to internal service fund activity.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**6. CAPITAL ASSETS, Continued**

	July 1, 2010	Additions	Retirements	Transfers	June 30, 2011
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 3,553,474	\$ -	\$ -	\$ -	\$ 3,553,474
Construction in progress	419,546	2,731,701	-	(143,204)	3,008,043
Sewer capacity rights	9,249,395	1,914	-	(9,251,309)	-
Total capital assets, not being depreciated	<u>13,222,415</u>	<u>2,733,615</u>	<u>-</u>	<u>(9,394,513)</u>	<u>6,561,517</u>
Capital assets, being depreciated:					
Infrastructure	69,977,737	403,315	(153,327)	143,204	70,370,929
Sewer capacity rights	15,540,222	-	-	9,251,309	24,791,531
Equipment	872,065	-	(9,304)	-	862,761
Total capital assets, being depreciated	<u>86,390,024</u>	<u>403,315</u>	<u>(162,631)</u>	<u>9,394,513</u>	<u>96,025,221</u>
Less accumulated depreciation for:					
Infrastructure	(35,763,286)	(1,643,324)	143,320	-	(37,263,290)
Sewer capacity rights	(2,762,539)	(310,804)	-	-	(3,073,343)
Equipment	(500,707)	(40,056)	9,311	-	(531,452)
Total accumulated depreciation	<u>(39,026,532)</u>	<u>(1,994,184)</u>	<u>152,631</u>	<u>-</u>	<u>(40,868,085)</u>
Total capital assets, being depreciated, net	<u>47,363,492</u>	<u>(1,590,869)</u>	<u>(10,000)</u>	<u>9,394,513</u>	<u>55,157,136</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 60,585,907</u>	<u>\$ 1,142,746</u>	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ 61,718,653</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 701,670
Public safety - Police	163,648
Public safety- Fire	9,951
Public works	2,925,874
Community development	63,315
Parks and recreation	1,409,313
<b>Total depreciation expense</b>	<u>\$ 5,273,771</u>

Depreciation expense was charged to the business-type functions as follows:

Water	\$ 1,101,151
Sewer	893,033
<b>Total depreciation expense</b>	<u>\$ 1,994,184</u>

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**7. LONG TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions for the year ended June 30, 2011:

	July 1, 2010	Additions	Retirements	June 30, 2011	Due Within One Year	Due in More Than One Year
Governmental activities:						
Claim liability	65,262	137,760	(134,548)	68,474	68,474	-
Compensated absences	2,626,827	1,259,363	(1,166,140)	2,720,050	1,102,585	1,617,465
OPEB obligation	986,082	535,506	(76,884)	1,444,704	-	1,444,704
Total governmental activities	<u>\$ 3,678,171</u>	<u>\$ 1,932,629</u>	<u>\$ (1,377,572)</u>	<u>\$ 4,233,228</u>	<u>\$ 1,171,059</u>	<u>\$ 3,062,169</u>
Business-type activities:						
Compensated absences	\$ 314,766	\$ 173,549	\$ (141,407)	\$ 346,908	\$ 153,136	\$ 193,772
OPEB obligation	116,918	63,494	(9,116)	171,296	-	171,296
Total business-type activities	<u>\$ 431,684</u>	<u>\$ 237,043</u>	<u>\$ (150,523)</u>	<u>\$ 518,204</u>	<u>\$ 153,136</u>	<u>\$ 365,068</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$198,830 of internal service funds compensated absences and \$68,474 of claims liability are included in the above amounts.

**8. NET ASSETS/FUND BALANCES**

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:* 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. At June 30, 2011, there was no outstanding debt related to the City / District's capital assets

*Restricted Net Assets:* This category presents 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.

*Unrestricted Net Assets:* This category represents net assets of the City/District, not restricted for any project or other purpose.

Fund balances presented in the governmental fund financial statements, represent the difference between assets and liabilities reported in a governmental fund. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds. GASB Statement No. 54 requires that the fund balances be classified into categories based upon the type of restrictions imposed on the use of funds. The City/District evaluated each of its funds at June 30, 2011 and classified fund balances into the following five categories:

- Nonspendable – amounts that cannot be spent because they are either not in spendable form, such as prepaid items, or legally or contractually required to be maintained intact. These items are reported in the general fund.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**8. NET ASSETS/FUND BALANCES, Continued**

- Restricted - amounts that are restricted to specific purposes that may be placed on the use of those resources by either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation. The City/District has received taxes, donations, grants, and other funds from taxpayers, the Agency, and other third parties for the following types of purposes: affordable housing, repayment of Agency obligations, parks improvement projects, roadway repairs, recreation or community events, and public safety uses.
- Committed - amounts that can only be used for specific purposes that are constrained by the formal action (ordinance, resolution, or minute order) of the agency's highest level of decision-making authority - the City Council / District Board, and cannot be used for any other purpose unless that authority removes or changes the specified use through the same type of action which placed the commitment on the fund previously. This level of approval has been reported in the general fund and capital projects fund.
- Assigned - amounts that are constrained by the City/District's intent to be used for specific purposes, but do not fit the definitions of either Restricted or Committed funds. The authority for making an assignment does not require the agency's highest level of decision-making authority. This authority has been delegated by the City Council to the City Manager. This level of approval has been reported in the general fund.
- Unassigned - this represents the residual classification for the general fund, as all other funds would fall under the prior categories. The City Council has implemented a target minimum reserve policy of 33-1/3% of annual operating expenditures which is used for budgeting purposes to ensure the long-term fiscal health of the City / District.

The City/District reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. The City/District reduces committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The five categories of fund balances reported in the Governmental Fund Balance Sheet consist of the following detail composition for each category:

**Nonspendable**

- Prepays and deposits - includes various prepaid expenditures primarily associated with community events such as the 4<sup>th</sup> of July celebration and other summertime recreation programs.
- Inventory - represents supplies inventories for parks and public works maintenance activities.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**8. NET ASSETS/FUND BALANCES, Continued**

**Restricted**

- Affordable Housing Reimbursement Grant - the City and the Agency entered in an Affordable Housing Reimbursement Agreement on February 7, 2011. The Agreement calls for the City to act upon the Agency's behalf in implementing and administering affordable housing programs within the City. The assets transferred from the Agency to the City were generated from tax increment revenues required to be used to provide low- to moderate-income housing opportunities to residents in Foster City, and are to be used for purposes of implementing the programs contained in the AHRA, which include affordable housing subsidies, acquiring and managing affordable housing properties, and funding the First-Time Homebuyers Program.
- City/Agency Cooperative Services Agreement - the City and the Agency entered into a Cooperative Services Agreement on April 18, 2011, which calls for the City to act on the Agency's behalf in administering the Agency's final financial obligations to the San Mateo Union High School District (SMUHSD) under the terms of the Stipulated Judgment and Mutual Release between the Agency and SMUHSD dated June 27, 1991.
- Parks capital projects - these funds represent park-in-lieu fees received by the City from the Pilgrim-Triton developer for purposes of constructing parks improvements in support of the new residents in the project area, as well as donations from local youth sports groups and other individuals in support of the City's synthetic turf implementation projects.
- Roadway capital projects and maintenance - these funds include taxes received from state and local tax measures and laws, including Highway Users Tax (Gas Tax), San Mateo County Measure A sales tax add-on for local roadway maintenance projects, traffic safety funds generated from moving violations of the State Motor Vehicle Code, and State grants received under the provisions of Proposition 42.
- Other capital projects - these funds primarily represent net available tax increment received from the Marlin Cove and Hillsdale/Gull redevelopment project areas of the Agency that are restricted for capital projects and support of amenities for the respective project areas.
- Public safety equipment and programs - these funds include unexpended proceeds from a State grant under the California Law Enforcement Equipment Procurement program and restricted donations received from businesses and individuals to be used in support of public safety (police and fire) programs.
- Recreation programs and community events - these funds represent donations from businesses, organizations and individuals in support of various recreation programs and community events including the Teen Center, Summer Concert Series, 4<sup>th</sup> of July Celebration, senior bus program, memorial park benches, and other recreation programs.
- Other - represents restricted donations received for various municipal purposes.



**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**8. NET ASSETS/FUND BALANCES, Continued**

**Committed**

- Solid waste reduction - funds collected through the City's construction and demolition deposit program, whereby developers which do not divert sufficient demolition material to recycling programs lose their deposits which become revenues to the City. By City Council policy, these funds are committed for purposes of environmental sustainability projects and educational programs focused primarily on solid waste reduction and recycling.
- Garbage rate stabilization fund - under the prior solid waste franchise agreement with Allied Waste, funds were accumulated through payments by Allied Waste to the City for not achieving certain solid waste reduction goals. Through City Council policy, the funds were committed for purposes of stabilizing significant future increases expected in solid waste rates charged to customers. These funds are used to offset future rate increases through payments directly to the successor franchisee, Recology.
- Capital projects - funds committed by City Council action during the annual budget process to appropriate unassigned fund balances for future capital improvement projects not funded by other available sources.
- CalOpps online recruitment program - the City initiated an online recruitment website for purposes of encouraging employment candidates to apply for jobs in local government. Over 60 agencies now participate in the program. The City Council has elected to commit these funds for purposes of supporting this program.

**Assigned**

- Capital outlay - these funds are approved at the discretion of the City Manager to be used primarily for capital outlay purposes in subsequent fiscal years.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**8. NET ASSETS/FUND BALANCES, Continued**

**Unassigned**

- Unassigned - all remaining fund balances in the General Fund not used for the aforementioned purposes are maintained as unassigned fund balance.

The following table represents the composition of fund balances in the Governmental Fund Balance Sheet as of June 30, 2011

	Major Funds				Non-Major	Total
	General Fund	Affordable Housing Reimbursement Agreement	City Capital Projects	Community Development Agency	Governmental Funds	
<b>Nonspendable</b>						
Prepays and deposits	\$ 16,627	\$ -	\$ -	\$ -	\$ -	\$ 16,627
Inventory	16,900	-	-	-	-	16,900
<b>Total Nonspendable</b>	<b>33,527</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,527</b>
<b>Restricted</b>						
Affordable housing	-	19,072,012	-	-	-	19,072,012
City/Agency Cooperative Services Agreement	-	-	-	-	2,501,692	2,501,692
Parks capital projects	-	-	607,376	-	2,297,879	2,905,255
Roadway capital projects and maintenance	-	-	-	-	3,428,514	3,428,514
Other capital projects	-	-	-	517,745	-	517,745
Public safety equipment and programs	-	-	-	-	65,037	65,037
Recreation programs and community events	-	-	-	-	117,187	117,187
Other	-	-	-	-	798	798
<b>Total Restricted</b>	<b>-</b>	<b>19,072,012</b>	<b>607,376</b>	<b>517,745</b>	<b>8,411,107</b>	<b>28,608,240</b>
<b>Committed</b>						
Solid waste reduction	162,807	-	-	-	-	162,807
Garbage rate stabilization fund	650,000	-	-	-	-	650,000
Capital projects	-	-	7,926,505	-	-	7,926,505
CalOpps online recruitment program	-	-	-	-	172,611	172,611
<b>Total Committed</b>	<b>812,807</b>	<b>-</b>	<b>7,926,505</b>	<b>-</b>	<b>172,611</b>	<b>8,911,923</b>
<b>Assigned</b>						
Capital outlay	1,052,366	-	-	-	-	1,052,366
<b>Unassigned</b>	<b>19,304,982</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,304,982</b>
<b>Total Fund Balances</b>	<b>\$ 21,203,682</b>	<b>\$ 19,072,012</b>	<b>\$ 8,533,881</b>	<b>\$ 517,745</b>	<b>\$ 8,583,718</b>	<b>\$ 57,911,038</b>

The City/District uses encumbrance accounting throughout the fiscal year to encumber appropriations based upon purchase orders issued to the City/District's vendors. Any purchase order not expended lapse at the end of the fiscal year, and must be reinitiated with the vendor on July 1 of the subsequent fiscal year. At June 30, 2011, there were no encumbered fund balances.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**9. EMPLOYEES' RETIREMENT PLANS**

Public Employees' Retirement Fund

*Plan Description:* All permanent employees are eligible to participate in the Public Employees' Retirement Fund (Fund) of the State of California's Public Employees' Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty and fifty-five for safety and other employees, respectively. These benefit provisions and all other requirements are established by State statute and City/District ordinances. Copies of the Fund's annual financial report may be obtained from CalPERS' Executive Office: 400 P Street, Sacramento, CA 95814.

*Funding Policy:* Public safety employees and all other employees have an obligation to contribute 9% and 8% of their salary to the Fund, respectively. The City/District makes the contributions required of City/District employees on their behalf and for their accounts. The City/District is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2011 were 13.541% for miscellaneous employees and 34.059% for safety employees of annual covered payroll. The employer contributions for miscellaneous and safety employees for fiscal year 2011 were \$1,415,345 and \$2,818,318, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

*Annual Pension Cost:* For fiscal year 2011, the City/District's annual pension cost for CalPERS was equal to the City/District's required and actual contributions, which were determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included the following:

Investment rate of return	7.75% (net of administrative services)
Projected salary increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

The actuarial value of assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. Unfunded actuarial accrued liability (UAAL) (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liabilities of the City/District ends on June 30, 2021 for safety employees, and June 30, 2019 for miscellaneous employees.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**9. EMPLOYEES' RETIREMENT PLANS, Continued**

*Three-Year Trend Information:* The following table shows the City/District's required contributions and the percentage contributed, for the current year and each of the preceding two years.

Miscellaneous Plan				Safety Plan			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	1,623,794	100%	\$ -	6/30/2009	2,694,003	100%	\$ -
6/30/2010	1,375,239	100%	-	6/30/2010	2,764,553	100%	-
6/30/2011	1,415,345	100%	-	6/30/2011	2,818,318	100%	-

*Funded Status of Plan – Safety Employees*

The City/District's retirement plan for safety employees is a part of the CalPERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City/District's safety employees is no longer available.

*Funded Status of Plan – Miscellaneous Employees*

The City/District contributed to the California Public Employees' Retirement System (CalPERS), as an agent multiple-employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by CalPERS.

Valuation Date	Entry Age	Actuarial Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	UAAL as a % of Payroll
	Normal Accrued Liability			Actuarial Value	Market Value		
6/30/2010	\$ 71,829,999	\$ 58,941,745	\$ 12,888,254	82.1%	64.4%	\$ 10,634,191	121.2%

\*\* Additional information regarding the funded status of the miscellaneous employees' retirement plan can be found in the Required Supplementary Information section.

Internal Revenue Code Section 401(a) Plan

Effective January 1, 1997, the City/District established the City of Foster City Section 401 (a) Plan (Plan), a defined contribution plan. The City/District designated a third party administrator to administer the Plan on behalf of the City/District. The Plan provides retirement benefits to all employees on the date of employment. The employees vest upon joining the Plan. The City/District has agreed to contribute to the employees' accounts based on the employees' hours of service and current rate of pay as defined in each bargaining unit's memorandum of understanding (MOU) with the City/District. The City/District could amend the Plan as agreed to by each bargaining unit. The City/District contributed \$191,006 in fiscal year 2011 as required under the City/District's MOUs. The Plan has \$59,812 loaned to 3 employees at June 30, 2011.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**9. EMPLOYEES' RETIREMENT PLANS, Continued**

Longevity Recognition Benefits

The Longevity Recognition Benefits is a pension obligation established for the benefit of the classifications of Police Officer, Police Corporal, Police Sergeant, Police Lieutenant, Police Captain, Police Chief, Firefighter, Fire Captain, Battalion Chief and Fire Chief. It was also afforded to the members of the AFSCME bargaining unit who retired after July 1, 2001 and before October 1, 2007. The monthly benefit is calculated based on the years of service and bargaining group, which ranges from \$125 to \$350. The payment is made upon separation from the City, as long as that separation is in conjunction with a retirement through CalPERS. The payment is a monthly annuity payment, which has no restriction as to how the payment is used by the member. The payment commences the first of the month following the retirement date of the annuitant.

Other Post Employment Benefits

All City/District employees, their surviving spouses, and eligible dependents can continue to participate in the health care program under the provisions of the formal City-sponsored plan at their own cost. The City/District will only contribute the minimum amount provided under Government Code Section 22825 of the Public Employee Medical and Hospital Care Act. By which, the City/District paid \$101 and \$108 per month per family for the period from July 1, 2010 to December 31, 2010 and January 1, 2011 to June 30, 2011 respectively. The City/District's contribution for fiscal year 2011 amounted to \$87,110.

Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Post Employment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City/District annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 652,000
Interest on net OPEB obligation	48,110
Amortization of net OPEB obligation	(100,000)
Annual OPEB cost	600,110
Payments made	(87,110)
Increase (decrease) in net OPEB obligation	513,000
Net OPEB obligation - beginning of the year	1,103,000
Net OPEB obligation - ending of year	<u>\$ 1,616,000</u>

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**9. EMPLOYEES' RETIREMENT PLANS, Continued**

The City/District Retiree Health annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for 2011 and the preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Cumulative OPEB Obligation
6/30/2009	\$ 601,000	10.82%	\$ 536,000	\$ 536,000
6/30/2010	643,000	11.82%	567,000	1,103,000
6/30/2011	600,110	14.52%	513,000	1,616,000

**Funded Status and Funding Progress.** The funded status of the Plan as of January 1, 2011, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 5,085,000
Actuarial value of Plan assets	0
Unfunded actuarial accrued liability (UAAL)	5,085,000
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	17,857,000
UAAL as a percentage of covered payroll	28.58%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions:** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3.25% general inflation assumption. The PEMHCA minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payrolls over 30 years on a closed basis commencing in 2011.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**10. PENINSULA JEWISH COMMUNITY CENTER LEASE**

On October 19, 1998, the City/District (Lessor) entered into a 55-year Lease Agreement for real property with the Peninsula Jewish Community Center (Lessee) commencing January 1, 2003. Initially, the Lessee's lease rent is \$250,000 per year, consisting of two components. The first component is a fixed dollar amount of \$120,000 intended to recover the municipal service cost to the City/District referred herein as the "In Lieu Rent." The second component of \$130,000 is to provide services in the form of discounts on membership and discounts on program activities of the Lessee made available to residents of the City/District, referred to herein as the "In-Kind Rent." The In Lieu Rent increases 2% per year for the term of the lease and the In Kind Rent increase a minimum of 2% per year for the term of the lease. During fiscal year 2011, the City/District received \$172,350 of In Lieu Rent and \$4,398 of In-Kind Rent.

**11. INVESTMENT IN JOINT VENTURE AND MEMBERSHIP IN INSURANCE POOLS**

The City/District participates in a joint venture and insurance pools established under the State of California Joint Powers Act, as follows:

Wastewater Treatment Facility

The City/District executed a Joint Exercise of Powers Agreement in June 1974 (amended February 1976) with the City of San Mateo for the joint construction of a wastewater treatment facility (Facility). The project was funded through various sources: federal funding was 75%, state funding was 12.5%, and the City/District and the City of San Mateo jointly funded the remaining 12.5%. The project was completed during the year ended June 30, 1987, at an approximate total cost to the City/District of \$826,000. Part of the City/District's share of the costs has been financed through the sale of \$760,000 in Sewer Revenue Bonds of 1979. The remaining construction costs were financed through use of existing funds.

A new Joint Powers Agreement (JPA) dated July 17, 1989 and amended January 17, 1990, was executed by the City/District and City of San Mateo to rescind the agreement of June 1974 (amended February 1976). The new JPA provides for the expansion of the wastewater treatment facility with all costs shared between the parties as follows: the City/District, 34.4% and the city of San Mateo, 65.6%. The city of San Mateo is the lead agency and bills the City/District monthly for its share of the expansion project costs and quarterly for its operating and maintenance costs. Part of the City/District's share of costs has been financed through the sale of \$1,329,000 in Sewer Revenue Bonds in 1993. The city of San Mateo issued \$23.5 million in long-term revenue bonds to finance its share of expansion costs. The City/District is not obligated in any manner to repay the San Mateo revenue bonds. For the year ended June 30, 2011, the City/District expended \$1,914 towards the wastewater treatment plant facility.

For the year ended June 30, 2011, the District's share of the operating and maintenance costs was \$1,396,317 which is included in the Sewer Enterprise Fund's accompanying financial statements as contractual services.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**11. INVESTMENT IN JOINT VENTURE AND MEMBERSHIP IN INSURANCE POOLS, Continued**

The Cities Group

The City/District, along with five other governments located within San Mateo County, is a member of The Cities Group, a public entity risk pool and a provider of workers' compensation insurance coverage, claims management, risk management services and legal defense to each participating member. The Cities Group is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to the Cities Group may be modified by Board decision according to the loss experience of each member. This loss experience mechanism will operate to ensure that each member returns over a period of time to the Cities Group the funds paid out on its behalf as paid losses. In the opinion of City/District management, premiums paid represent the best available estimate of the ultimate cost of the City/District's participation in The Cities Group and, accordingly, the accompanying basic financial statements of the City/District includes no provisions for possible refunds or additional assessments. For the year ended June 30, 2011, the City/District paid premiums to The Cities Group of \$662,122, which are included in the General Fund's as insurance expenditures. Payments of City/District workers' compensation claims for the year ended June 30, 2011 were \$626,165.

Condensed financial information as of June 30, 2011 (the latest information available) for The Cities Group is presented below:

Total assets	\$	2,402,842
Total liabilities		1,185,177
Total equity/net assets		1,217,665
Total revenues		2,707,440
Total expenses/expenditures		2,668,235
Increase (decrease) in equity/net assets		39,205

ABAG PLAN

The City/District, along with 31 other Bay Area governments, is a member of the ABAG PLAN Corporation (ABAG), a public-entity risk pool. ABAG provides liability insurance coverage, claims management, risk management services and legal defense to its participating members. ABAG is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to ABAG are subject to possible refund based on the results of actuarial studies and approval by ABAG's Board of Directors. In the opinion of the City/District management, premiums made represent the best available estimate of the ultimate cost of the City/District's participation in ABAG and, accordingly, the accompanying basic financial statements of the City/District include no provisions for possible refunds or additional assessments. Actual refunds and assessments arising from retrospective premium adjustments relating to prior loss years will be recorded in the City/District's basic financial statements in the year they become known. For the year ended June 30, 2011, the City/District's paid premiums of \$197,635 to ABAG.

Condensed financial information as of June 30, 2010 (the latest information available) for the ABAG PLAN is presented below:

Total assets	\$	50,436,628
Total liabilities		18,640,521
Total equity/net assets		31,796,107
Total revenues		11,285,711
Total expenses/expenditures		10,844,577
Increase (decrease) in equity/net assets		441,134



**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**12. RISK MANAGEMENT**

The City/District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City/District is self-insured for general liability claims up to \$100,000. General liability claims in excess of \$100,000 are insured with ABAG, a joint powers agency for the funding and pooling of insurance coverage. ABAG is a self-insured public-entity risk pool. Workers' compensation claims are insured with The Cities Group, a joint powers agency for the funding and pooling of insurance coverage. The Cities Group purchases third-party commercial insurance to cover all liabilities in excess of \$1,000,000 for safety employees and \$750,000 for other employees effective April 1, 2005. The coverage by Cities Group increased to \$1,000,000 for other employees effective April 1, 2006. Charges to the General Fund for general liability claims are determined from an analysis of self-insured claim costs. Such charges are recorded as expenditures in the General Fund and revenues in the Self-Insurance Internal Service Fund. The City/District considers incurred but not reported claims in determining if an accrual for loss contingencies is required for claims.

Settled claims have not exceeded the City/District's excess coverage in any of the past three fiscal years. Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, the amount of that loss can be reasonably estimated and includes incremental claim expenses. Allocated and unallocated claims adjustment expenses are included in the claims liability balance. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2011, the liability for general liability self-insurance claims was \$68,474. This liability is the City/District's best estimate based on available information.

Changes in the reported liability resulted from the following:

Liability at June 30, 2009	\$ 132,621
Current year claim deductibles and changes in estimates	21,772
Net payments	<u>(89,131)</u>
Liability at June 30, 2010	<u>65,262</u>
Current year claim deductibles and changes in estimates	137,760
Net payments	<u>(134,548)</u>
Liability at June 30, 2011	<u><u>\$ 68,474</u></u>

**13. COMMITMENTS AND CONTINGENCIES**

The City/District is a defendant in lawsuits arising in the normal course of business. City/District management is of the opinion that the potential claims against the City/District resulting from such litigation, not covered by insurance, and would not materially affect the basic financial statements of the City/District.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**13. COMMITMENTS AND CONTINGENCIES, Continued**

Settlement with San Mateo Union High School District

In 1991, the Agency settled a lawsuit involving the allocation of property tax increment revenue to the San Mateo Unified High School District (High School District). Based on the settlement, the Agency had agreed to pay the High School District a fixed amount of \$300,000 of tax increment annually through fiscal year 1996. For each fiscal year from 1997 to 2006, the Agency was obligated to pay the High School District an amount equal to 7.5% of the projected net tax increment received by the Agency in each fiscal year. For each fiscal year from 2007 to 2016, the Agency is obligated to pay the High School District in accordance with an agreed-upon payment schedule based on 10% of the original estimated net tax increment received in each fiscal year. Total payments to the High School District are not to exceed \$9,636,000 and are to be made only from the tax revenues of the year payments are made. Accordingly, no liability for the future settlement payments has been recorded as it was contingent on receipt of sufficient Tax Increment revenues to require payment. During fiscal year 2011, the Agency paid \$467,000 to the High School District.

A tentative payment schedule of \$475,000 in FY2011/2012, \$484,000 in FY2012/2013, \$493,000 in FY2013/2014, \$503,000 in FY2014/2015, and \$512,000 in FY2015/2015 has been established.

Marlin Cove Disposition and Development Agreement

On November 15, 1999, the Agency approved a Disposition and Development Agreement (DDA) with a developer. On June 4, 2001, the DDA was amended. The DDA includes the entire Marlin Cove Project Area site and consists of a mixed-use development consisting of both residential and commercial development. The DDA as amended calls for significant Agency participation as summarized below:

- (i) *Agency Grant* – The Agency agreed to grant to the developer \$5,900,000 for off-site public improvements, hazardous materials remediation, fees due the City/District in connection with the development of the site, relocation expenses, and other demolition and improvement expenses. During fiscal year 2000, the Agency paid the developer \$4,900,000. The balance of the Agency Grant will be due to the developer, provided the developer has provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site. During the fiscal year ended June 30, 2011, the Agency paid the developer the required installment of \$109,794.
- (ii) *Utility Subsidy* – The Agency pledged to the developer a utility allowance subsidy in the amount of \$36,000 annually for affordable housing units. The Utility Subsidy will be paid annually through the life of the Marlin Cove project (estimated to be 2029) following the issuance of the Final Certificate of Completion for the residential portion of the site and will be increased annually by 2% to adjust for inflation. The balance of the amount will be due to the developer, provided the developer has provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site. For the fiscal year ended June 30, 2011, the Agency paid the developer the Utility Subsidy in the amount of \$43,022.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**13. COMMITMENTS AND CONTINGENCIES, Continued**

Marlin Cove Disposition and Development Agreement, Continued

(iii) *Tax Increment Subsidy* – The Agency agreed to provide rental subsidies pursuant to the California Health and Safety Code to ensure the affordability of at least 30% of the units in the residential portion of the site to persons and households of very low, low, and moderate income. The Agency pledged to the developer annually 30% of the net tax increment generated from the site (Tax Increment Subsidy). The Tax Increment Subsidy will be paid to the developer on an annual basis on May 1 of each year in an amount equal to the difference between the fair market rents of the affordable units and the affordable rent but not more than the Tax Increment Subsidy. For the fiscal year ended June 30, 2011, the Agency paid the developer a tax increment subsidy in the amount of \$160,498

If, in any year commencing more than one year after the execution of the DDA, the sum of the Tax Increment Subsidy, the Utility Subsidy and the Amortized portion of the Agency Grant exceeds the net tax increment, the Tax Increment Subsidy will be reduced for that year by such that the total amount paid to the developer does not exceed the net tax increment for the applicable year.

A tentative payment schedule of \$109,794 per year has been established depending upon the developers compliance with the agreement through 2013/2014.

Hillsdale/Gull Disposition and Development Agreement

In March 2000, the Agency approved a Disposition and Development Agreement (DDA) with a developer. The DDA includes the entire Hillsdale/Gull Project Area site and consists of residential development. The DDA calls for significant Agency participation under an Agency Grant. The Agency agreed to grant to the developer an amount not to exceed \$4,000,000 for an affordable housing land subsidy, fees due the City in connection with the development of the site, other demolition costs and affordable unit construction costs.

During fiscal year 2001, the Agency paid the developer \$2,000,000. The balance of the Agency Grant will be due to the developer, with interest at eight percent per annum, amortized over fifteen years and paid to the developer in equal installments of \$233,659. The annual payments will be paid on July 1 of each year, provided (i) the developer has completed construction and installation of the work of improvements and the Agency has issued a Certificate of Completion, (ii) the developer provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site, and (iii) the developer delivered to the Agency the annual report required under the Affordable Housing Covenant. Construction was completed during fiscal year June 30, 2005. As a result, the Agency paid the developer the required installment in the amount of \$177,187 during the fiscal year ended June 30, 2011.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

**13. COMMITMENTS AND CONTINGENCIES, Continued**

Hillsdale/Gull Disposition and Development Agreement, Continued

A tentative payment schedule of \$233,659 per year has been established depending upon the developers compliance with the agreement through 2015/2016.

Capital Project Commitments

The City/District has commitments for the following significant capital, infrastructure and other projects and programs:

Project	Project Authorization	Expended Through June 30, 2011	Committed
Sanitary Sewer Lift Station Improvements	5,213,500	2,978,465	2,235,035
Levee/Pedway Improvements and Repairs	1,575,000	505,089	1,069,911
Sewer System Rehabilitation	150,000	-	150,000
Water Main Condition Survey	200,000	-	200,000
Residential Street Resurfacing & Repair	825,000	6,860	818,140
Park Infrastructure Improvements	210,000	23,900	186,100
Sea Cloud Park Synthetic Turf Project	1,536,000	4,867	1,531,133
Port Royal Park Synthetic Turf Project	1,651,700	4,975	1,646,725
Total	\$ 11,361,200	\$ 3,524,156	\$ 7,837,044

The City/District participates in Federal, State, and local grant programs. These programs are subject to audits by the granting agencies. City/District management does not expect any material adverse affect on the financial condition of the City/District as a result of any potential grant audits.

**15. TAKE AWAY BY STATE**

The State of California passed legislation as part of the passage of its 2009-10 budget to take away a total of \$1.7 billion from redevelopment agencies statewide in 2009-10, and an additional \$350 million in 2010-11 as a Supplemental Education Revenue Augmentation Fund (SERAF). This decision was litigated by the California Redevelopment Association and other parties with the hope that this would be considered unconstitutional. The court ruled in favor of the State. The decision is currently being appealed and the results have not yet been determined. The 2009-10 SERAF payment was \$5,639,604 and another \$1,161,095 was paid in fiscal year 2010-11.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued**

The City and the Agency entered into three agreements during fiscal year 2010-11 relative to funds held by the Agency that call for the City to act upon the Agency's behalf:

- (i) *Affordable Housing Reimbursement Agreement (AHRA)* - This agreement was enacted by the Agency Board and City Council on February 7, 2011. The AHRA calls for the City to act upon the Agency's behalf in implementing and administering affordable housing programs within the City. A total of \$19.1M was transferred from the Agency to the City for purposes of implementing the programs contained in the AHRA.
- (ii) *Public Improvements Reimbursement Agreement (PIRA)* - This agreement was enacted by the Agency Board and City Council on February 7, 2011. The PIRA calls for the City to complete anticipated public improvement projects on behalf of the Agency, which were appropriated by the City Council for purposes of constructing parks-related public improvements at Sea Cloud Park. A total of \$607,376 was transferred from the Agency to the City for purposes of implementing that project.
- (iii) *Cooperative Services Agreement (CSA)* - This agreement was enacted by the Agency Board and City Council on April 18, 2011. The CSA calls for the City to act on the Agency's behalf in administering the Agency's final financial obligations to the San Mateo Union High School District (SMUHSD) under the terms of the Stipulated Judgment and Mutual Release between the Agency and SMUHSD dated June 27, 1991. A total of \$2.5M was transferred from the Agency to the City for purposes of liquidating the future amounts due to SMUHSD.

In the event that Assembly Bill X1 26 is upheld, the transfer recognized by funds of the City under the terms of the aforementioned agreements may need to be transferred back to the Agency. The City might additionally be impacted if reimbursements paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

If ABX1 26 and 27 are upheld, the City of Foster City would be required to pay over \$6.1M in order to participate in the Voluntary Alternative Redevelopment Program under ABX1 27. Thereafter, an estimated \$1.2M will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments would be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

**City of Foster City and Estero Municipal Improvement District**  
**Notes to the Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2011**

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**16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued**

Inasmuch as Project Area One, which represented 93% of the Agency's annual tax increment annually, reached its tax increment revenue limit in fiscal year 2010-11, the Agency will no longer receive tax increment from that project area. The Agency is estimated to only receive \$885,000 in tax increment in fiscal year 2011-12. The City appealed the payment calculation on the grounds that the calculation by the Department of Finance falsely assumed that collection of tax increment in fiscal year 2008-09, upon which the remittance amount was based, would continue in fiscal year 2011-12. The Department of Finance rejected the City's appeal, claiming that the basis upon which the appeal was filed was not permitted under the provisions of ABX1 26. Accordingly, the City has determined that it would be unfeasible to make the payment under the Voluntary Alternative Redevelopment Program. The nature and extent of the operation of redevelopment agencies in the State of California are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

**17. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 28, 2011, the date the financial statements were available to be issued. Except as described in Note 16, no other events requiring recognition or disclosure in the financial statements were identified.

# REQUIRED SUPPLEMENTARY INFORMATION



**City of Foster City and Estero Municipal Improvement District**  
**Required Supplementary Information**  
**For the fiscal year ended June 30, 2011**

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**BUDGET AND BUDGETARY ACCOUNTING**

The following procedures are performed by the City/District in establishing the budgetary data reflected in the basic financial statements:

- The City Manager submits to the City Council and the District's Board members a proposed budget for the coming fiscal year. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayers' comments.
- The budget is legally adopted through passage of a resolution.
- The transfer of budget amounts between funds or departments must be approved by the City Council and the District's Board. Transfer of budget amounts within one fund or one department must be approved by the City Manager.
- Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund, Special Revenue Funds and Debt Service Funds.
- Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) using the modified accrual basis of accounting.
- Total expenditures of each governmental fund may not legally exceed fund appropriations at the department level.
- Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the budgetary process.
- Fund appropriations lapse at the end of each year. The City/District closes out all purchase orders, contracts and other commitments at year-end. As such, no encumbrances were outstanding at June 30, 2011. Encumbrances are expected to be reappropriated in the following fiscal year.

**City of Foster City and Estero Municipal Improvement District**  
**Required Supplementary Information, Continued**  
**For the fiscal year ended June 30, 2011**

*Budgetary Comparison Schedule – General Fund, Continued*

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Fund balance, June 30, 2010</b>	\$ 25,104,045	\$ 25,104,045	\$ 25,104,045	\$ -
Resources (inflows):				
Property taxes:				
Secured	13,731,000	13,731,000	12,831,748	(899,252)
Unsecured	500,000	500,000	504,650	4,650
Motor vehicle in lieu	2,595,000	2,595,000	2,391,953	(203,047)
Total	16,826,000	16,826,000	15,728,351	(1,097,649)
Other taxes:				
Sales and use and sales tax in lieu	3,670,000	3,670,000	3,757,173	87,173
Transient occupancy	1,140,000	1,140,000	1,341,224	201,224
Franchise	1,010,000	1,010,000	1,088,266	78,266
Real property transfer	113,000	113,000	121,065	8,065
Total	5,933,000	5,933,000	6,307,728	374,728
Licenses and permits:				
Business licenses	616,000	616,000	597,583	(18,417)
Permits	921,400	921,400	691,523	(229,877)
Total	1,537,400	1,537,400	1,289,106	(248,294)
Intergovernmental:				
Motor vehicle in lieu	155,000	155,000	155,262	262
Homeowner property tax relief	105,000	105,000	105,481	481
Reimbursements and grants	167,000	167,000	225,266	58,266
Total	427,000	427,000	486,009	59,009
Charges for current services:				
Service fees	485,200	485,200	595,033	109,833
Recreation and leisure	1,134,000	1,134,000	1,064,740	(69,260)
Total	1,619,200	1,619,200	1,659,773	40,573
Fines and forfeitures:				
Traffic fines and court fees	50,000	50,000	27,833	(22,167)
False alarm fines	-	-	9,835	9,835
Total	50,000	50,000	37,668	(12,332)
Investment income and rentals:				
Investment income	351,000	351,000	389,655	38,655
Rent	809,000	809,000	844,264	35,264
Total	1,160,000	1,160,000	1,233,919	73,919
Other revenues	139,200	139,200	134,953	(4,247)
Total revenues	27,691,800	27,691,800	26,877,507	(814,293)
Transfers in	-	-	4,980	4,980
Amounts available for appropriation	52,795,845	52,795,845	51,986,532	(809,313)

**City of Foster City and Estero Municipal Improvement District**  
**Required Supplementary Information, Continued**  
**For the fiscal year ended June 30, 2011**

*Budgetary Comparison Schedule – General Fund, Continued*

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to appropriations (outflows):				
General government:				
Council/ Board	\$ 257,657	\$ 257,657	\$ 245,297	\$ 12,360
City/District Manager	878,658	878,658	839,941	38,717
City Clerk	277,097	277,097	168,190	108,907
City/District Attorney	251,182	251,182	215,117	36,065
Human Resources	556,948	556,948	509,901	47,047
Financial Services	680,348	680,348	515,791	164,557
Total general government	<u>2,901,890</u>	<u>2,901,890</u>	<u>2,494,237</u>	<u>407,653</u>
Public safety - Police	9,528,382	9,528,382	9,262,378	266,004
Public safety - Fire	7,926,025	7,926,025	7,910,103	15,922
Public works	2,240,832	2,240,832	1,646,368	594,464
Community development	1,891,532	1,891,532	1,268,902	622,630
Parks and recreation	7,093,498	7,093,498	6,718,273	375,225
Capital outlay	5,000	5,000	4,589	411
Total expenses	<u>31,587,159</u>	<u>31,587,159</u>	<u>29,304,850</u>	<u>2,282,309</u>
Transfers out	<u>1,478,000</u>	<u>1,478,000</u>	<u>1,478,000</u>	<u>-</u>
Total charges to appropriations	<u>33,065,159</u>	<u>33,065,159</u>	<u>30,782,850</u>	<u>2,282,309</u>
<b>Fund balance, June 30, 2011</b>	<u><u>\$ 19,730,686</u></u>	<u><u>\$ 19,730,686</u></u>	<u><u>\$ 21,203,682</u></u>	<u><u>\$ 1,472,996</u></u>

**City of Foster City and Estero Municipal Improvement District**  
**Required Supplementary Information, Continued**  
**For the fiscal year ended June 30, 2011**

**Schedule of Funding Progress (Unaudited)**

*Funded Status of Pension Plan - Safety Employees*

In fiscal year ended June 30, 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City/District's safety employees is no longer available.

*Funded Status of Pension Plan - Miscellaneous Employees*

Valuation Date	Entry Age	Actuarial Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	UAAL as a % of Payroll
	Normal Accrued Liability			Actuarial Value	Market Value		
6/30/2008	58,959,588	51,765,675	7,193,913	87.8%	88.7%	11,145,166	64.5%
6/30/2009	67,440,426	55,542,565	11,897,861	82.4%	60.1%	11,752,805	101.2%
6/30/2010	71,829,999	58,941,745	12,888,254	82.1%	64.4%	10,634,191	121.2%

*Funded Status of OPEB Obligation*

Actuarial accrued liability (AAL)	\$ 5,085,000
Actuarial value of Plan assets	0
Unfunded actuarial accrued liability (UAAL)	5,085,000
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	17,857,000
UAAL as a percentage of covered payroll	28.58%

**NON-MAJOR  
GOVERNMENTAL FUNDS**

**City of Foster City and Estero Municipal Improvement District**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2011**

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	Non-Major Special Revenue Funds
	<u>                    </u>
<b>ASSETS</b>	
Cash and investments	\$ 8,748,725
Receivables, net of allowance:	
Intergovernmental	117,585
Other	13,250
	<u>                    </u>
<b>Total assets</b>	<b>\$ 8,879,560</b>
	<u>                    </u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 239,108
Accrued payroll	2,375
Due to other funds	54,359
	<u>                    </u>
<b>Total liabilities</b>	<b>295,842</b>
	<u>                    </u>
<b>Fund balances:</b>	
Restricted	8,411,107
Committed	172,611
	<u>                    </u>
<b>Total fund balances</b>	<b>8,583,718</b>
	<u>                    </u>
<b>Total liabilities and fund balances</b>	<b>\$ 8,879,560</b>
	<u>                    </u>

**City of Foster City and Estero Municipal Improvement District**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the fiscal year ended June 30, 2011**

	Non-Major Special Revenue Funds
<b>REVENUES:</b>	
Sales and use taxes	\$ 468,651
Intergovernmental	1,036,590
Fines and forfeitures	121,635
Park-in-lieu	4,000,000
Investment income	51,107
Other	386,203
<b>Total revenues</b>	<b>6,064,186</b>
<b>EXPENDITURES:</b>	
Current:	
General government	194,963
Public safety - Police	100,475
Public safety - Fire	7,863
Public works	843,106
Parks and recreation	9,286
Capital outlay	291,379
<b>Total expenditures</b>	<b>1,447,072</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>4,617,114</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
Transfer in	2,501,692
Transfer out	(1,835,543)
Total other financing sources (uses)	666,149
<b>NET CHANGE IN FUND BALANCES</b>	<b>5,283,263</b>
<b>FUND BALANCES:</b>	
Beginning of year	3,300,455
End of year	\$ 8,583,718

# NON-MAJOR SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenues that are restricted by law or administrative action to expenditures for specified purposes. Non-Major Special Revenue Funds used by the City/District are listed below:

The *Traffic Safety Fund* accounts for the revenues received by the City as its share of fines generated from violations of the State Motor Vehicles Code and expended for traffic safety programs.

The *Measure A Fund* accounts for revenues generated by a special one-half cent sales tax that was approved by the voters of San Mateo County during 1988. These funds are restricted for engineering, construction and maintenance of City/District streets and transportation-related purposes.

The *Gas Tax Fund* accounts for the revenues apportioned to the City from State collected gasoline taxes and expended for engineering, construction, and maintenance of City streets.

The *Park-In-Lieu Fund* accounts for the revenues from construction projects for the acquisition, construction and improvement of parks and recreational facilities.

The *SLESF/COPS Grant Fund* accounts for the State of California monies received to fund supplemental law enforcement services such as anti-gang and community crime prevention programs. Supplemental law enforcement services include costs for personnel, equipment and program operating expenses.

The *California Law Enforcement Equipment Fund* accounts for revenues received for the California Law Enforcement Equipment Purchase Program (CLEEP). The grant is to be used to purchase technology equipment.

The *California Opportunities Fund* accounts for revenues received from other local government agencies, which participated in the public employment career opportunities program.

The *Proposition 42 Transportation Fund* accounts for revenues received from dedicated funds of sales tax on gasoline to State and local transportation programs under Proposition 42 approved by California voters in 2002. The funds received from the State may only be used on maintenance of local roads.

The *Foster City Foundation Fund* accounts for revenues received from any person or organization for charitable contributions to Foster City for the benefit of the City and its residents. The donations should be used according to the intent specified by the donors.

The *American Recovery & Reinvestment Act 2009 Fund* accounts for revenues received from the United States federal government in an effort to stimulate the national economy. These funds/grants were received and used for transportation related infrastructure projects in accordance with the provisions of the Act.

The *City/CDA Cooperative Services Agreement Fund* accounts for transfers received by the City from the Community Development Agency (Agency) to administer the Agency's stipulated judgment payments obligation to the San Mateo Union High School District. The Community Development Agency (Agency) has reached its limitation on receipt of tax increment funds for Project Area One in Fiscal year 2010/2011. The Agency transitioned its responsibilities to the City to fulfill the obligation to pay the remaining obligation according to the stipulated judgment between the Agency and the San Mateo Union High School District.



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**City of Foster City and Estero Municipal Improvement District**  
**Combining Balance Sheet**  
**Non-Major Special Revenue Funds**  
**June 30, 2011**

	Traffic Safety	Measure A	Gas Tax	Park-in-lieu	SLESF/ COPS Grant
<b>ASSETS</b>					
Cash and investments	\$ 3,355	\$ 2,789,497	\$ 504,436	\$ 2,173,379	\$ -
Receivables, net of allowance:					
Intergovernmental	10,920	-	95,306	-	11,359
Other	-	-	-	-	-
<b>Total assets</b>	<b>\$ 14,275</b>	<b>\$ 2,789,497</b>	<b>\$ 599,742</b>	<b>\$ 2,173,379</b>	<b>\$ 11,359</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-	-
Due to other funds	-	-	-	-	11,359
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,359</b>
<b>Fund Balances:</b>					
Restricted	14,275	2,789,497	599,742	2,173,379	-
Committed	-	-	-	-	-
<b>Total fund balances</b>	<b>14,275</b>	<b>2,789,497</b>	<b>599,742</b>	<b>2,173,379</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,275</b>	<b>\$ 2,789,497</b>	<b>\$ 599,742</b>	<b>\$ 2,173,379</b>	<b>\$ 11,359</b>

California Law Enforcement Equipment	California Opportunities	Proposition 42	Foster City Foundation	American Recovery and Reinvestment	City/CDA Cooperative Services Agreement	Total
\$ 24,621	\$ 162,713	\$ 25,000	\$ 328,653	\$ -	\$ 2,737,071	\$ 8,748,725
-	-	-	-	-	-	117,585
-	13,250	-	-	-	-	13,250
<u>\$ 24,621</u>	<u>\$ 175,963</u>	<u>\$ 25,000</u>	<u>\$ 328,653</u>	<u>\$ -</u>	<u>\$ 2,737,071</u>	<u>8,879,560</u>
\$ -	\$ 1,027	\$ -	\$ 2,752	\$ -	\$ 235,329	\$ 239,108
-	2,325	-	-	-	50	2,375
-	-	-	43,000	-	-	54,359
-	3,352	-	45,752	-	235,379	295,842
24,621	-	25,000	282,901	-	2,501,692	8,411,107
-	172,611	-	-	-	-	172,611
<u>24,621</u>	<u>172,611</u>	<u>25,000</u>	<u>282,901</u>	<u>-</u>	<u>2,501,692</u>	<u>8,583,718</u>
<u>\$ 24,621</u>	<u>\$ 175,963</u>	<u>\$ 25,000</u>	<u>\$ 328,653</u>	<u>\$ -</u>	<u>\$ 2,737,071</u>	<u>\$ 8,879,560</u>

**City of Foster City and Estero Municipal Improvement District**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Special Revenue Funds**  
**For the fiscal year ended June 30, 2011**

	Traffic Safety	Measure A	Gas Tax	Park-in-lieu	SLESF/ COPS Grant
<b>REVENUES:</b>					
Sales and use tax	\$ -	\$ 468,651	\$ -	\$ -	\$ -
Intergovernmental	-	-	781,003	-	98,161
Fines and forfeitures	121,635	-	-	-	-
Park-in-lieu	-	-	-	4,000,000	-
Investment income	6	35,954	4,118	8,917	68
Other	-	-	-	-	-
<b>Total revenues</b>	<b>121,641</b>	<b>504,605</b>	<b>785,121</b>	<b>4,008,917</b>	<b>98,229</b>
<b>EXPENDITURES:</b>					
Current:					
General government	-	-	106,820	-	-
Public safety - police	-	-	-	-	98,229
Public safety - fire	-	-	-	-	-
Public works	127,000	-	558,680	-	-
Parks and recreation	-	-	-	-	-
Capital outlay	-	6,860	-	4,975	-
<b>Total expenditures</b>	<b>127,000</b>	<b>6,860</b>	<b>665,500</b>	<b>4,975</b>	<b>98,229</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(5,359)</b>	<b>497,745</b>	<b>119,621</b>	<b>4,003,942</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(1,830,563)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,830,563)</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(5,359)</b>	<b>497,745</b>	<b>119,621</b>	<b>2,173,379</b>	<b>-</b>
<b>FUND BALANCES:</b>					
Beginning of year	19,634	2,291,752	480,121	-	-
End of year	\$ 14,275	\$ 2,789,497	\$ 599,742	\$ 2,173,379	\$ -

California Law Enforcement Equipment	California Opportunities	Proposition 42	Foster City Foundation	American Recovery and Reinvestment	City/CDA Cooperative Services Agreement	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 468,651
-	-	-	-	157,426	-	1,036,590
-	-	-	-	-	-	121,635
-	-	-	-	-	-	4,000,000
-	2,044	-	-	-	-	51,107
-	105,000	-	281,203	-	-	386,203
-	107,044	-	281,203	157,426	-	6,064,186
-	87,441	-	702	-	-	194,963
2,246	-	-	-	-	-	100,475
-	-	-	7,863	-	-	7,863
-	-	-	-	157,426	-	843,106
-	-	-	9,286	-	-	9,286
-	-	279,544	-	-	-	291,379
2,246	87,441	279,544	17,851	157,426	-	1,447,072
(2,246)	19,603	(279,544)	263,352	-	-	4,617,114
-	-	-	-	-	2,501,692	2,501,692
-	-	-	(4,980)	-	-	(1,835,543)
-	-	-	(4,980)	-	2,501,692	666,149
(2,246)	19,603	(279,544)	258,372	-	2,501,692	5,283,263
26,867	153,008	304,544	24,529	-	-	3,300,455
\$ 24,621	\$ 172,611	\$ 25,000	\$ 282,901	\$ -	\$ 2,501,692	\$ 8,583,718

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Traffic Safety Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Fines and forfeitures	\$ 106,000	\$ 106,000	\$ 121,635	\$ 15,635
Investment income	-	-	6	6
<b>Total revenues</b>	<b>106,000</b>	<b>106,000</b>	<b>121,641</b>	<b>15,641</b>
<b>EXPENDITURES:</b>				
Public works	127,000	127,000	127,000	-
<b>Total expenditures</b>	<b>127,000</b>	<b>127,000</b>	<b>127,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(21,000)</b>	<b>(21,000)</b>	<b>(5,359)</b>	<b>15,641</b>
<b>FUND BALANCE:</b>				
Beginning of year	19,634	19,634	19,634	-
End of year	\$ (1,366)	\$ (1,366)	\$ 14,275	\$ 15,641

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Measure A Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Sales and use taxes	\$ 410,000	\$ 410,000	\$ 468,651	\$ 58,651
Investment income	29,000	29,000	35,954	6,954
<b>Total revenues</b>	<b>439,000</b>	<b>439,000</b>	<b>504,605</b>	<b>65,605</b>
<b>EXPENDITURES:</b>				
Capital outlay	784,000	784,000	6,860	777,140
<b>Total expenditures</b>	<b>784,000</b>	<b>784,000</b>	<b>6,860</b>	<b>777,140</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(345,000)</b>	<b>(345,000)</b>	<b>497,745</b>	<b>842,745</b>
<b>FUND BALANCE:</b>				
Beginning of year	2,291,752	2,291,752	2,291,752	-
End of year	\$ 1,946,752	\$ 1,946,752	\$ 2,789,497	\$ 842,745

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Gas Tax Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 775,000	\$ 775,000	\$ 781,003	\$ 6,003
Investment income	-	-	4,118	4,118
<b>Total revenues</b>	<b>775,000</b>	<b>775,000</b>	<b>785,121</b>	<b>10,121</b>
<b>EXPENDITURES:</b>				
General government	106,820	106,820	106,820	-
Public works	558,680	558,680	558,680	-
<b>Total expenditures</b>	<b>665,500</b>	<b>665,500</b>	<b>665,500</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>109,500</b>	<b>109,500</b>	<b>119,621</b>	<b>10,121</b>
<b>FUND BALANCE:</b>				
Beginning of year	480,121	480,121	480,121	-
End of year	\$ 589,621	\$ 589,621	\$ 599,742	\$ 10,121



**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Park-in-lieu**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Park-in-lieu	\$ -	\$ -	\$ 4,000,000	\$ 4,000,000
Investment income	-	-	8,917	8,917
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>4,008,917</b>	<b>4,008,917</b>
<b>EXPENDITURES:</b>				
Capital outlay	-	5,000	4,975	25
<b>Total Expenditures</b>	<b>-</b>	<b>5,000</b>	<b>4,975</b>	<b>25</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfer out	(2,000,000)	(2,000,000)	(1,830,563)	169,437
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2,000,000)</b>	<b>(2,005,000)</b>	<b>2,173,379</b>	<b>4,178,379</b>
<b>FUND BALANCE:</b>				
Beginning of year	-	-	-	-
End of year	\$ (2,000,000)	\$ (2,005,000)	\$ 2,173,379	\$ 4,178,379

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**SLESF/COPS Grant Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 98,161	\$ (1,839)
Investment income	-	-	68	68
<b>Total revenues</b>	<b>100,000</b>	<b>100,000</b>	<b>98,229</b>	<b>(1,771)</b>
<b>EXPENDITURES:</b>				
Public safety - police	100,000	100,000	98,229	1,771
<b>Total expenditures</b>	<b>100,000</b>	<b>100,000</b>	<b>98,229</b>	<b>1,771</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE:</b>				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**California Law Enforcement Equipment Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Public safety - police	\$ 26,867	\$ 26,867	\$ 2,246	\$ 24,621
<b>Total expenditures</b>	<b>26,867</b>	<b>26,867</b>	<b>2,246</b>	<b>24,621</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(26,867)</b>	<b>(26,867)</b>	<b>(2,246)</b>	<b>24,621</b>
<b>FUND BALANCE:</b>				
Beginning of year	26,867	26,867	26,867	-
End of year	\$ -	\$ -	\$ 24,621	\$ 24,621

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**California Opportunities Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Investment income	\$ 3,500	\$ 3,500	\$ 2,044	\$ (1,456)
Other	96,000	96,000	105,000	9,000
<b>Total revenues</b>	<b>99,500</b>	<b>99,500</b>	<b>107,044</b>	<b>7,544</b>
<b>EXPENDITURES:</b>				
General government	92,953	92,953	87,441	5,512
<b>Total expenditures</b>	<b>92,953</b>	<b>92,953</b>	<b>87,441</b>	<b>5,512</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>6,547</b>	<b>6,547</b>	<b>19,603</b>	<b>13,056</b>
<b>FUND BALANCE:</b>				
Beginning of year	153,008	153,008	153,008	-
End of year	\$ 159,555	\$ 159,555	\$ 172,611	\$ 13,056

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Proposition 42 Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Capital outlay	304,544	304,544	279,544	25,000
<b>Total expenditures</b>	<b>304,544</b>	<b>304,544</b>	<b>279,544</b>	<b>25,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(304,544)</b>	<b>(304,544)</b>	<b>(279,544)</b>	<b>25,000</b>
<b>FUND BALANCE:</b>				
Beginning of year	304,544	304,544	304,544	-
End of year	\$ -	\$ -	\$ 25,000	\$ 25,000

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Foster City Foundation Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Other	\$ 38,500	\$ 38,500	\$ 281,203	\$ 242,703
<b>Total revenues</b>	<b>38,500</b>	<b>38,500</b>	<b>281,203</b>	<b>242,703</b>
<b>EXPENDITURES:</b>				
General government	34,250	34,250	702	33,548
Public Safety- Police	14,821	14,821	-	14,821
Public Safety- Fire	23,664	23,664	7,863	15,801
Parks and recreation	24,295	24,295	9,286	15,009
<b>Total Expenditures</b>	<b>97,030</b>	<b>97,030</b>	<b>17,851</b>	<b>79,179</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfer out	(4,980)	(4,980)	(4,980)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(63,510)</b>	<b>(63,510)</b>	<b>258,372</b>	<b>321,882</b>
<b>FUND BALANCE:</b>				
Beginning of year	24,529	24,529	24,529	-
End of year	\$ (38,981)	\$ (38,981)	\$ 282,901	\$ 321,882

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**American Recovery and Reinvestment Special Revenue Fund**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 157,426	\$ 157,426	\$ 157,426	\$ -
<b>Total revenues</b>	<b>157,426</b>	<b>157,426</b>	<b>157,426</b>	<b>-</b>
<b>EXPENDITURES:</b>				
Public Works	157,426	157,426	157,426	-
<b>Total Expenditures</b>	<b>157,426</b>	<b>157,426</b>	<b>157,426</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE:</b>				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Affordable Housing Reimbursement Agreement**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OTHER FINANCING SOURCES:</b>				
Transfer in	-	19,000,000	19,072,012	72,012
<b>NET CHANGE IN FUND BALANCE</b>	-	19,000,000	19,072,012	72,012
<b>FUND BALANCE:</b>				
Beginning of year	-	-	-	-
End of year	\$ -	\$ 19,000,000	\$ 19,072,012	\$ 72,012



**City of Foster City and Estero Municipal Improvement District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**City/CDA Cooperative Services Agreement**  
**For the fiscal year ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OTHER FINANCING SOURCES:</b>				
Transfer in	-	2,500,000	2,501,692	1,692
<b>NET CHANGE IN FUND BALANCE</b>	-	2,500,000	2,501,692	1,692
<b>FUND BALANCE:</b>				
Beginning of year	-	-	-	-
End of year	\$ -	\$ 2,500,000	\$ 2,501,692	\$ 1,692

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# INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department to other departments on a cost reimbursement basis. Internal Service Funds used at the City/District are listed below:

The *Vehicle Rental Fund* accounts for vehicle replacement, acquisition and maintenance service charges and the related billings to various departments.

The *Equipment Replacement Fund* accounts for equipment replacement, acquisition and the related billings to various departments.

The *Self-Insurance Fund* accounts for charges to the various departments for general liability, litigation and for the related premium billings and administrative costs.

The *Information Technology Fund* accounts for communication and information service acquisitions and maintenance service charges and the related billings to various departments.

The *Building Maintenance Fund* provides management, maintenance and daily inspection of all City/District buildings and equipment.

The *Longevity Recognition Benefits Fund* accounts for pension obligation to employees represented by Foster City Police Officer's Association (FCPOA), the San Mateo County Firefighters, local 2400, International Association of Firefighters, and the non-represented Safety Management Employees.

The *PEMHCA Benefits Plan Fund* accounts for the liability requested by the CalPERS' Public Employees' Medical and Hospital Cared Act medical benefits plan.

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**City of Foster City and Estero Municipal Improvement District**  
**Combining Statement of Fund Net Assets**  
**Internal Service Funds**  
**June 30, 2011**

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology	Building Maintenance
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 4,660,380	\$ 4,478,725	\$ 1,347,389	\$ 3,300,184	\$ 2,319,616
Accounts receivable	-	11,895	-	553	-
Due from other funds	-	-	-	-	-
Deposit and prepaid items	357	-	-	4,154	-
Inventory	79,131	42,163	-	-	-
Total current assets	<u>4,739,868</u>	<u>4,532,783</u>	<u>1,347,389</u>	<u>3,304,891</u>	<u>2,319,616</u>
Noncurrent assets:					
Capital assets:					
Depreciable	1,719,210	1,289,254	-	-	-
Depreciable - Intangible	-	164,369	-	-	-
Total noncurrent assets	<u>1,719,210</u>	<u>1,453,623</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u><u>6,459,078</u></u>	<u><u>5,986,406</u></u>	<u><u>1,347,389</u></u>	<u><u>3,304,891</u></u>	<u><u>2,319,616</u></u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	31,707	69,006	6,723	109,370	104,940
Accrued payroll	15,001	-	-	24,468	15,246
Due to other funds	-	-	-	-	-
Claims liability	-	-	68,474	-	-
Compensated absences - current portion	11,874	-	-	32,307	22,773
Total current liabilities	<u>58,582</u>	<u>69,006</u>	<u>75,197</u>	<u>166,145</u>	<u>142,959</u>
Noncurrent liabilities:					
Compensated absences	17,303	-	-	74,016	40,557
OPEB liability	22,624	-	-	40,400	24,240
Total noncurrent liabilities	<u>39,927</u>	<u>-</u>	<u>-</u>	<u>114,416</u>	<u>64,797</u>
<b>Total liabilities</b>	<u><u>98,509</u></u>	<u><u>69,006</u></u>	<u><u>75,197</u></u>	<u><u>280,561</u></u>	<u><u>207,756</u></u>
<b>NET ASSETS</b>					
Invested in capital assets	1,719,210	1,453,623	-	-	-
Unrestricted	4,641,359	4,463,777	1,272,192	3,024,330	2,111,860
<b>Total net assets</b>	<u><u>\$ 6,360,569</u></u>	<u><u>\$ 5,917,400</u></u>	<u><u>\$ 1,272,192</u></u>	<u><u>\$ 3,024,330</u></u>	<u><u>\$ 2,111,860</u></u>

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Longevity Recognition Benefits	PEMHCA	Total
<hr/>	<hr/>	<hr/>
\$ 2,736,566	\$ 5,211,102	\$ 24,053,962
-	-	12,448
-	103,431	103,431
-	-	4,511
-	-	121,294
<hr/>	<hr/>	<hr/>
2,736,566	5,314,533	24,295,646
<hr/>	<hr/>	<hr/>
-	-	3,008,464
-	-	164,369
<hr/>	<hr/>	<hr/>
-	-	3,172,833
<hr/>	<hr/>	<hr/>
2,736,566	5,314,533	27,468,479
<hr/>	<hr/>	<hr/>
-	-	321,746
-	-	54,715
103,431	-	103,431
-	-	68,474
-	-	66,954
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103,431	-	615,320
<hr/>	<hr/>	<hr/>
-	-	131,876
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-	-	87,264
<hr/>	<hr/>	<hr/>
-	-	219,140
<hr/>	<hr/>	<hr/>
103,431	-	834,460
<hr/>	<hr/>	<hr/>
-	-	3,172,833
2,633,135	5,314,533	23,461,186
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\$ 2,633,135	\$ 5,314,533	\$ 26,634,019
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**City of Foster City and Estero Municipal Improvement District**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the fiscal year ended June 30, 2011**

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,470,734	\$ 552,107	\$ 307,700	\$ 1,518,661
Other	-	95,251	-	1,021
<b>Total operating revenues</b>	<b>1,470,734</b>	<b>647,358</b>	<b>307,700</b>	<b>1,519,682</b>
<b>OPERATING EXPENSES:</b>				
Personnel	360,681	-	-	617,632
Repairs and maintenance	378,287	24,826	-	474,135
General and administration	12,484	-	450	135,233
Depreciation	425,120	640,723	-	-
Contractual services	5,456	-	40,939	9,600
Insurance	41,700	-	200,847	-
<b>Total operating expenses</b>	<b>1,223,728</b>	<b>665,549</b>	<b>242,236</b>	<b>1,236,600</b>
<b>OPERATING INCOME (LOSS)</b>	<b>247,006</b>	<b>(18,191)</b>	<b>65,464</b>	<b>283,082</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Gain (loss) on sale of capital assets	5,850	1,219	-	-
Investment income (expense)	63,101	50,239	16,868	45,373
<b>Total nonoperating revenues (expenses)</b>	<b>68,951</b>	<b>51,458</b>	<b>16,868</b>	<b>45,373</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				
<b>CONTRIBUTIONS AND TRANSFERS</b>	<b>315,957</b>	<b>33,267</b>	<b>82,332</b>	<b>328,455</b>
<b>CONTRIBUTIONS AND TRANSFERS:</b>				
Capital contribution	-	28,484	-	-
Transfers in	-	107,738	-	-
Transfers out	-	(134,736)	-	(185,208)
<b>Total transfers</b>	<b>-</b>	<b>1,486</b>	<b>-</b>	<b>(185,208)</b>
<b>Changes in Net Assets</b>	<b>315,957</b>	<b>34,753</b>	<b>82,332</b>	<b>143,247</b>
<b>NET ASSETS:</b>				
Beginning of the year	6,044,612	5,882,647	1,189,860	2,881,083
End of the year	<b>\$ 6,360,569</b>	<b>\$ 5,917,400</b>	<b>\$ 1,272,192</b>	<b>\$ 3,024,330</b>

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Total
\$ 1,570,763	\$ -	\$ -	\$ 5,419,965
-	-	-	96,272
1,570,763	-	-	5,516,237
373,327	106,117	87,110	1,544,867
247,141	-	-	1,124,389
518,128	-	-	666,295
-	-	-	1,065,843
136,181	-	-	192,176
-	-	-	242,547
1,274,777	106,117	87,110	4,836,117
295,986	(106,117)	(87,110)	680,120
-	-	-	7,069
28,518	377,336	388,643	970,078
28,518	377,336	388,643	977,147
324,504	271,219	301,533	1,657,267
-	-	-	28,484
-	-	1,032,000	1,139,738
(22,530)	(822,000)	-	(1,164,474)
(22,530)	(822,000)	1,032,000	3,748
301,974	(550,781)	1,333,533	1,661,015
1,809,886	3,183,916	3,981,000	24,973,004
\$ 2,111,860	\$ 2,633,135	\$ 5,314,533	\$ 26,634,019



**City of Foster City and Estero Municipal Improvement District**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the fiscal year ended June 30, 2011**

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from other funds	\$ 1,487,665	\$ 635,463	\$ 320,200	\$ 1,519,150
Cash payments to suppliers for goods and services	(463,339)	17,366	(262,684)	(532,555)
Cash payments to employees for services	(345,385)	-	-	(595,622)
<b>Net cash provided (used) by operating activities</b>	<b>678,941</b>	<b>652,829</b>	<b>57,516</b>	<b>390,973</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers received	-	107,738	-	-
Transfer paid	-	(134,736)	-	(185,208)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>-</b>	<b>(26,998)</b>	<b>-</b>	<b>(185,208)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sale of capital assets	5,850	1,219	-	-
Capital contributions received	-	28,484	-	-
Acquisition and construction of capital assets	(276,004)	(224,232)	-	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(270,154)</b>	<b>(194,529)</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received on investments	63,101	50,239	16,868	45,373
<b>Net cash provided (used) by investing activities</b>	<b>63,101</b>	<b>50,239</b>	<b>16,868</b>	<b>45,373</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>471,888</b>	<b>481,541</b>	<b>74,384</b>	<b>251,138</b>
<b>CASH AND CASH EQUIVALENTS:</b>				
Beginning of year	4,188,492	3,997,184	1,273,005	3,049,046
End of year	\$ 4,660,380	\$ 4,478,725	\$ 1,347,389	\$ 3,300,184
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 247,006	\$ (18,191)	\$ 65,464	\$ 283,082
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	425,120	640,723	-	-
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	16,931	(11,895)	12,500	(532)
Due from other funds	-	-	-	-
Deposit and prepaid items	(16)	-	-	(1,026)
Inventory	(44,163)	-	-	-
Increase (decrease) in:				
Accounts payable	18,767	42,192	(23,660)	87,439
Accrued payroll	2,131	-	-	163
Refundable deposit	-	-	-	-
Due to other funds	-	-	-	-
Claims liability	-	-	3,212	-
Compensated absences	5,983	-	-	9,022
OPEB liability	7,182	-	-	12,825
Total adjustments	431,935	671,020	(7,948)	107,891
<b>Net cash provided (used) by operating activities</b>	<b>\$ 678,941</b>	<b>\$ 652,829</b>	<b>\$ 57,516</b>	<b>\$ 390,973</b>

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Total
\$ 1,572,681	\$ 103,431	\$ (103,431)	\$ 5,535,159
(894,382)	-	-	(2,135,594)
(370,251)	(106,117)	(87,110)	(1,504,485)
308,048	(2,686)	(190,541)	1,895,080
-	-	1,032,000	1,139,738
(22,530)	(822,000)	-	(1,164,474)
(22,530)	(822,000)	1,032,000	(24,736)
-	-	-	7,069
-	-	-	28,484
-	-	-	(500,236)
-	-	-	(464,683)
28,518	377,336	388,643	970,078
28,518	377,336	388,643	970,078
314,036	(447,350)	1,230,102	2,375,739
2,005,580	3,183,916	3,981,000	21,678,223
<u>\$ 2,319,616</u>	<u>\$ 2,736,566</u>	<u>\$ 5,211,102</u>	<u>\$ 24,053,962</u>
\$ 295,986	\$ (106,117)	\$ (87,110)	\$ 680,120
-	-	-	1,065,843
1,918	-	-	18,922
-	-	(103,431)	(103,431)
-	-	-	(1,042)
-	-	-	(44,163)
13,368	-	-	138,106
(253)	-	-	2,041
(6,300)	-	-	(6,300)
-	103,431	-	103,431
-	-	-	3,212
(4,366)	-	-	10,639
7,695	-	-	27,702
12,062	103,431	(103,431)	1,214,960
<u>\$ 308,048</u>	<u>\$ (2,686)</u>	<u>\$ (190,541)</u>	<u>\$ 1,895,080</u>

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# STATISTICAL SECTION

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# CITY OF FOSTER CITY AND ESTERO MUNICIPAL IMPROVEMENT DISTRICT

## STATISTICAL SECTION

*Economic Conditions Reporting: The Statistical Section - an amendment of NCGA Statement 1.* The statement is intended to improve understanding what the information in the Basic Financial Statements, Notes, and Required Supplementary Information says

### **Financial Trends**

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

### **Revenue Capacity**

These schedules contain information to help the reader assess the City/District's most significant local revenue sources.

### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the City/District's current level of outstanding debt and the ability to issue additional debt in the future.

### **Demographic and Economic Information**

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

### **Operating Information**

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

Note: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant years.

**City of Foster City and Estero Municipal Improvement District**

**Net Assets by Component**

**Last Nine Fiscal Years**

*(accrual basis of accounting)*

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental activities</b>									
Invested in capital assets, net of related debt	\$ 77,132,726	\$ 89,440,178	\$ 92,896,656	\$ 95,785,241	\$ 97,403,808	\$ 101,122,436	\$ 109,387,638	\$ 111,894,545	\$ 108,007,645
Restricted	32,763,978	21,720,965	22,592,125	23,209,747	23,657,789	23,606,731	24,293,134	22,043,974	28,263,106
Unrestricted	39,219,884	35,928,134	36,848,780	39,557,946	44,825,904	49,475,890	48,498,680	46,699,565	49,579,722
<b>Total governmental activities net assets</b>	<b>\$ 149,116,588</b>	<b>\$ 147,089,277</b>	<b>\$ 152,337,561</b>	<b>\$ 158,552,934</b>	<b>\$ 165,887,501</b>	<b>\$ 174,205,057</b>	<b>\$ 182,179,452</b>	<b>\$ 180,638,084</b>	<b>\$ 185,850,473</b>
<b>Business-type activities</b>									
Invested in capital assets, net of related debt	\$ 32,172,097	\$ 31,588,358	\$ 38,216,716	\$ 39,528,336	\$ 59,649,262	\$ 61,434,009	\$ 60,853,224	\$ 60,575,907	\$ 61,718,653
Restricted	941,091	954,328	622,786	644,200	301,692	-	-	-	-
Unrestricted	46,337,397	47,355,944	41,640,689	39,908,805	20,548,181	18,775,807	20,010,431	20,356,291	21,659,733
<b>Total business-type activities net assets</b>	<b>\$ 79,450,585</b>	<b>\$ 79,898,630</b>	<b>\$ 80,480,191</b>	<b>\$ 80,081,341</b>	<b>\$ 80,499,135</b>	<b>\$ 80,209,816</b>	<b>\$ 80,863,655</b>	<b>\$ 80,932,198</b>	<b>\$ 83,378,386</b>
<b>Primary government</b>									
Invested in capital assets, net of related debt	\$ 109,304,823	\$ 121,028,536	\$ 131,113,372	\$ 135,313,577	\$ 157,086,070	\$ 162,556,445	\$ 170,240,862	\$ 172,470,452	\$ 169,726,298
Restricted	33,705,069	22,675,293	23,214,911	23,853,947	23,959,481	23,606,731	24,293,134	22,043,974	28,263,106
Unrestricted	85,557,281	83,284,078	78,489,469	79,466,751	65,374,085	68,251,697	68,509,111	67,055,856	71,239,455
<b>Total primary government net assets</b>	<b>\$ 228,567,173</b>	<b>\$ 226,987,907</b>	<b>\$ 232,817,752</b>	<b>\$ 238,634,275</b>	<b>\$ 246,419,636</b>	<b>\$ 254,414,873</b>	<b>\$ 263,043,107</b>	<b>\$ 261,570,282</b>	<b>\$ 269,228,859</b>

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2003, the City/District elected to show only nine years of data for this schedule.

**City of Foster City and Estero Municipal Improvement District**  
**Changes in Net Assets**  
**Last Nine Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>									
Governmental activities:									
General government	\$ 3,959,964	\$ 2,705,217	\$ 2,848,557	\$ 3,401,929	\$ 3,172,917	\$ 3,384,497	\$ 3,673,100	\$ 3,715,494	\$ 3,135,273
Police	6,972,046	7,458,401	7,672,926	7,874,658	8,414,456	8,598,000	9,637,744	9,601,374	9,635,944
Fire	6,152,976	6,558,290	6,456,232	7,707,520	7,129,555	7,277,640	7,376,366	7,960,605	8,011,016
Public works	3,951,120	6,192,009	4,272,573	4,938,721	5,832,257	4,795,377	4,746,696	4,792,866	4,924,309
Community development	6,445,306	6,734,993	4,330,177	3,939,444	4,517,721	4,399,597	5,165,200	10,058,917	5,904,547
Parks and recreation	5,967,155	5,967,687	6,201,991	6,112,184	6,274,796	6,969,205	7,540,180	7,486,684	7,889,206
Interest on long-term debt	2,496,351	2,003,449	1,394,022	1,149,134	714,924	527,048	286,765	71,079	—
Total governmental activities expenses	35,844,918	37,620,046	33,176,478	35,123,590	36,056,626	35,951,364	38,426,051	43,687,019	39,500,295
Business-type activities:									
Water	5,469,601	6,484,751	6,342,028	6,713,789	6,868,450	7,575,909	7,804,377	8,272,135	8,690,887
Wastewater	4,119,833	4,640,074	4,739,273	5,276,815	5,099,038	5,861,595	5,351,927	5,875,701	5,334,103
Public transportation	303,992	211,109	103,281	119,496	131,378	155,344	245,589	298,964	204,321
Total business-type activities expenses	9,893,426	11,335,934	11,184,582	12,110,100	12,098,866	13,592,848	13,401,893	14,448,800	14,229,311
Total primary government expenses	\$ 45,738,344	\$ 48,955,980	\$ 44,361,060	\$ 47,233,690	\$ 48,155,492	\$ 49,544,212	\$ 51,827,944	\$ 58,133,819	\$ 53,729,606
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
Public works	\$ 789,631	\$ 398,625	\$ 430,209	\$ 556,598	\$ 76,488	\$ 160,062	\$ 84,958	\$ 146,430	\$ 150,183
Parks and recreation	1,031,043	1,043,428	1,092,235	1,103,417	1,017,538	1,032,979	1,065,675	1,055,300	1,264,706
Other activities	1,553,066	1,848,369	1,563,775	1,570,945	1,638,345	1,679,892	1,722,734	1,204,446	1,641,925
Operating grants and contributions	1,254,714	1,191,358	1,181,974	1,642,813	996,947	854,272	1,000,607	813,296	1,374,103
Capital grants and contributions	1,203,787	746,541	1,076,241	1,771,121	128,000	-	733,684	680,355	4,157,426
Total governmental activities program revenues	5,832,241	5,228,321	5,344,434	6,644,894	3,857,318	3,727,205	4,607,658	3,899,827	8,588,343
Business-type activities:									
Charges for services:									
Water	5,997,758	6,095,677	5,800,508	5,782,979	6,027,769	6,769,890	7,182,212	7,531,859	9,166,844
Sewer	4,808,073	5,036,794	5,141,871	5,155,092	5,170,037	5,570,010	6,175,068	6,543,036	6,862,627
Other activities	393,324	206,231	79,590	55,479	69,955	-	-	-	-
Capital grants and contributions	23,409	11,522	-	1,762	-	-	-	-	-
Total business-type activities program revenues	11,222,564	11,350,224	11,021,969	10,995,312	11,267,761	12,339,900	13,357,280	14,074,895	16,029,471
Total primary government program revenues	\$ 17,054,805	\$ 16,578,545	\$ 16,366,403	\$ 17,640,206	\$ 15,125,079	\$ 16,067,105	\$ 17,964,938	\$ 17,974,722	\$ 24,617,814
<b>Net (Expense)/Revenue</b>									
Governmental activities	\$ (30,012,677)	\$ (32,391,725)	\$ (27,832,044)	\$ (28,478,696)	\$ (32,199,308)	\$ (32,224,159)	\$ (33,818,393)	\$ (39,787,192)	\$ (30,911,952)
Business-type activities	1,329,138	14,290	(162,613)	(1,114,788)	(831,105)	(1,252,948)	(44,613)	(371,905)	1,800,160
Total primary government net expense	\$ (28,683,539)	\$ (32,377,435)	\$ (27,994,657)	\$ (29,593,484)	\$ (33,030,413)	\$ (33,477,107)	\$ (33,863,006)	\$ (40,159,097)	\$ (29,111,792)
<b>General Revenues and Other Changes in Net Assets</b>									
Governmental activities:									
Taxes									
Property taxes	\$ 24,296,055	\$ 21,258,698	\$ 22,067,892	\$ 22,656,311	\$ 23,946,796	\$ 25,326,023	\$ 26,525,347	\$ 27,328,303	\$ 26,225,287
Franchise taxes	777,956	838,572	875,033	909,123	981,494	1,029,576	1,044,988	1,017,749	1,088,266
Sales taxes	3,667,546	3,527,247	3,670,336	4,136,136	4,485,030	5,059,382	4,950,468	4,365,018	4,225,824
Other taxes	1,805,428	1,873,576	1,980,139	2,202,260	2,396,793	2,552,680	2,307,231	2,099,539	2,165,353
Payments in lieu of taxes	1,726,710	1,607,385	2,405,400	2,190,769	2,605,998	2,250,733	2,359,092	2,417,925	-
Investment earnings	1,944,840	603,723	1,701,412	1,652,286	4,463,127	3,933,537	2,449,586	2,193,541	2,409,846
Miscellaneous	131,321	477,594	378,185	991,956	768,061	438,822	847,954	253,121	117,764
Transfers	726,307	177,619	1,931	(44,772)	(80,424)	(82,038)	(110,733)	(10,519)	(108,000)
Total governmental activities	35,076,163	30,364,414	33,080,328	34,694,069	39,566,875	40,508,715	40,373,933	39,664,677	36,124,340
Business-type activities:									
Property Tax	12,016	1,942	-	-	-	-	-	-	-
Investment earnings	1,670,467	609,432	746,105	671,166	1,145,239	809,666	451,762	296,930	256,984
Loss on sales of capital assets	-	-	-	-	-	(17,198)	-	-	-
Miscellaneous	-	-	-	-	28,262	89,123	135,957	132,999	281,044
Transfers	(726,307)	(177,619)	(1,931)	44,772	80,424	82,038	110,733	10,519	108,000
Total business-type activities	956,176	433,755	744,174	715,938	1,253,925	963,629	698,452	440,448	646,028
Total primary government	\$ 36,032,339	\$ 30,798,169	\$ 33,824,502	\$ 35,410,007	\$ 40,820,800	\$ 41,472,344	\$ 41,072,385	\$ 40,105,125	\$ 36,770,368
<b>Change in Net Assets</b>									
Governmental activities	\$ 5,063,486	\$ (2,027,311)	\$ 5,248,284	\$ 6,215,373	\$ 7,367,567	\$ 8,284,556	\$ 6,555,540	\$ (122,515)	\$ 5,212,388
Business-type activities	2,285,314	448,045	581,561	(398,850)	422,820	(289,319)	653,839	68,543	2,446,188
Total primary government	\$ 7,348,800	\$ (1,579,266)	\$ 5,829,845	\$ 5,816,523	\$ 7,790,387	\$ 7,995,237	\$ 7,209,379	\$ (53,972)	\$ 7,658,576

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2003, the City/District elected to show only nine years of data for this schedule.

**City of Foster City and Estero Municipal Improvement District**  
**Changes in Fund Balances of Governmental Funds**  
**Last Nine Fiscal Years**  
*(modified accrual basis of accounting)*

	Fiscal Year								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>									
Taxes	\$ 30,188,837	\$ 28,482,468	\$ 30,773,530	\$ 31,881,063	\$ 33,523,781	\$ 35,329,687	\$ 36,322,157	\$ 36,445,627	\$ 32,846,406
Licenses, fees and permits	881,315	845,900	925,063	1,145,886	1,156,192	1,166,550	1,085,643	1,050,758	1,289,106
Fines and penalties	185,977	238,786	231,281	190,439	194,613	164,661	142,887	158,199	159,303
Charges for services	1,202,629	1,164,994	1,218,808	1,334,881	1,383,692	1,347,279	1,403,448	1,392,205	1,659,773
Special assessments	1,882,383	1,229,743	1,466,046	1,316,143	799,236	352,443	189,911	-	4,000,000
Intergovernmental	4,101,504	1,375,769	1,709,815	1,716,468	1,183,015	1,443,393	1,601,956	1,546,873	1,522,599
Investment earnings	3,157,650	2,942,074	3,554,502	3,800,211	5,127,172	4,706,132	3,444,940	2,608,180	1,796,472
Other revenues	1,415,975	1,347,151	578,459	1,032,866	1,024,736	1,012,569	1,661,625	827,083	559,764
<b>Total revenues</b>	<b>43,016,270</b>	<b>37,626,885</b>	<b>40,457,504</b>	<b>42,417,957</b>	<b>44,392,437</b>	<b>45,522,714</b>	<b>45,852,567</b>	<b>44,028,925</b>	<b>43,833,423</b>
<b>Expenditures</b>									
General government	2,386,220	2,011,884	2,173,641	2,371,339	2,471,650	2,979,792	3,150,439	3,271,525	2,689,200
Police	6,972,046	7,458,401	7,629,412	7,886,775	8,470,914	8,650,231	9,271,457	9,535,983	9,362,853
Fire	6,006,387	6,449,536	6,412,718	6,831,111	7,213,382	7,373,331	7,385,613	7,876,172	7,917,966
Public works	2,163,972	2,699,440	2,254,732	2,571,047	2,428,438	2,435,402	2,700,326	2,426,798	2,603,647
Community development	6,336,193	6,463,105	4,099,415	4,191,028	4,550,667	4,429,165	7,194,733	10,017,098	5,825,075
Parks and recreation	5,380,143	5,330,070	5,199,602	5,500,330	5,704,605	6,361,683	6,543,724	6,340,330	6,780,921
Capital outlay	12,898,471	5,131,537	1,885,475	2,276,329	1,186,620	2,110,297	6,255,420	2,391,675	970,235
Debt service									
Interest	4,448,977	3,989,991	2,971,975	2,921,459	2,387,604	1,998,571	1,509,465	996,412	156,685
Principal	8,062,251	13,355,000	5,540,000	9,656,000	5,695,000	5,210,000	3,800,000	4,775,000	-
<b>Total expenditures</b>	<b>54,654,660</b>	<b>52,888,964</b>	<b>38,166,970</b>	<b>44,205,418</b>	<b>40,108,880</b>	<b>41,548,472</b>	<b>47,811,177</b>	<b>47,630,993</b>	<b>36,306,582</b>
Excess of revenues over (under) expenditures	(11,638,390)	(15,262,079)	2,290,534	(1,787,461)	4,283,557	3,974,242	(1,958,610)	(3,602,068)	7,526,841
<b>Other Financing Sources (uses)</b>									
Proceeds from sale of capital assets	-	-	-	130,000	500	-	-	-	-
Transfers in	5,845,116	4,950,870	4,940,702	8,863,966	5,895,607	5,843,405	9,184,980	10,548,804	25,391,490
Transfers out	(5,983,116)	(4,773,251)	(4,938,771)	(8,918,100)	(6,255,434)	(5,925,443)	(9,295,713)	(11,860,304)	(25,499,490)
<b>Total other financing sources (uses)</b>	<b>(138,000)</b>	<b>177,619</b>	<b>1,931</b>	<b>75,866</b>	<b>(359,327)</b>	<b>(82,038)</b>	<b>(110,733)</b>	<b>(1,311,500)</b>	<b>(108,000)</b>
<b>Net change in fund balances</b>	<b>\$ (11,776,390)</b>	<b>\$ (15,084,460)</b>	<b>\$ 2,292,465</b>	<b>\$ (1,711,595)</b>	<b>\$ 3,924,230</b>	<b>\$ 3,892,204</b>	<b>\$ (2,069,343)</b>	<b>\$ (4,913,568)</b>	<b>\$ 7,418,841</b>
Debt service as a percentage of noncapital expenditures	29.96%	36.32%	23.46%	30.00%	20.77%	18.28%	12.78%	12.76%	0.44%

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2003, the City/District elected to show only nine years of data for this schedule.



**City of Foster City and Estero Municipal Improvement District**  
**Fund Balances, Governmental Funds**  
**Last Nine Fiscal Years**  
*(accrual basis of accounting)*

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund									
Unassigned									\$ 19,304,982
Reserved	\$ 16,058,190	\$ 13,334,107	\$ 17,146,836	\$ 16,239,583	\$ 14,763,522	\$ 11,828,982	\$ 8,209,971	\$ 1,159,290	
Unreserved	17,743,376	18,887,235	14,634,507	16,185,228	17,873,192	20,287,727	22,039,476	23,944,755	
Total general fund	<u>\$ 33,801,566</u>	<u>\$ 32,221,342</u>	<u>\$ 31,781,343</u>	<u>\$ 32,424,811</u>	<u>\$ 32,636,714</u>	<u>\$ 32,116,709</u>	<u>\$ 30,249,447</u>	<u>\$ 25,104,045</u>	<u>\$ 19,304,982</u>
All Other Governmental Funds									
Non-Spendable									\$ 33,527
Restricted									28,608,240
Committed									8,911,923
Assigned									1,052,366
Reserved	\$ 26,015,509	\$ 18,305,306	\$ 20,341,972	\$ 17,691,445	\$ 18,633,237	\$ 20,278,822	\$ 18,018,576	\$ 17,587,790	
Unreserved, reported in:									
Special revenue funds	3,295,415	2,360,150	2,820,266	2,209,785	2,541,599	2,890,661	2,748,765	3,300,455	
Capital projects funds	1,049,774	(3,808,994)	(3,573,312)	(2,667,367)	(228,646)	2,188,916	4,388,977	4,499,907	
Debt service funds									
Total all other governmental funds	<u>\$ 30,360,698</u>	<u>\$ 16,856,462</u>	<u>\$ 19,588,926</u>	<u>\$ 17,233,863</u>	<u>\$ 20,946,190</u>	<u>\$ 25,358,399</u>	<u>\$ 25,156,318</u>	<u>\$ 25,388,152</u>	<u>\$ 38,606,056</u>

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2003, the City/District elected to show only nine years of data for this schedule.

**City of Foster City and Estero Municipal Improvement District**  
**Assessed Value of Taxable Property**  
**Last Seven Fiscal Years**  
*(in thousands of dollars)*

<b>Fiscal Year Ended June 30,</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Other Property</b>	<b>Less: Tax-Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
2005	\$ 3,543,421	\$ 837,154	\$ 268,701	\$ 497,151	\$ 36,914	\$ 5,109,513	0.47247
2006	3,927,763	857,293	274,483	479,612	45,780	5,493,371	0.47556
2007	4,219,991	946,856	357,821	499,279	86,616	5,937,331	0.29933
2008	4,442,719	1,026,283	375,300	447,472	87,915	6,203,859	0.29144
2009	4,638,028	1,096,272	479,764	370,726	82,252	6,502,538	0.29565
2010	4,723,627	1,162,396	516,302	379,664	85,466	6,696,523	0.29099
2011	4,728,631	1,090,778	516,043	372,662	83,971	6,624,143	0.29192

**Source:** San Mateo County Assessor 2010/11 - Combined Tax Rolls

**Notes:** Article XIII A, added to California Constitution by Proposition 13 in fiscal year 1978, fixed the base for valuation of property subject to taxes at the full cash value which appeared on the Assessor's 1976 assessment roll.

Thereafter, full cash value can be increased/decreased:

- a) to reflect annual inflation up to 2 percent; or
- b) to reflect fair market value at the time of ownership change; or
- c) to reflect fair value for new construction; or
- d) to reflect reassessed fair value after appeal.

**CITY OF FOSTER CITY AND  
ESTERO MUNICIPAL IMPROVEMENT DISTRICT  
Property Tax Rates - Direct and Overlapping Governments  
(Per \$100 of Assessed Value)  
Last Ten Fiscal Years**

Fiscal Year	Direct Rates			Overlapping Rates				Total
	Estero Improvement Basic	Estero Improvement Bonds	Total	Countywide Tax (1)	San Mateo Elementary Bonds	San Mateo School Bonds	San Mateo Jr College Bonds	
2001/02	0.2597	0.0079	0.2676	1.0000	0.0410	0.0153	-	1.0563
2002/03	0.2597	0.0112	0.2709	1.0000	0.0428	0.0165	0.0079	1.0672
2003/04	0.2597	-	0.2597	1.0000	0.0428	0.0161	0.0065	1.0654
2004/05	0.2597	-	0.2597	1.0000	0.0384	0.0174	0.0065	1.0623
2005/06	0.2597	-	0.2597	1.0000	0.0382	0.0174	0.0065	1.0621
2006/07	0.2597	-	0.2597	1.0000	0.0332	0.0156	0.0184	1.0672
2007/08	0.2597	-	0.2597	1.0000	0.0333	0.0150	0.0171	1.0654
2008/09	0.2597	-	0.2597	1.0000	0.0315	0.0298	0.0165	1.0778
2009/10	0.2597	-	0.2597	1.0000	0.0326	0.0319	0.0182	1.0827
2010/11	0.2597	-	0.2597	1.0000	0.0341	0.0322	0.0193	1.0856

**Source:** Tax Rolls Code 020-003, County of San Mateo  
**Note:** (1) Proposition 13 allows each county to levy a maximum tax of \$1 per \$100 of full cash value.  
Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.

**City of Foster City and Estero Municipal Improvement District  
Principal Property Tax Payers  
Current Year and Ten Years Ago**

<u>Taxpayer</u>	FY 2001/2002			FY 2010/2011		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Spieker Properties LP	\$ 314,051,370	1	7.09%	\$ 212,102,624	2	3.20%
Electronic For Imaging Inc	128,241,671	2	2.89%	76,872,214	8	1.16%
Visa Land Development II LP	126,116,661	3	2.85%	88,554,835	6	1.34%
Wilmington Trust FSB Trust	112,000,000	4	2.53%			
PE Corporation NY	83,660,515	5	1.89%			
Grupe Real Estate Investment 16	75,849,765	6	1.71%	88,543,781	7	1.34%
BRE Properties	62,914,576	7	1.42%	73,338,853	9	1.11%
Gateway Phoenix & 5990 Sepulveda Associates	62,848,997	8	1.42%			
Theodore H. Kruttschnitt III	52,898,556	9	1.19%			
Visa International Services	47,003,857	10	1.06%	160,033,267	3	2.42%
Gilead Sciences Inc.				420,048,179	1	6.34%
Applera Corporation				147,237,561	4	2.22%
Parkside Towers LP				91,600,000	5	1.38%
ESSEX Harbor Cove Apartments LP				71,706,153	10	1.08%
Top Ten Total	1,065,585,968		24.05%	1,430,037,467		21.59%
City Total	\$ 4,430,096,031			\$ 6,624,142,909		

Source: San Mateo County Assessor 2010/11 - Combined Tax Rolls

**City of Foster City and Estero Municipal Improvement District  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount (2)	Percentage of Levy		Amount	Percentage of Levy
2002	8,097,970	8,019,105	99.03%	39,986	8,059,091	99.52%
2003	8,549,219	8,044,620	94.10%	227,329	8,271,949	96.76%
2004	8,965,140	8,470,809	94.49%	79,905	8,550,714	95.38%
2005	9,440,814	8,861,531	93.86%	282,509	9,144,040	96.86%
2006	10,204,649	9,347,350	91.60%	(5,553)	9,341,797	91.54%
2007	10,989,391	10,632,880	96.76%	84,287	10,717,167	97.52%
2008	11,514,681	10,821,776	93.98%	33,698	10,855,474	94.28%
2009	11,994,160	11,087,934	92.44%	56,327	11,144,261	92.91%
2010	12,415,753	11,337,451	91.32%	19,034	11,356,485	91.47%
2011	12,267,181	12,696,154	103.50%	-	12,696,154	103.50%

**Notes:**

- (1) Information from County of San Mateo Controller's Office
- (2) Amount received after ERAF contribution

**City of Foster City and Estero Municipal Improvement District  
Estero Municipal Improvement District**

**Water Sales by Type of Customer**

**Last Seven Fiscal Years**

*(in millions of gallons)*

Type of Customer	Fiscal Year						
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Residential	1,483.5	1,444.8	1,543.1	1,551.5	1,510.1	1,523.9	1,448.4
Industrial	22.8	22.9	23.9	24.1	24.4	23.2	18.9
Commercial	277.5	263.4	259.2	259.4	237.6	86.8	158.8
Government	<u>15.8</u>	<u>15.1</u>	<u>15.9</u>	<u>16.0</u>	<u>16.6</u>	<u>13.4</u>	<u>14.9</u>
Total	1,799.6	1,746.2	1,842.1	1,851.0	1,788.7	1,647.3	1,641.0
Total direct rate per 1,000 gallons	\$ 1.36	\$ 1.63	\$ 1.74	\$ 1.91	\$ 2.00	\$ 2.33	\$ 2.54

**Source:** Utility Billing of Financial Services Department

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2005, the City/District has elected to show only seven years of data.

**Estero Municipal Improvement District  
Water and Sewer Rates  
Last Ten Fiscal Years**

<u>Water</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Availability / Meter Charge (per Month)</b>										
5/8 inch	\$ 9.50	\$ 9.50	\$ 12.50	\$ 12.50	\$ 12.90	\$ 13.90	\$ 15.60	\$ 16.85	\$ 17.55	\$ 17.55
3/4 inch	\$ 9.50	\$ 9.50	\$ 12.50	\$ 12.50	\$ 12.90	\$ 13.90	\$ 15.60	\$ 16.85	\$ 17.55	\$ 17.55
1 inch	\$ 23.75	\$ 23.75	\$ 31.25	\$ 31.25	\$ 32.25	\$ 34.75	\$ 39.00	\$ 42.15	\$ 43.90	\$ 43.90
1&1/2 inch	\$ 47.50	\$ 47.50	\$ 62.50	\$ 62.50	\$ 64.40	\$ 69.50	\$ 78.00	\$ 84.25	\$ 87.75	\$ 87.75
2 inch	\$ 76.00	\$ 76.00	\$ 100.00	\$ 100.00	\$ 103.00	\$ 111.20	\$ 124.80	\$ 134.80	\$ 140.40	\$ 140.40
3 inch	\$ 133.00	\$ 133.00	\$ 175.00	\$ 175.00	\$ 180.00	\$ 194.60	\$ 218.40	\$ 235.90	\$ 245.70	\$ 245.70
4 inch	\$ 209.00	\$ 209.00	\$ 275.00	\$ 275.00	\$ 280.00	\$ 305.80	\$ 343.20	\$ 370.70	\$ 386.10	\$ 386.10
6 inch	\$ 399.00	\$ 399.00	\$ 525.00	\$ 525.00	\$ 540.00	\$ 583.80	\$ 655.20	\$ 707.70	\$ 737.10	\$ 737.10
8 inch	\$ 627.00	\$ 627.00	\$ 825.00	\$ 825.00	\$ 850.00	\$ 917.40	\$ 1,029.60	\$ 1,112.10	\$ 1,158.30	\$ 1,158.30
<b>Consumption Charge (per Unit*)</b>										
All Classes	\$ 1.41	\$ 1.57	\$ 1.26	\$ 1.26	\$ 1.29	\$ 1.49	\$ 1.60	\$ 1.73		
Single Family Residential										
0-10 units									\$ 1.57	\$ 2.00
11-20 units									\$ 2.09	\$ 2.66
> 20 units									\$ 4.18	\$ 4.66
Multi Family Residential										
0-5 units									\$ 1.57	\$ 2.00
6-10 units									\$ 2.09	\$ 2.66
> 10 units									\$ 4.18	\$ 4.66
Irrigation										
0-100% of annual water budget									\$ 2.09	\$ 2.66
> 100% of annual water budget									\$ 4.18	\$ 4.66
Commercial and Fire Line									\$ 2.09	\$ 2.66
<b>Private Fire Protection Service</b>										
<b>Availability / Meter Charge (per Month)</b>										
3/4 inch	\$ 15.07	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75
1 inch	\$ 15.07	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75
1&1/2 inch	\$ 15.07	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75
2 inch	\$ 24.10	\$ 24.10	\$ 35.00	\$ 35.00	\$ 36.25	\$ 38.92	\$ 43.68	\$ 47.20	\$ 49.15	\$ 49.15
3 inch	\$ 42.18	\$ 42.18	\$ 61.25	\$ 61.25	\$ 63.25	\$ 68.11	\$ 76.44	\$ 82.60	\$ 86.00	\$ 86.00
4 inch	\$ 66.29	\$ 66.29	\$ 96.25	\$ 96.25	\$ 99.25	\$ 107.03	\$ 120.12	\$ 129.75	\$ 135.15	\$ 135.15
6 inch	\$ 126.55	\$ 126.55	\$ 183.75	\$ 183.75	\$ 189.25	\$ 204.33	\$ 229.32	\$ 247.70	\$ 258.00	\$ 258.00
8 inch	\$ 198.86	\$ 198.86	\$ 288.75	\$ 288.75	\$ 297.50	\$ 321.09	\$ 360.36	\$ 389.25	\$ 405.45	\$ 405.45
<b>Sewer</b>										
Residential (per Month)										
Single Family	\$ 31.09	\$ 34.11	\$ 35.13	\$ 35.13	\$ 35.13	\$ 37.94	\$ 40.98	\$ 43.85	\$ 46.05	\$ 46.05
Townhouse	\$ 26.07	\$ 28.68	\$ 29.54	\$ 29.54	\$ 29.54	\$ 31.90	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75
Duplex	\$ 26.07	\$ 28.68	\$ 29.54	\$ 29.54	\$ 29.54	\$ 31.90	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75
Apartment / Condominium	\$ 24.66	\$ 27.13	\$ 27.94	\$ 27.94	\$ 27.94	\$ 30.18	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75
Commercial (per Unit* of Water Billed)										
Restaurant	\$ 5.64	\$ 6.20	\$ 6.39	\$ 6.39	\$ 6.39	\$ 6.90	\$ 7.45	\$ 7.97	\$ 8.37	\$ 8.37
Miscellaneous	\$ 1.84	\$ 2.02	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.25	\$ 2.62	\$ 2.80	\$ 2.94	\$ 2.94
Institutional (per Unit* of Water Billed)										
School	\$ 1.12	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 2.66
Church	\$ 1.12	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 2.66
Public Facility	\$ 1.12	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 2.66

Unit\* = 748 Gallons

Source: City of Foster City Financial Services Department

**City of Foster City and Estero Municipal Improvement District**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
*(dollars in thousands, except per capita)*

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Redevelopment Bonds	Special Assessment Bonds	Sewer Bonds				
2002	14,926	29,135	11,095	2,399		57,555	3.800	1,990
2003	11,501	26,340	9,390	1,859		49,090	3.160	1,646
2004	4,941	23,430	5,505	1,582		35,458	2.170	1,188
2005	3,491	20,400	4,445	1,242		29,578	1.670	990
2006	1,985	13,385	3,310	785		19,465	0.970	651
2007	635	10,250	2,100	280		13,265	0.006	438
2008	-	6,975	800	-		7,775	0.004	257
2009	-	3,560	415	-		3,975	0.002	131
2010	-	-	-	-		-	n/a	-
2011	-	-	-	-		-	n/a	-

**Note:** Details regarding the City/District's outstanding debt can be found in the notes to the financial statements.



# City of Foster City and Estero Municipal Improvement District

## Direct and Overlapping Governmental Activities Debt

### As of June 30, 2011

2010-11 Assessed Valuation:	\$6,612,357,764
Redevelopment Incremental Valuation:	1,928,411,036
Adjusted Assessed Valuation:	\$4,683,946,728

	Total Debt Outstanding 06/30/11	Percentage Applicable (1)	City's Share of Overlapping Debt 6/30/11
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Mateo Community College District	\$613,779,994	3.669%	\$22,519,588
San Mateo Union High School District	300,047,257	10.663%	31,994,039
Sequoia Union High School District	348,900,000	0.011%	38,379
San Mateo-Foster City School District	165,222,164	23.241%	38,399,283
Belmont-Redwood Shores School District	9,395,000	0.068%	6,389
<b>Estero Municipal Improvement District</b>	<b>0</b>	<b>100.000%</b>	<b>0</b>
<b>City of Foster City 1915 Act Bonds</b>	<b>0</b>	<b>100.000%</b>	<b>0</b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$92,957,678
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$337,584,816	3.669%	\$12,385,987
San Mateo County Board of Education Certificates of Participation	12,420,000	3.669%	455,690
Belmont-Redwood Shores School District Certificates of Participation	5,310,000	0.068%	3,611
San Mateo Union High School District Certificates of Participation	65,946,236	10.663%	7,031,847
Midpeninsula Regional Park District General Fund Obligations	131,003,031	0.007%	9,170
TOTAL OVERLAPPING GENERAL FUND DEBT			\$19,886,305
<b>TOTAL DIRECT DEBT</b>			<b>\$0</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>\$112,843,983</b>
<b>COMBINED TOTAL DEBT</b>			<b>\$112,843,983 (2)</b>

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

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

Ratios to 2010-11 Assessed Valuation:

Direct Debt .....	0.00%
Total Direct and Overlapping Tax and Assessment Debt.....	1.41%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt.....	2.41%
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STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11:      \$0

**City of Foster City and Estero Municipal Improvement District**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**  
*(dollars in thousands)*

**Legal Debt Margin Calculation for Fiscal Year 2010**

Assessed value	\$ 6,568,351
Debt limit (15% of assessed value)	985,253
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	-
Legal debt margin	<u>\$ 985,253</u>

	<u>Fiscal Year</u>									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt limit	\$ 656,328	\$ 703,260	\$ 731,087	\$ 759,294	\$ 815,558	\$ 882,082	\$ 922,063	\$ 967,627	\$ 995,982	\$ 985,253
Total net debt applicable to limit	<u>8,364</u>	<u>4,536</u>	<u>3,059</u>	<u>1,469</u>	-	-	-	-	-	-
Legal debt margin	<u>\$ 647,964</u>	<u>\$ 698,724</u>	<u>\$ 728,028</u>	<u>\$ 757,825</u>	<u>\$ 815,558</u>	<u>\$ 882,082</u>	<u>\$ 922,063</u>	<u>\$ 967,627</u>	<u>\$ 995,982</u>	<u>\$ 985,253</u>
Total net debt applicable to the limit as a percentage of debt limit	1.27%	0.64%	0.42%	0.19%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Note:** Under state finance law, the city's outstanding general obligation debt should not exceed 15 percent of total assessed property value.

**City of Foster City and Estero Municipal Improvement District**  
**Demographic and Economic Statistics**  
**Last Ten Calendar Years**

<b>Year</b>	<b>Population</b>	<b>Personal Income</b> <i>(thousands of dollars)</i>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
2002	28,923	1,515,305	52,391	4.3%
2003	29,828	1,554,128	52,103	4.7%
2004	29,850	1,635,989	54,807	3.7%
2005	29,876	1,769,048	59,213	3.2%
2006	29,900	1,998,486	66,839	2.8%
2007	30,269	2,171,892	71,753	2.9%
2008	30,308	2,237,912	73,839	3.5%
2009	30,429	2,054,508	67,536	6.7%
2010	30,719	1,516,228	49,358	6.8%
2011	30,790	n/a	n/a	8.6%

**Sources:**

Population: State Department of Finance

Personal income: State Employment Development Department for County of San Mateo

Unemployment Rate: State Employment Development Department for County of San Mateo

**City of Foster City and Estero Municipal Improvement District  
Principal Employers  
Current Year and Ten Years Ago**

<u>Employer</u>	<u>2002</u>			<u>2011</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
VISA International & VISA USA	3,200	1	20.25%	1,435	2	8.71%
Applied Biosystems	1,800	2	11.39%	1,328	3	8.06%
Gilead Sciences	1,200	3	7.59%	2,231	1	13.55%
Electronics for Imaging	700	4	4.43%	1,219	4	7.40%
Sony Computer Entertainment	550	5	3.48%	742	6	4.51%
SAP America	400	6	2.53%			
Crowne Plaza Hotel	300	7	1.90%			
Lincoln Property Company	250	8	1.58%			
Legacy Partners Inc.	250	9	1.58%			
City of Foster City	237	10	1.50%			
QuinStreet, Inc.				376	8	2.28%
Inovant LLC				964	5	5.85%
Rearden Commerce, Inc.				254	10	1.54%
IBM Corporation				390	7	2.37%
Mid-Peninsula Housing				264	9	1.60%
Top Ten Total	8,887		56.25%	9,203		55.89%
City Total	<u>15,800</u>			<u>16,467</u>		

**Source:** 2002 City of Foster City Community Development Department  
2011 Business License of Financial Services Department

**Note:** As some information required by GASB 44 is not readily available, data from 2001 is not shown in the schedule.

**City of Foster City and Estero Municipal Improvement District  
Full-time Equivalent City Government Employees by Function/Program  
Last Ten Fiscal Years**

<b>Function/Program</b>	<b>Full-time Equivalent Employees as of June 30</b>									
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General government										
Management services	18.0	18.0	18.0	19.0	19.0	19.0	20.0	19.0	19.0	16.0
Finance	10.0	10.0	10.0	9.0	9.0	9.0	8.0	8.0	8.0	8.0
Planning	9.0	7.0	7.0	5.0	5.0	5.5	5.5	5.5	6.5	5.5
Building	7.0	7.0	6.5	6.0	6.0	6.5	6.5	6.5	5.5	5.5
Police										
Officers	45.0	45.0	45.0	39.0	37.0	37.0	39.0	39.0	39.0	39.0
Civilians	18.0	18.0	18.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Fire										
Firefighters and officers	40.0	40.0	40.0	36.0	36.0	36.0	36.0	36.0	36.0	35.0
Civilians	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Other public works										
Engineering	11.0	12.0	12.0	10.0	9.0	8.0	7.0	7.0	7.0	7.0
Other	13.0	12.0	12.0	10.0	10.0	10.0	10.0	10.0	11.0	9.0
Parks and recreation	43.0	43.0	43.0	42.0	41.0	41.0	41.0	41.0	41.0	39.0
Water	9.0	9.0	9.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Wastewater	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.0	10.0
<b>Total</b>	<b>237.0</b>	<b>235.0</b>	<b>234.5</b>	<b>217.0</b>	<b>213.0</b>	<b>213.0</b>	<b>214.0</b>	<b>213.0</b>	<b>213.0</b>	<b>204.0</b>

Source: City Budget

**City of Foster City and Estero Municipal Improvement District**  
**Operating Indicators by Function/Program**  
**Last Seven Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>						
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police							
Physical arrests	797	727	762	769	677	831	728
Parking violations	1,065	956	863	891	854	865	624
Traffic violations	2,472	1,772	2,396	1,870	2,004	2,811	2,317
Fire							
Emergency responses	1,882	1,981	1,940	2,095	1,895	1,828	1,873
Fires extinguished	116	116	105	107	102	85	73
Inspections	1,779	1,813	1,102	1,128	1,026	966	1,231
Other public works							
Street resurfacing (miles)	-	3	1	2	1	1	5
Potholes repaired	30	27	30	25	45	70	40
Parks and recreation							
Athletic field permits issued	37	48	49	52	45	54	57
Community center admissions	8,279	8,481	8,804	9,144	8,648	8,209	8,123
Water							
New connections	-	6	4	2	-	-	-
Water mains breaks	19	17	-	14	6	1	6
Average daily consumption (thousands of gallons)	5,174	5,257	5,574	5,520	5,230	4,890	4,822
Peak daily consumption (thousands of gallons)	10,202	11,146	10,634	10,450	10,530	10,340	9,750
Wastewater							
Average daily sewage treatment (thousands of gallons)	3,103	3,185	3,074	2,980	2,600	2,450	2,340

**Sources:** Various city departments

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2005, the City/District has elected to show only seven years of data.

**City of Foster City and Estero Municipal Improvement District**  
**Capital Asset Statistics by Function/Program**  
**Last Seven Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>						
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police							
Stations	1	1	1	1	1	1	1
Zone offices	1	1	1	1	1	1	1
Patrol units	1	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1	1
Other public works							
Streets (miles)	46	46	46	46	46	46	46
Streetlights	1,918	1,918	1,918	1,918	1,918	1,918	2,063
Traffic signals	20	23	25	25	25	25	25
Parks and recreation							
Acreage	104	168	171	210	210	210	210
Playgrounds	21	21	21	21	21	21	21
Baseball/softball diamonds	8/3	8/3	8/3	8/3	8/3	8/3	8/3
Soccer/football fields	10/0	10/0	10/0	10/0	10/0	10/0	10/0
Community centers	2	2	2	2	3	3	3
Water							
Water mains (miles)	110	110	110	110	110	110	110
Fire hydrants	1,149	1,149	1,149	1,149	1,149	1,149	1,153
Storage capacity (thousands of gallons)	12,000	20,000	20,000	20,000	20,000	20,000	20,000
Wastewater							
Sanitary sewers (miles)	66	66	66	66	66	66	66
Storm sewers (miles)	83	83	83	83	83	83	83
Treatment capacity (thousands of gallons)	52,130	52,130	52,130	52,130	52,130	52,130	52,130
Transit–minibuses	1	1	1	1	1	1	1

**Sources:** Various city departments

**Note:** As certain data required by GASB 44 was not readily available for years prior to 2005, the City/District has elected to show only seven years of data.

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Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

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

To the Honorable Mayor and Members of the City Council  
of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Foster City and the Estero Municipal Improvement District,, California (City/District), as of and for the year ended June 30<sup>th</sup>, 2011, which collectively comprise the City/District's basic financial statements and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Honorable Mayor and Members of the City Council  
of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California  
Page 2

Compliance and Other Matters

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

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

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
December 28, 2011