

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



Comprehensive Annual Financial Report
Prepared by the Department of Financial Services
Fiscal Year Ended June 30, 2013

**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, 2013

Pam Frisella, Mayor

Charlie Bronitsky, Vice Mayor

Steve Okamoto, Councilmember

Herb Perez, Councilmember

Art Kiesel, Councilmember

James C. Hardy, City Manager/City Treasurer

Steve Toler, Assistant City Manager

Jean B. Savaree, City Attorney

Lin-Lin Cheng, Finance Director

Brad Underwood, Public Works Director

Leslie Loomis, Human Resources Director

Matthew Martell, Police Chief

Kevin Miller, Parks & Recreation Director

Michael Keefe, Fire Chief

Curtis Banks, Community Development Director

Doris Palmer, City Clerk

Cover page photo courtesy of: Joseph Sobocan, Retired PW Maintenance Worker II

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**City of Foster City and Estero Municipal Improvement District
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2013**

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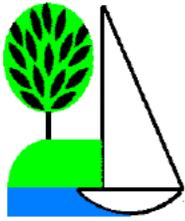
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INTRODUCTORY SECTION



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 10, 2013

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, 2013 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 Comprehensive Annual Financial Report 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 management's discussion and analysis and should be read in conjunction with it. The management's discussion and analysis can be found immediately following the report of the independent auditor.

The Comprehensive Annual Financial Report is organized into three sections:

- The ***Introductory Section*** includes this transmittal letter, the City/District's organizational chart and a list of principal officials. This section is intended to familiarize the reader with the organizational structure of the City/District, the nature and scope of the services it provides, and the specifics of its legal operating environment.
- The ***Financial Section*** includes the management's discussion and analysis, the basic financial statements, 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 for each of the City/District's major funds, as well as non-major 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.

The City/District's Comprehensive Annual Financial Report includes the funds of the primary government and enterprise activities that are not considered separate legal entities. Currently, there are no component units for which the primary government is financially accountable. Therefore, no financial balances or activities are reported as component units as of and for the fiscal year ended June 30, 2013.

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 Vavrinek, Trine, Day and Company, LLP Certified Public Accountants, to conduct the audit for FY 2012-2013 and the independent auditor's opinion is included in this report.

In addition, the City/District is required to file financial and operational information with 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 were 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.

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. Policy making and legislative authority are vested in a governing council consisting of the City Mayor/District Board Director and four other members. There are five Council/Board Members elected by seat number for staggered four-year terms, with a two-term limit. The City Manager is responsible for carrying out the policies and ordinances of the Council/Board, for overseeing day-to-day operations of the City/District, and for appointing the heads of the various departments. The City Manager, City Attorney, Planning Commissioners, and Citizen Advisory Committee Members are appointed by the City Council/ District Board. The City Council/District Board is financially accountable for City/District operations and the Successor Agency. The Comprehensive Annual Financial Report includes all funds of the City/District, and the Successor Agency's activities are reported under fiduciary fund type as private purpose trust fund.

Located on the San Francisco Peninsula, ten (10) miles south of the San Francisco International Airport, the City/District encompasses a geographic area of 12,345 acres, of which 9,726 acres are part of San Francisco Bay and Belmont Slough, and 2,619 acres are land. The City/District serves a population of 31,120 and provides a full range of municipal services, including police protection; fire suppression, prevention and advanced life support programs; water and wastewater services; construction and maintenance of streets, storm drains, lagoons, levees, bridges, and infrastructure; community development and redevelopment; maintenance and protection of the physical environment; construction and maintenance of parks and recreational amenities; leisure, entertainment and educational programs; and general government operations and services.

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 allocating 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. The accounting system is updated regularly to keep abreast of changing accounting techniques and principles. In developing, evaluating and maintaining 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 are made and then implemented. The City/District is required to adopt an annual budget on or before June 30th 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. All appropriations lapse and must be re-authorized at the end of the fiscal year if they have not been spent or legally committed.

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 Council and District Board may amend the budget by resolution. 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.

LOCAL ECONOMY

Historically, Foster City is an area that has enjoyed relatively high property values and significant economic vitality. For the last few years, the national, state and local economies have suffered one of the worst recessionary periods since the Great Depression of the 1920's and 1930's. More recently, the local economy has shown signs of improvement due to the economic recovery from the global recession and local development activities.

The City/District's real estate market has rebounded, and the market value of real estate has recovered to its pre-recession value. However, due to the limited housing inventories and property assessed value limitation imposed by Proposition 13, the City/District has only experienced a modest increase in property tax revenue. In addition, for those commercial properties sold in prior years below their assessed value and the ongoing demolition and rebuilding of the major development projects, it will take the City/District a few years before seeing any significant increase in property tax revenue.

The City/District's sales tax revenue has experienced a bumpy ride in the recent years. Sales tax revenue has dropped since 2008 due to the downturn in the economy. Just as the City/District has seen a moderate recovery in sales tax revenue and received additional one-time sales tax revenues from the major construction of current local developments, the City/District is facing other challenges. During the current fiscal year, the largest sales tax producer moved its operations out of the City/District resulting in a negative impact of \$1 million in sales tax revenue to the City/District. In addition, one of the City/District's largest employers also relocated its operations out of the City/District resulting in an indirect negative impact on property tax, business license tax, and sales tax revenues.

To address the vulnerability and challenges of the local economy, the City/District established a Sustainable Economic Development Strategic Plan, not only to preserve and enhance the property tax and sales tax as the top two major revenue sources of the City/District, but also to achieve the vision to “Sustain and Enhance the Quality of Life in Foster City.”

LONG-TERM FINANCIAL PLAN

In Foster City, City/District fiscal policy establishes the framework upon which short and long-term financial decisions are made. In particular, it identifies the long-range goals needed for fiscal sustainability and develops strategies necessary to achieve these goals.

The City/District has established a minimum reserve policy for its General Fund at 33⅓% of annual operating expenditures and for its Water and Wastewater Funds at 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 minimum reserve policy could help prevent the City from spending beyond its sustainable means during periods of economic growth, while also providing the City a mechanism to maintain services at desired levels during economic downturns. The emergency reserve could ensure business continuity if the City faces catastrophic situations. In addition, since fiscal year 2011 the City/District implemented long-term funding for potential capital improvement projects over a 10-year horizon.

The City/District has also established internal services funds to reserve funding for vehicle and equipment replacement, information and technology equipment maintenance and replacement, building repair and maintenance, self-insurance for legal liability, and other post-employment benefits. This is another layer of the City/District’s prudent long-term plan, not only to budget the true cost of operations from year-to-year, but also to guarantee the availability of resources to continue the high level of quality services in the future.

The City/District 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 sources. 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 uses long-term financial planning to ensure stability through ups and downs in economic cycles. It also allows decision makers to better understand the true effect of policy decisions. Through the City/District’s long-term financial planning, the City/District has solved the General Fund structural deficit by reducing service levels, sharing services, managing compensation and benefits costs, and enhancing revenues during the last three fiscal years. The City/District presented a balanced budget for FY 2013-2014.

There are two critical events which occurred in fiscal year 2013 that have a significant negative impact on the City’s long-term financial plan. First, the City/District lost its largest sales tax generator which equates to an over \$1 million annual loss to the General Fund revenues. Second, the CalPERS Board adopted the recommendation from the Chief Actuary to revise the current rate smoothing policy which will cause a significant increase in the employer contribution rate starting in fiscal year 2015. The impact of the CalPERS rate smoothing policy change equates to nearly \$425,000 in additional costs City/District wide, of which \$350,000 will impact the General Fund.

The City/District has been closely monitoring employee compensation and benefits costs, and is taking control measures and funding preparation for other post-employment benefit liabilities. Historically, the City/District has taken a conservative approach in providing reasonable compensation and benefits to the employees which has kept the City/District’s liabilities at a manageable level compared to other local governments. In recent years, the City/District has taken further steps in trimming personnel costs by reducing the work force, sharing services, shifting defined benefits to defined contribution, and establishing a second tier retirement plan. The City/District will carefully consider the long-term implication of its decisions regarding personnel-related spending and liabilities in the years to come.

The City's five-year financial forecast includes an assumption of a 2% cost of living increase in compensation, and significant revenues from the local private developments, such as Gilead Sciences South Campus, Triton Pointe, Pilgrim-Triton "Phase B", and the planned Extended Stay Hotel. Again, the City/District took a conservative approach by excluding the development of the 15-Acre site, Chess-Hatch, and Pilgrim-Triton "Phase C", as well as the potential increase to the business license tax which has been placed on the November 5, 2013 ballot. With this forecast, the City achieved a balanced budget in the General Fund for FY 2013-2014 and FY 2014-2015 only. However, it is possible to have a balanced budget in each year included in the five-year financial plan.

MAJOR INITIATIVES

The following major initiatives were completed or are in progress as of June 30, 2013:

- Fire Shared Service – The City of Foster City and the City of San Mateo entered into a contract on July 1, 2010 to share the Fire Department management and administration services. Starting January 1, 2013, the Belmont Fire Protection District entered into an agreement with the City of Foster City and the City of San Mateo to share the Fire management and administration services for a period of eighteen (18) months. All parties believe this is a prudent way to deliver important public safety services in an improved cost efficient manner. The shared services are reviewed and evaluated periodically.
- Pilgrim-Triton Development Project – Phase 1 of the Pilgrim-Triton development project completed the construction of 300 apartment units and 17,000 square feet of commercial space. The Foster City Successor Agency provided pre-approved funding assistance of \$6.3 million for 60 affordable housing units included in this project.
- Sale of City's 11-acre Site – On September 28, 2012 the City/District sold the 11-acre site adjacent to the Government Center between Foster City Boulevard, Shell Boulevard and Balclutha Drive to the North Peninsula Jewish Campus for \$20 million, with \$1 million paid in cash at closing. The City/District is financing \$19 million as a 25 year loan at a fixed rate of 3.25%. All sale proceeds and future loan payments will be deposited to the newly created Capital Preservation Fund for future capital asset acquisition and replacement. Use of the assets in this fund requires a majority 4/5th vote of the City Council/District Board.
- Park Improvements – During the fiscal year, the City/District completed the installation of synthetic turf at Sea Cloud Park's soccer and baseball fields and Port Royal Park's soccer field and walking track. The funding for these projects came from the Park In-Lieu fund and donations from various sports leagues.
- Veterans Honor Wall – A Veterans Honor Wall was constructed behind the Amphitheatre at Leo J. Ryan Memorial Park to acknowledge veterans who served in the United States Armed Forces and who are current or former residents of Foster City. The construction of the Veterans Honor Wall was funded by the Capital Improvement Project Fund. The individual wall nameplates are purchased by either the veterans or someone on their behalf. The City/District has received great response and support from the community for this project.
- Levee/Pedway Improvement and Repairs – The levee pathway repair and preventive maintenance work included adjustment of surface grades in selected areas, installation of root barriers, removal and replacement of failed asphalt, seal coating, crack sealing, asphalt top coating, refurbishment of the walking track, and re-striping. The plan developed by staff included completion of a boundary survey to clearly identify the encroachment of structures, trees, and landscaping into the City's easement and property areas followed by a three-phase approach to construct the improvements.

- LED Street Light Replacement – The City replaced all high pressure sodium (HPS) boulevard and residential streetlight fixtures with light emitting diode (LED) fixtures as part of the PG&E’s Streetlight Turnkey Replacement Services Program. The total cost of the project was \$1.1 million. The City received \$747,814 from Energy Efficiency and Conservation Block Grants (EECBG) provided through the California Energy Commission (CEC). The City also received \$194,644 from the zero (0) percent interest On-Bill Financing (OBF) loan program offered by PG&E. The remaining project costs of \$149,279 were funded through the Capital Improvement Project Fund. The new lights are more energy efficient and provide improved levels of lighting.
- Residential Street Resurfacing and Repairs – This biennial project is part of the City/District’s ongoing program to maintain the public street system. The Public Works Department uses the Pavement Management Program (PMP) database and program analysis to evaluate the condition of the City/District street network and to help identify street maintenance priorities. The program also helps determine the most cost effective treatment to extend the life of a section of roadway. The street projects are funded by Measure A, Proposition 1B, Measure M, and grants which are restricted to transportation related uses.
- Development Plans – Plans for various land use development projects were reviewed, approved or are well under way, including Pilgrim-Triton Phase 2, Triton Pointe, Gilead Sciences South Campus, and the Extended Stay Hotel, all of which stand to generate significant long-term revenues to the City/District.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City/District for the year ended June 30, 2012. This was the twentieth consecutive year that the City/District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City/District published an easily readable and efficiently organized Comprehensive Annual Financial Report which 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 Comprehensive Annual Financial Report 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 this Comprehensive Annual Financial Report could not have been accomplished without the professional, efficient and dedicated service of the Financial Services Department staff. In particular, I would like to express my appreciation to the following members who contributed to the development of this report: Fiti Rusli and Mimi Lam, Accounting Managers; and Karen Li, Senior Accounting Specialist.

I also like to thank the Vavrinek, Trine, Day & Company, LLP audit team for their cooperation and assistance.

Sincere appreciation is also expressed to the Mayor and the members of the City Council/District Board, the City Manager, the operating departments, and members of 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,



Lin-Lin Cheng
Finance Director

Government Finance Officers Association

**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

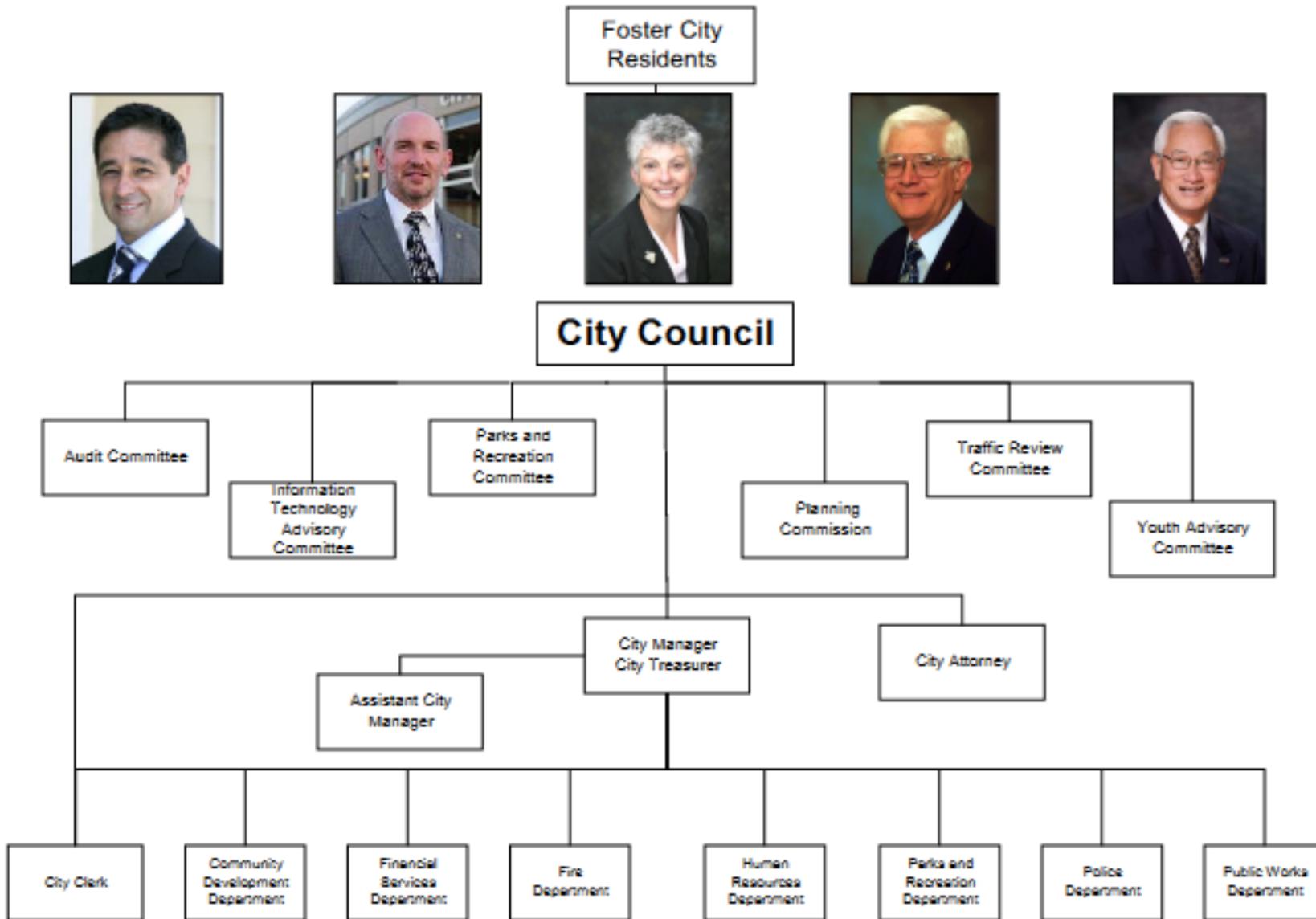
June 30, 2012



Executive Director/CEO

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Foster City Organization Chart



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FINANCIAL SECTION



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Report on the Financial Statements

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 Estero Municipal Improvement District (City/District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City/District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Foster City and Estero Municipal Improvement District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the City/District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, and the schedules of funding progress as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City/District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the City/District's internal control over financial reporting and 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* in considering City/District's internal control over financial reporting and compliance.

Varrinek, Trine, Day & Co., LLP

Pleasanton, California
December 10, 2013

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**CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013**

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, 2013. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

City-wide:

- As of June 30, 2013, the City/District's total assets increased by \$14.5 million, or 5.37%, to \$283.7 million, of which \$195.0 million represented governmental assets and \$88.7 million represented business-type assets.
- The City/District's total liabilities decreased by \$1.1 million, or 7.38%, to \$13.8 million, of which \$11.4 million were governmental liabilities and \$2.4 million were business-type liabilities.
- The City/District's total net position increased by \$15.6 million, or 6.11%, to \$270 million. Of this amount, \$75.6 million (unrestricted governmental net position) and \$26.9 million (unrestricted business-type net position) may be used to meet the government's ongoing obligations to citizens/customers and creditors.
- City-wide revenues increased by \$21.4 million, or 39.50%, to \$75.4 million, of which \$58.0 million were generated by governmental activities and \$17.4 million were generated by business-type activities.
- City-wide expenses increased by \$1.0 million, or 1.98%, to \$53.6 million, of which \$36.7 million were incurred by governmental activities and \$16.9 million were incurred by business-type activities.
- Detailed analysis is provided under the GOVERNMENT-WIDE FINANCIAL ANALYSIS caption.

Fund Level:

- Governmental Fund balances decreased \$2.7 million, or 6.47%, to \$38.5 million. Of this amount, \$19.0 million, or 49.37%, was in the unassigned fund balance and available for spending at the City's discretion.
- Governmental Fund revenues were \$38.1 million, an increase of \$2.8 million, or 7.96%, from \$35.3 million in the prior fiscal year.
- Governmental Fund expenditures decreased by \$2.4 million, or 6.84%, to \$33.1 million in fiscal year 2013, from \$35.6 million in the prior fiscal year.
- Enterprise Fund net assets increased by \$0.3 million, 0.35%, to \$85.2 million. Of this amount, \$25.8 million was unrestricted net position and available for spending at the District's discretion.
- Enterprise Fund operating revenues were \$17.5 million in fiscal year 2013 compared to \$18.0 million in the prior fiscal year.
- Enterprise Fund operating expenses were \$16.8 million in fiscal year 2013, an increase from \$15.7 million in fiscal year 2012.
- Detailed analysis is provided under the FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS caption.

**CITY OF FOSTER CITY AND
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OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The City/District's annual report comprises of six parts:

- 1) *Introductory section*, which includes the Transmittal Letter and general information;
- 2) *Management's Discussion and Analysis* (this part);
- 3) *Basic Financial Statements*;
- 4) *Required Supplementary Information*;
- 5) *Combining Statements* for non-major governmental funds, internal service funds, fiduciary funds, and *budgetary comparison schedules* for non-major governmental funds; and
- 6) *Statistical Information*.

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.

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 position* presents information on all of the City/District's assets and liabilities, with the difference between the two reports shown as *net position*. Over time, increases or decreases in net position 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 position changed during the current fiscal year. All changes in net position 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 and wastewater operations. The government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City/District as a whole.

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 three primary categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

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OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CONTINUED)

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*.

The City 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, Low and Moderate Income Housing Assets Fund, City Capital Project, and Capital Asset Preservation, all of which are considered to be *major funds*. Data from the remaining governmental funds are combined into a single, aggregated column entitled "Non-Major Governmental 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 or 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 and wastewater 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, the Public Employees Medical and Hospital Care Act (PEMHCA) benefits, and compensated absences payoff. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CONTINUED)

Fiduciary funds are used to account for the financial activities where the City/District acts as an agent on behalf of others, holding amounts collected, and disbursing them as directed or required. The City/District's fiduciary activities are reported in the separate Statements of Fiduciary Net Position and the Agency Funds Statement of Changes in Net Position. These activities are excluded from the City/District's other financial statements because the City/District cannot use these assets to finance its own operations.

Notes to the Basic Financial Statements provide additional information that are 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 plans and OPEB 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed Statement of Net position
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total		Amount Change	Percent Change
	2013	2012	2013	2012	2013	2012		
Assets:								
Current and other assets	\$ 92,501,049	\$ 75,018,740	\$ 29,336,046	\$ 26,498,470	\$ 121,837,095	\$ 101,517,210	\$ 20,319,885	20.02%
Capital assets	102,503,211	106,295,814	59,384,377	61,458,480	161,887,588	167,754,294	(5,866,706)	-3.50%
Total assets	195,004,260	181,314,554	88,720,423	87,956,950	283,724,683	269,271,504	14,453,179	5.37%
Liabilities:								
Current and other liabilities	6,422,412	8,027,773	1,798,912	1,540,319	8,221,324	9,568,092	(1,346,768)	-14.08%
Long-term liabilities	4,956,122	4,699,974	589,178	595,930	5,545,300	5,295,904	249,396	4.71%
Total Liabilities	11,378,534	12,727,747	2,388,090	2,136,249	13,766,624	14,863,996	(1,097,372)	-7.38%
Net position:								
Net investment in capital assets	102,503,211	106,295,814	59,384,377	61,458,480	161,887,588	167,754,294	(5,866,706)	-3.50%
Restricted	5,488,986	11,760,967	-	-	5,488,986	11,760,967	(6,271,981)	-53.33%
Unrestricted	75,633,529	50,530,026	26,947,956	24,362,221	102,581,485	74,892,247	27,689,238	36.97%
Total net position	\$ 183,625,726	\$ 168,586,807	\$ 86,332,333	\$ 85,820,701	\$ 269,958,059	\$ 254,407,508	\$ 15,550,551	6.11%

Net Position

During fiscal year 2013, the City/District implemented GASB Statement No. 63-*Financial Reporting of Deferred Outflows and Resources, and Net Position*. The most noticeable impact of GASB 63 was the renaming of "net assets" to "net position" to reflect the difference between assets and liabilities.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net position may serve over time as a useful indicator of a government's financial position. This analysis focuses on the net position and year-to-year changes in net position of the City/District as a whole. The City/District's combined net position increased by \$15.6 million, or 6.11%, from the prior year mainly due to the \$20 million sale of the City/District's 11-acre site to North Peninsula Jewish Campus.

	Governmental Activities		Amount Change	Percent Change
	2013	2012		
Assets:				
Current and other assets	\$ 92,501,049	\$ 75,018,740	\$ 17,482,309	23.30%
Capital assets	102,503,211	106,295,814	(3,792,603)	-3.57%
Total assets	<u>195,004,260</u>	<u>181,314,554</u>	<u>13,689,706</u>	<u>7.55%</u>
Liabilities:				
Current and other liabilities	6,422,412	8,027,773	(1,605,361)	-20.00%
Long-term liabilities	4,956,122	4,699,974	256,148	5.45%
Total Liabilities	<u>11,378,534</u>	<u>12,727,747</u>	<u>(1,349,213)</u>	<u>-10.60%</u>
Net position:				
Net investment in capital assets	102,503,211	106,295,814	(3,792,603)	-3.57%
Restricted	5,488,986	11,760,967	(6,271,981)	-53.33%
Unrestricted	75,633,529	50,530,026	25,103,503	49.68%
Total net position	<u>\$ 183,625,726</u>	<u>\$ 168,586,807</u>	<u>\$ 15,038,919</u>	<u>8.92%</u>

The net position of the City/District's governmental activities increased by approximately \$15.0 million. This increase consists of three components:

1. **Net investment in capital assets** – The \$3.8 million decrease was due to the excess of depreciation and the retirement of capital assets over capital assets addition. Detailed analysis is provided under Note No. 6.
2. **Restricted net position** – This amount decreased by \$6.3 million which is the amount the City transferred to the Foster City Successor Agency to fulfill the affordable housing commitment to “The Plaza” (Pilgrim/Triton Phase 1) project. Under the terms of the Owner Participation Agreement (OPA) for the Pilgrim-Triton Project, the former Foster City Community Development Agency agreed to subsidize the construction costs of 60 affordable housing units (\$105,000 per unit). The Foster City Successor Agency assumed the obligation and reimbursed the developer for the construction costs as the occupancy permits were issued during the fiscal year.
3. **Unrestricted net position** – The \$25.1 million increase was mainly due to 1) the sale of the City/District's 11-acre site for \$20 million, 2) a onetime “boomerang property tax” of \$3.3 million received from the dissolution of the former Foster City Community Development Agency (\$12.7 million of unencumbered housing fund balance was remitted to the County for redistribution to all taxing agencies and the City/District received \$3.3 million which has been committed to the affordable housing project through City/District resolutions), and 3) incremental increases in the educational revenue augmentation funds (ERAF) refund, transient occupancy tax, property transfer tax, and franchise tax.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

	Business-Type Activities		Amount Change	Percent Change
	2013	2012		
Assets:				
Current and other assets	\$ 29,336,046	\$ 26,498,470	\$ 2,837,576	10.71%
Capital assets	59,384,377	61,458,480	(2,074,103)	-3.37%
Total assets	<u>88,720,423</u>	<u>87,956,950</u>	<u>763,473</u>	<u>0.87%</u>
Liabilities:				
Current and other liabilities	1,798,912	1,540,319	258,593	16.79%
Long-term liabilities	589,178	595,930	(6,752)	-1.13%
Total Liabilities	<u>2,388,090</u>	<u>2,136,249</u>	<u>251,841</u>	<u>11.79%</u>
Net position:				
Net investment in capital assets	59,384,377	61,458,480	(2,074,103)	-3.37%
Unrestricted	26,947,956	24,362,221	2,585,735	10.61%
Total net position	<u>\$ 86,332,333</u>	<u>\$ 85,820,701</u>	<u>\$ 511,632</u>	<u>0.60%</u>

The net position of the City/District's business-type activities increased by \$0.5 million, primarily from water and wastewater revenues exceeding expenses in anticipation of future capital improvement projects and the implementation of water usage penalties as part of the conservation-based tiered water rate structure.

1. **Net Investment in capital assets** – The \$2.1 million decreased was due to the excess of depreciation and the retirement of capital assets over capital assets addition. Detailed analysis is provided under Note No. 6.
2. **Unrestricted net position** – The \$2.6 million increase resulted from the net decrease of \$2.1 million in capital assets and the net increase of \$0.5 million from operating income.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position – The following table identifies the changes in net position for governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total		Amount Change	Percent Change
	2013	2012	2013	2012	2013	2012		
Program Revenues								
Charges for services	\$ 3,006,495	\$ 3,617,936	\$ 17,466,482	\$ 17,845,065	\$ 20,472,977	\$ 21,463,001	\$ (990,024)	-4.61%
Operating grants and contributions	1,479,057	1,483,915	-	100,756	1,479,057	1,584,671	(105,614)	-6.66%
Capital grants and contributions	938,348	449,989	19,305	-	957,653	449,989	507,664	112.82%
General Revenues								
Taxes	27,168,460	22,859,339	-	-	27,168,460	22,859,339	4,309,121	18.85%
Contributions not restricted to specific programs	4,413,470	4,853,339	-	-	4,413,470	4,853,339	(439,869)	-9.06%
Unrestricted investment and rental income	1,539,026	2,331,007	(141,502)	292,258	1,397,524	2,623,265	(1,225,741)	-46.73%
Other	19,494,949	210,189	58,306	36,975	19,553,255	247,164	19,306,091	7811.04%
Total Revenues	58,039,805	35,805,714	17,402,591	18,275,054	75,442,396	54,080,768	21,361,628	39.50%
Expenses								
General government	3,514,037	3,596,590	-	-	3,514,037	3,596,590	(82,553)	-2.30%
Public safety	17,001,815	17,615,450	-	-	17,001,815	17,615,450	(613,635)	-3.48%
Public works	5,718,340	5,253,074	-	-	5,718,340	5,253,074	465,266	8.86%
Community development	2,078,968	2,215,164	-	-	2,078,968	2,215,164	(136,196)	-6.15%
Parks and recreation	8,387,726	7,978,548	-	-	8,387,726	7,978,548	409,178	5.13%
Water operations	-	-	10,336,188	9,782,394	10,336,188	9,782,394	553,794	5.66%
Wastewater operations	-	-	6,554,771	5,909,150	6,554,771	5,909,150	645,621	10.93%
Public transportation	-	-	-	201,696	-	201,696	(201,696)	-100.00%
Total Expenses	36,700,886	36,658,826	16,890,959	15,893,240	53,591,845	52,552,066	1,039,779	1.98%
(under) expenses before transfers	21,338,919	(853,112)	511,632	2,381,814	21,850,551	1,528,702	20,321,849	1329.35%
Transfers in (out)	-	(60,501)	-	60,501	-	-	-	0.00%
Extraordinary loss	(6,300,000)	(16,350,052)	-	-	(6,300,000)	(16,350,052)	10,050,052	-100.00%
Change in net position	15,038,919	(17,263,665)	511,632	2,442,315	15,550,551	(14,821,350)	30,371,901	-204.92%
Net position, beginning of year	168,586,807	185,850,472	85,820,701	83,378,386	254,407,508	269,228,858	(14,821,350)	-5.51%
Net position, end of year	\$ 183,625,726	\$ 168,586,807	\$ 86,332,333	\$ 85,820,701	\$ 269,958,059	\$ 254,407,508	\$ 15,550,551	6.11%

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

- **Charges for Services** – The \$611,000 decrease in Governmental Activities was primarily due to the decrease in planning and building permit revenues which was expected as the key development projects in the City/District have progressed.
- **Operating Grants and Contributions** – The operating grants and contributions in Governmental Activities were consistent with a minor decrease of \$5,000 from the prior year. The primary sources of revenues were gas tax, transportation grants, and donations from sports leagues for sports field improvement projects.
- **Capital Grants and Contributions** – The \$488,000 increase was mainly due to the Energy Efficiency and Conservation Block Grants (EECBG) received during the fiscal year for the streetlight replacement project. These grants were more than the Proposition 1B funding received for the street pavement project in the prior year.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

- Taxes – Total tax revenues increased by \$4.3 million. Property tax revenue comprises the largest portion of these revenues and at \$22.9 million increased \$3.7 million from the prior fiscal year. The City/District received a onetime “boomerang property tax” revenue of \$3.3 million from the County resulting from the redistribution of the unencumbered housing fund balance of \$12.7 million from the former Foster City Community Development Agency. Transient occupancy tax revenue increased by \$0.3 million, reflecting the first complete fiscal year in which the transient occupancy tax rate increased from 8% to 9.5%. Franchise tax revenue increased by \$0.1 million due to the January 1, 2013 5% increase in the franchise tax for solid waste, recyclables, and organic materials services from Recology. The other taxes increased by \$0.2 million mainly due to the increase in property transfer tax revenues.
- Contributions Not Restricted to Specific Programs – Sales and use taxes comprise this line-item which decreased by 9.06% or \$0.4 million from the prior fiscal year primarily due to the top sales tax generator moving out of the City during the fiscal year.
- Unrestricted Investment and Rental Income – The decreases in both the Governmental Activities and Business-Type activities were primarily due to recognizing the unrealized loss in the City/District investment portfolio to comply with GASB Statement 31.
- Other Revenues – The significant increase in Governmental Activities resulted primarily from the sale of the City/District’s 11-acre site.

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

- General Government – The \$83,000 decrease in General Government expenditures was generated from personnel and benefits savings such as the use of a part-time contract Human Resources Director and a three month Accounting Specialist vacancy in the Financial Services Department.
- Public Safety – The Safety Departments’ expenditures decreased \$614,000 due to the retirement of senior management employees and the restructuring and deferral of filling vacant positions. On January 1, 2013, the Belmont Fire Protection District joined the City of Foster City and City of San Mateo in sharing the Fire Department management and administration services which resulted in additional savings.
- Public Works – The \$465,000 increase in Public Works expenditures was net of the LED streetlight replacement project and savings from the retirement of senior management employees.
- Community Development – The \$136,000 decrease in this category is due to the February 1, 2012 dissolution of the Redevelopment Agency. The operating expenditures of the former redevelopment project areas are handled by the Successor Agency and are reported under the Fiduciary fund type.
- Parks and Recreation – The Parks and Recreation expenditures increased \$409,000 mainly due to the increase in personnel costs and capital assets depreciation expenses compared to the prior fiscal year.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

- Water Operations – The increase in Water Operations expenses resulted primarily from the increase in the cost of water purchased from the City and County of San Francisco which is undertaking a \$4.6 billion seismic retrofit project on the Hetch Hetchy water system.
- Wastewater Operations – The expense increase in Wastewater Operations is mainly due to the increase in the costs shared with the City of San Mateo for the biofilter rehabilitation, stress test and master plan update for the wastewater treatment plan.

FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS

Governmental Funds

As of June 30, 2013, the City/District's governmental funds reported combined fund balances of \$38.5 million. Of this total, \$4.5 million are considered restricted funds, \$14.4 million are committed by the City Council/District Board for specified projects or uses, \$0.5 million are assigned by the City Manager (as duly authorized by Council/Board policy) for specified uses, and the remaining \$19.0 million are unassigned and available for general use.

Total revenues, expenditures and changes in fund balances for the fiscal year ended June 30, 2013 are shown below in comparison to the year ended June 30, 2012.

	2013		2012		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Revenues by Source						
Taxes	\$ 30,807,783	80.88%	\$ 27,014,176	76.57%	\$ 3,793,607	14.04%
Licenses and permits	1,354,501	3.56%	2,200,437	6.24%	(845,936)	-38.44%
Intergovernmental	2,010,089	5.28%	1,994,051	5.65%	16,038	0.80%
Charges for current services	1,637,289	4.30%	1,640,114	4.65%	(2,825)	-0.17%
Fines and forfeitures	193,654	0.51%	179,717	0.51%	13,937	7.75%
Investment and rental income	907,101	2.38%	1,814,301	5.14%	(907,200)	-50.00%
Other	1,178,203	3.09%	436,977	1.24%	741,226	169.63%
Total revenues	38,088,620	100.00%	35,279,773	100.00%	2,808,847	7.96%
Expenditures by Function						
General Government	2,980,817	8.99%	2,980,808	8.38%	9	0.00%
Public safety	16,767,712	50.60%	17,319,739	48.69%	(552,027)	-3.19%
Public works	3,343,143	10.09%	2,876,718	8.09%	466,425	16.21%
Community development	1,967,382	5.94%	2,229,747	6.27%	(262,365)	-11.77%
Parks and recreation	6,879,810	20.76%	6,780,597	19.06%	99,213	1.46%
Capital outlay	1,201,432	3.63%	3,384,339	9.51%	(2,182,907)	-64.50%
Total expenditures	33,140,296	100.00%	35,571,948	100.00%	(2,431,652)	-6.84%
Revenues over (under) expenditures	4,948,324		(292,175)		5,240,499	
Other financing sources (uses)	(1,317,810)		(69,080)		(1,248,730)	
Extraordinary loss	(6,300,000)		(16,350,052)			
Net change in fund balances	(2,669,486)		(16,711,307)		\$ 3,991,769	
Fund balances, beginning of year	41,199,731		57,911,038			
Fund balances, end of year	\$ 38,530,245		\$ 41,199,731			

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FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS (CONTINUED)

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

- Taxes – As previously discussed, property tax revenues increased \$3.8 million due to the dissolution of the former Foster City Community Development Agency. The sales and use tax revenue decreased \$0.4 million due to the relocation of the top sales tax generator out of the City/District. The transient occupancy tax, franchise tax and property transfer tax revenues have increased a total of \$0.5 million.
- Licenses and permits – Building permit revenues (including electrical, mechanical, and plumbing permits) decreased \$0.9 million. Most of the major development projects were in the review and approval process during the fiscal year, and permits are only drawn after the development agreement is approved and before the construction starts.
- Investment and rental income – The investment income decreased \$0.7 million. GASB Statement 31 requires a government agency to report the fair value of all investments in its financial statement. Accordingly, the City/District takes a snapshot of the fair value of its investment portfolio at June 30 of each fiscal year and records the difference between the fair value and book value as unrealized gain or loss. Unrealized gain is recognized when the market is declining and unrealized loss is recognized when the market is improving. The City/District recorded a significant unrealized loss due to the changes in bond market. However, as the City/District's investment practice is to hold investments until maturity, the book gain or loss is never realized. Rental income decreased \$0.2 million mainly due to the sale of the City/District's 11-acre site which ended the lease agreement and rental income from the site.
- Other revenues – The \$0.7 million increase was due to a one time PG&E On-Bill financing program, the early repayment of the first time home buyers' loan, and donations received for the East 3rd Avenue windsurf and kiteboard site improvement.

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

- Public Safety – Safety Departments' expenditures decreased \$0.6 million due to the retirement, turn over, restructuring, and deferral in filling vacant positions. The Belmont Fire Protection District joined the City of Foster City and City of San Mateo in sharing the Fire Management services which also contributed to the savings.
- Public Works – The \$0.5 million increase was mainly due to the streetlight replacement project.
- Community Development – The \$0.3 million decrease was due to the dissolution of the former Foster City Community Development Agency. The operating expenditures of the former redevelopment project areas are handled by the Successor Agency and are reported under the Fiduciary fund type.
- Capital Outlay – The \$2.2 million decrease was due to the prior fiscal year expenditures for the majority of the synthetic turf projects.

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FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS (CONTINUED)

The following provides highlights of the five (5) *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. The total fund balance at June 30, 2013 was \$20.0 million, which was a \$1.7 million decrease from FY 2012-2013. Unassigned fund balances finished the year at \$19.0 million, decreasing by \$1.3 million from the prior year.

The General Fund revenue decreased \$0.7 million in fiscal year 2012-2013. The increase in property tax, transient occupancy tax, property transfer tax, franchise tax, fines and forfeitures, and other revenues totaled \$1.5 million. However, the decrease in sales and use tax, license and permits, intergovernmental, charges for current services, and investment and rental income totaled \$2.2 million.

The General Fund expenditures decreased \$300,000 in fiscal year 2012-2013 mainly due to the personnel savings from Safety Departments as discussed in the fund financial analysis.

The General Fund revenues exceeded the expenditures by \$1.4 million. During the fiscal year, the General Fund transferred \$729,000 to the City Capital Improvement Project fund for future capital improvement projects and \$2,650,000 to the internal service fund for future compensated absences liabilities. The fund balance at June 30, 2013 was \$20.0 million with an unassigned balance of \$19.0 million, or 63.96% of annual operating expenditures, almost double the City/District's minimum reserve policy of 33⅓%.

Low and Moderate Income Housing Assets Fund – This fund was established for the Housing Successor to continue the existing Low and Moderate Income Housing program. As of June 30, 2013, the Low and Moderate Income Housing Assets Fund had a restricted fund balance of \$410,000. The fund's revenues sources are the rental income from the existing 8 affordable housing units and repayments from the first time home buyers' loans. During the fiscal year, \$6.3 million was transferred to the Successor Agency to fulfill the affordable housing commitment to "The Plaza" (Pilgrim-Triton Phase 1) project.

City Capital Projects Fund – The City Capital Projects fund is also a key fund of the City/District. This fund pays for infrastructure improvement and significant maintenance projects for which other resources (e.g., Gas Tax, Measure A, or Proposition 42 funds, etc.) do not pay. As of June 30, 2013, this fund had a committed fund balance of \$9.0 million.

Capital Asset Preservation Fund – The City created the Capital Asset Preservation Fund to dedicate the proceeds from sale of the 11-acre site to North Peninsula Jewish Campus for future capital asset acquisitions and replacements which are approved by the majority of the Council members. As of June 30, 2013, this fund had a committed fund balance of \$1.5 million.

**CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013**

FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS (CONTINUED)

The following provides highlights of the operations of the three (3) *Proprietary Funds* for the year.

Water – Estero Municipal Improvement District provides water services to customers located within the District, primarily the “94404” zip code which encompasses all of Foster City and a portion of San Mateo. Unrestricted net position for the water fund totaled \$10.4 million as of June 30, 2013, representing an approximate \$0.9 million increase from the prior year. The increase was planned in order to smooth future rate increases anticipated from the San Francisco Public Utilities Commission (SFPUC) for its \$4.6 billion Hetch Hetchy System improvement project. The increase also included \$240,000 in excess revenues collected as a result of the conservation-based tiered water rate structure implemented in FY 2012-2013 to promote 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 a \$2 million reserve for capital improvement projects. Unrestricted net position exceeded the reserve requirements by \$6.0 million at June 30, 2013, however, \$2.3 million of the excess reserves are earmarked for approved capital improvement projects and future equipment replacement needs. Accordingly, the fund has sufficient reserves to fund future capital improvement projects and to offset the 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 position as of June 30, 2013 totaled \$15.4 million, representing an approximate \$1.5 million increase from the prior year. Operational costs associated with the WWTP increased due to the increase in the plant maintenance costs. The reserve requirements for the Wastewater fund is 25% of annual operating expenses plus a \$2 million reserve for capital improvement projects. Unrestricted net position exceeded the reserve requirements by \$12.0 million at June 30, 2013, however, \$3.6 million of this balance is earmarked for approved capital improvement projects and future equipment replacement needs.

Internal Service Funds – These funds provide services and funding mechanisms to allow the operating departments within the City/District 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, Public Employees’ Medical and Hospital Care Act (PEMHCA) post-retirement medical programs, and compensated absences liabilities. Total unrestricted net position as of June 30, 2013 were \$29.0 million, which was a \$3.8 million increase from the prior year. The increase was mainly due to the transfer from the general fund and charges in excess of expenditures in order to set aside funds for the replacement of capital assets in the future.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original General Fund budget for fiscal year 2012-2013 included \$35.5 million in appropriations and transfers out to other funds, with estimated revenues totaling \$30.5 million and the remainder coming from unassigned reserves.

**CITY OF FOSTER CITY AND
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GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Total revenues for 2013 were \$0.7 million (2.4%) above budgeted projections. Property taxes exceeded projections by \$1.9 million which is approximately equal to the total of the unbudgeted Educational Revenue Augmentation Fund (ERAF) refund and additional supplemental tax received. Sales and use taxes were \$570,000 short of the budget caused by the relocation of the top sales tax generator out of the City/District. Transient occupancy tax revenue was \$169,000 higher than the budget due to the 1.5% increase in the tax rate and a higher occupancy rate due to the economic recovery. Development permit fees missed the projections by \$526,000, primarily due to the delay in private development projects. Real property transfer tax revenue was \$156,000 ahead of the projection due to the recovery of the local real estate market. Business license tax revenue was \$130,000 more than the projection mainly due to the overall economic recovery. Reimbursement and grant revenues were from the Successor Agency administration fees, Belmont Fire Protection District's share of Battalion Chief's services, and Advance Life Support, a regional paramedic program. Recreation and leisure revenues were \$179,000 less than budget due to lower than anticipated enrollment in recreation classes. Rental income was \$107,000 short of the budget, mainly due to the sale of 11-acre site to North Peninsula Jewish Campus on September 28, 2012, resulting in both the lease agreement and leasing income to be terminated. The negative investment income was due to recording an unrealized loss in the City/District's investment portfolio to comply with GASB Statement 31. The actual earned investment income was \$204,000 during the fiscal year. The City/District's investment practice is to hold investments until maturity; therefore, none of the unrealized gain or loss will be realized. Total expenditures for 2013 were \$2.3 million (8.5%) below final budgeted appropriations. The reduction in expenditures was the result primarily of salary savings from retirement, restructuring, deferral of filling vacant positions and the conservative financial management of department managers.

CAPITAL ASSETS

The City/District's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totaled \$161.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, structures and improvements, equipment, vehicles, intangible assets, 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		Amount Change	Percent Change
	2013	2012	2013	2012	2013	2012		
Land	\$ 11,622,912	\$ 11,680,881	\$ 3,553,474	\$ 3,553,474	\$ 15,176,386	\$ 15,234,355	\$ (57,969)	-0.38%
Infrastructure, structures and improvements	88,465,010	89,614,928	33,361,922	34,825,980	121,826,932	124,440,908	(2,613,976)	-2.10%
Equipment, vehicles and software	2,206,054	2,361,164	1,742,456	1,856,669	3,948,510	4,217,833	(269,323)	-6.39%
Sewer Capacity Rights	-	-	20,726,525	21,222,357	20,726,525	21,222,357	(495,832)	-2.34%
Construction in progress	209,235	2,638,841	-	-	209,235	2,638,841	(2,429,606)	-92.07%
Total	\$ 102,503,211	\$ 106,295,814	\$ 59,384,377	\$ 61,458,480	\$ 161,887,588	\$ 167,754,294	\$ (5,866,706)	-3.50%

The Governmental activities infrastructure assets and capital assets declined \$3.8 million mainly due to the excess of depreciation and retirement over the addition during the year. Upon completion of the Synthetic Turf Project at Sea Cloud and Port Royal parks, the cost of construction in progress was transferred to the infrastructure, structure and improvements category. The Business-Type activities infrastructure asset and equipment and software decreased \$2.1 million due to total depreciation and retirement exceeding the addition of assets.

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CAPITAL ASSETS (CONTINUED)

The City/District depreciates all of its capital assets over the assets' estimated useful lives. The purpose of depreciation is to spread the cost of the capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information about the City/District's capital assets can be found in Note 6 to the financial statements.

DEBT ADMINISTRATION

As of June 30, 2013, the City/District had total long-term outstanding obligations of \$5.5 million, which was comprised of compensated absences of \$2.9 million, other post-employment benefits (OPEB) liability of \$2.5 million, and claims liability of approximately \$0.1 million. Additional information about the City/District's long term obligations can be found in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City/District prides itself in prudently managing its financial resources through long-term financial strategies and conservative financial decisions. Over the past several years, the City/District's primary fiscal goal was to solve the General Fund structural deficit. The efforts over the past several years of reducing service levels, sharing services, as well as managing compensation and benefits costs have achieved the goal, and the City/District is presenting a balanced budget for FY 2013-2014.

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

- Property Taxes – The real estate market in Foster City has strengthened in the past year, but there still exists several commercial property owners filing assessment appeals and nearly \$450 million in assessed value is at risk. The Assessor's Office is projecting an increase in assessed valuation in the City/District of 5.46%, given the state of the market and Proposition 13. An increase of 4% is incorporated into the FY 2013-2014 property tax revenue projection less a \$400,000 potential loss from assessment appeals in progress.
- Sales & Use Tax – The City suffered a significant loss in its sales tax revenues in FY 2012-2013 as the largest sales tax producer moved its sales operation out of the City/District. This resulted in a loss of over \$1 million in annual sales tax revenues. Sales tax revenues are expected to increase by 2% in FY 2013-2014 projections, net of the loss of the significant sales tax generator mentioned above.
- Land Sale Transactions – The Business Term Sheet with The New Home Company (TNHC) calls for the sale of the City/District's 15-acre site for \$30 million. If the project progresses according to schedule, a Disposition and Development Agreement (DDA) could be approved in November 2013 and a portion of the planning and permit fees would be collected in FY 2013-2014. To be fiscally conservative, the fees and sale of the site have not been incorporated into the budget forecast for FY 2013-2014. Per City Council/District Board policy, the sales proceeds of the site will be deposited in the Capital Asset Preservation Fund.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

- Business License Tax – The Business License Tax Ordinance has not been updated since its original implementation in 1972. With the Council/Board's approval, Measure U is included on the November 5, 2013 ballot for voters' approval to increase the business license tax by raising the maximum and minimum tax amounts over a three year period. If Measure U passes, it will generate additional revenue of \$225,000 in 2014, \$450,000 in 2015, and \$700,000 in 2016. These estimates are not included in FY 2013-2014 budget forecast.
- CalPERS Pension Rates – On April 17, 2013 the CalPERS Board revised the rate smoothing policy to reduce the amortization period of investment gains and losses from a rolling 15 year period to a direct rate smoothing period of 5 years starting in FY 2015-2016. This revised rate smoothing policy will result in a significant increase in the employer contribution rates for Miscellaneous and Public Safety retirement plans. The estimated impact of this change equates to nearly \$425,000 in additional costs City/District wide, of which \$350,000 will impact the General Fund.
- Development, Planning, Permit and Park In-Lieu Fees – The Development Agreement (DA) for Triton Pointe was approved by the City Council/District Board along with the architectural plan approval by the Planning Commission. Building permits are expected to be issued in FY 2013-2014, and park in-lieu fees of nearly \$2.8 million will be collected at the same time.
- Capital Improvement Project Funds – The long-term funding of Capital Improvement Projects implemented in FY 2010-2011 continues for the City's General Fund, the Water and Wastewater Enterprise Funds. The funding for the City Capital Improvement Project Fund assumes a transfer of \$600,000 per year to fund potential capital improvement projects over a 10-year horizon and takes into consideration the availability of current reserves above the \$2 million emergency reserve in the City CIP Fund. The forecast does not include any capital improvement projects that would be charged to the newly created Capital Asset Preservations Fund. There was no significant change in funding for the Water and Wastewater Enterprise Fund capital improvement projects.
- Water Supply Assurance / Water Costs – The City/District currently serves approximately 8,400 utility customers. Through its membership in the Bay Area Water Supply and Conservation Agency (BAWSCA), the District participated in the issuance of bonds by BAWSCA to prepay the obligation to fund the City and County of San Francisco's capital improvements related to the Hetch Hetchy System. This will reduce future rates due to the low-interest financing of that obligation. San Francisco anticipates a surplus at the end of FY 2012-2013 which would allow for a reduced rate for FY 2013-2014.

**CITY OF FOSTER CITY AND
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Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

- Wastewater Rates – No rate increase was included in the FY 2013-2014 budget projection. However, there may be significant capital expenditures for the retrofit of the wastewater treatment operated by the City of San Mateo under the Joint Powers Agreement. The costs of the upgrade and the financing mechanisms have not been determined at the present time.

The City/District has positive unassigned General Fund balances which enable it to implement the changes necessary to retain its fiscal health and maintain fund balances above its minimum reserve levels, thereby maintaining the health and safety of the community.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Financial Services Department at 610 Foster City Boulevard, Foster City, CA 94404.

Basic Financial Statements

City of Foster City and Estero Municipal Improvement District
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 72,246,693	\$ 23,986,842	\$ 96,233,535
Receivable, net	1,590,173	3,883,061	5,473,234
Internal balances	(1,172,914)	1,172,914	-
Inventory	121,352	292,641	413,993
Prepays and deposits	18,303	588	18,891
Restricted cash and investments	343,402	-	343,402
Loans receivable (net)	19,354,040	-	19,354,040
Capital assets:			
Nondepreciable	11,832,147	3,553,474	15,385,621
Depreciable, net of accumulated depreciation	90,671,064	55,830,903	146,501,967
Total assets	195,004,260	88,720,423	283,724,683
LIABILITIES			
Accounts payable	1,353,844	1,614,371	2,968,215
Accrued payroll	893,030	118,016	1,011,046
Refundable deposits	3,858,090	66,525	3,924,615
Unearned revenue	317,448	-	317,448
Long-term liabilities:			
Due within one year	1,109,018	124,568	1,233,586
Due in more than one year	3,847,104	464,610	4,311,714
Total liabilities	11,378,534	2,388,090	13,766,624
NET POSITION			
Net investment in capital assets	102,503,211	59,384,377	161,887,588
Restricted for:			
Housing	1,096,668	-	1,096,668
Public safety	7,989	-	7,989
Roads	3,929,946	-	3,929,946
Other purposes	454,383	-	454,383
Unrestricted	75,633,529	26,947,956	102,581,485
Total net position	\$ 183,625,726	\$ 86,332,333	\$ 269,958,059

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Activities and Changes in Net Position
For the fiscal year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,514,037	\$ 222,743	\$ 850	\$ -
Public safety - Police	9,316,093	186,951	160,034	-
Public safety - Fire	7,685,722	170,952	29,097	-
Public works	5,718,340	185,606	986,375	918,804
Community development	2,078,968	1,174,877	-	-
Parks and recreation	8,387,726	1,065,366	302,701	19,544
Total governmental activities	36,700,886	3,006,495	1,479,057	938,348
Business-type activities:				
Water	10,336,188	10,495,752	-	-
Sewer	6,554,771	6,970,730	-	19,305
Total business-type activities	16,890,959	17,466,482	-	19,305
Total primary government	\$ 53,591,845	\$ 20,472,977	\$ 1,479,057	\$ 957,653

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 and rental income
- Other

Total general revenues and transfers

Extraordinary items:

Extraordinary loss - Successor Agency

Total extraordinary items

Change in net position

Net position - beginning of year

Net position - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (3,290,444)	\$ -	\$ (3,290,444)
(8,969,108)	-	(8,969,108)
(7,485,673)	-	(7,485,673)
(3,627,555)	-	(3,627,555)
(904,091)	-	(904,091)
(7,000,115)	-	(7,000,115)
<u>(31,276,986)</u>	<u>-</u>	<u>(31,276,986)</u>
-	159,564	159,564
-	435,264	435,264
<u>-</u>	<u>594,828</u>	<u>594,828</u>
<u>(31,276,986)</u>	<u>594,828</u>	<u>(30,682,158)</u>
22,850,306	-	22,850,306
2,015,909	-	2,015,909
1,227,976	-	1,227,976
1,074,269	-	1,074,269
4,413,470	-	4,413,470
1,539,026	(141,502)	1,397,524
19,494,949	58,306	19,553,255
<u>52,615,905</u>	<u>(83,196)</u>	<u>52,532,709</u>
<u>(6,300,000)</u>	<u>-</u>	<u>(6,300,000)</u>
<u>(6,300,000)</u>	<u>-</u>	<u>(6,300,000)</u>
15,038,919	511,632	15,550,551
<u>168,586,807</u>	<u>85,820,701</u>	<u>254,407,508</u>
<u>\$ 183,625,726</u>	<u>\$ 86,332,333</u>	<u>\$ 269,958,059</u>

City of Foster City and Estero Municipal Improvement District
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds					Total
	General Fund	Low and Moderate Income Housing Assets Fund	City Capital Projects	Capital Asset Preservation	Non-Major Governmental Funds	
ASSETS						
Cash and investments	\$ 21,205,394	\$ 441,189	\$ 11,655,833	\$ 1,537,111	\$ 7,698,498	\$ 42,538,025
Receivables, net of allowance:						
Accrued interest	189,706	-	-	-	-	189,706
Intergovernmental	36,988	-	40,233	-	157,286	234,507
Taxes	887,044	-	-	-	51,764	938,808
Other	151,650	-	-	-	75,500	227,150
Due from other funds	145,818	-	181,000	-	-	326,818
Prepays and deposits	17,869	-	-	-	-	17,869
Inventory	16,900	-	-	-	-	16,900
Restricted cash and investments	343,402	-	-	-	-	343,402
Loans receivables, net of allowance	-	686,230	-	-	-	686,230
Total assets	\$ 22,994,771	\$ 1,127,419	\$ 11,877,066	\$ 1,537,111	\$ 7,983,048	\$ 45,519,415
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 743,542	\$ 24,647	\$ 181,902	\$ -	\$ 19,743	\$ 969,834
Accrued payroll	829,755	-	-	-	995	830,750
Refundable deposits	1,127,303	6,104	2,724,683	-	-	3,858,090
Due to other funds	-	-	-	-	326,818	326,818
Deferred revenue	317,448	686,230	-	-	-	1,003,678
Total liabilities	3,018,048	716,981	2,906,585	-	347,556	6,989,170
Fund Balances:						
Non-Spendable	34,769	-	-	-	-	34,769
Restricted	-	410,438	-	-	4,135,870	4,546,308
Committed	405,949	-	8,970,481	1,537,111	3,499,622	14,413,163
Assigned	510,417	-	-	-	-	510,417
Unassigned	19,025,588	-	-	-	-	19,025,588
Total fund balances	19,976,723	410,438	8,970,481	1,537,111	7,635,492	38,530,245
Total liabilities and fund balances	\$ 22,994,771	\$ 1,127,419	\$ 11,877,066	\$ 1,537,111	\$ 7,983,048	\$ 45,519,415

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 Position
June 30, 2013

Total Fund Balances - Total Governmental Funds \$ 38,530,245

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

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

	<u>Government-Wide Statement of Net Assets</u>	<u>Internal Service Funds</u>	
Non-depreciable	\$ 11,832,147	\$ -	
Depreciable, net	<u>90,671,064</u>	<u>(2,206,050)</u>	
Total capital assets	102,503,211	(2,206,050)	100,297,161

First time homebuyer loans receivable 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>	
	686,230	-	
Unearned deferred revenue - special recreation program	<u>317,448</u>	<u>(317,448)</u>	
	1,003,678	(317,448)	686,230

North Peninsula Jewish Campus loans receivable are unavailable to pay current period expenditures and, therefore, are not reported in the governmental funds.

	<u>Government-Wide Statement of Net Assets</u>	<u>Governmental Funds Balance Sheets</u>	
	19,354,040	(686,230)	18,667,810

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 Position

29,940,658

Compensated absences and other post employment benefits liabilities 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	(1,109,018)	169,300	
Long term liabilities - due more than one year	<u>(3,847,104)</u>	<u>290,444</u>	
	(4,956,122)	459,744	<u>(4,496,378)</u>

Net Position of Governmental Activities \$ 183,625,726

See accompanying Notes to Basic Financial Statements.

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, 2013

	Major Funds					Total
	General Fund	Low & Moderate Income		Capital Asset Preservation	Non-Major Governmental Funds	
		Housing Fund	Assets Fund			
REVENUES:						
Property taxes	\$ 19,566,168	\$ -	\$ -	\$ -	\$ 3,268,301	\$ 22,834,469
Sales and use and sales tax in lieu	3,848,768	-	-	-	564,699	4,413,467
Transient occupancy tax	2,015,909	-	-	-	-	2,015,909
Franchise tax	1,227,976	-	-	-	-	1,227,976
Property transfer tax	315,962	-	-	-	-	315,962
Licenses and permits	1,354,501	-	-	-	-	1,354,501
Intergovernmental	396,929	-	-	-	1,613,160	2,010,089
Charges for current services	1,637,289	-	-	-	-	1,637,289
Fines and forfeitures	58,836	-	-	-	134,818	193,654
Investment and rental income	485,846	122,610	(83,967)	409,921	(27,309)	907,101
Other	227,080	251,914	270,304	-	428,905	1,178,203
Total revenues	31,135,264	374,524	186,337	409,921	5,982,574	38,088,620
EXPENDITURES:						
Current:						
General government	2,800,527	-	-	-	180,290	2,980,817
Public safety - Police	8,982,153	-	-	-	96,069	9,078,222
Public safety - Fire	7,685,785	-	-	-	3,705	7,689,490
Public works	1,544,739	-	351,083	-	1,447,321	3,343,143
Community development	1,872,763	94,619	-	-	-	1,967,382
Parks and recreation	6,830,941	-	25,108	-	23,761	6,879,810
Capital outlay	28,393	-	471,935	-	701,104	1,201,432
Total expenditures	29,745,301	94,619	848,126	-	2,452,250	33,140,296
REVENUES OVER (UNDER) EXPENDITURES	1,389,963	279,905	(661,789)	409,921	3,530,324	4,948,324
OTHER FINANCING SOURCES (USES):						
Gains (loss) on sales of capital assets	-	-	-	1,332,190	-	1,332,190
Transfers in	229,867	-	729,000	-	-	958,867
Transfers out	(3,379,000)	-	-	(205,000)	(24,867)	(3,608,867)
Total other financing sources (uses)	(3,149,133)	-	729,000	1,127,190	(24,867)	(1,317,810)
SPECIAL AND EXTRAORDINARY ITEMS:						
Extraordinary loss - Successor Agency	-	(6,300,000)	-	-	-	(6,300,000)
Total special and extraordinary items	-	(6,300,000)	-	-	-	(6,300,000)
NET CHANGE IN FUND BALANCES	(1,759,170)	(6,020,095)	67,211	1,537,111	3,505,457	(2,669,486)
FUND BALANCES:						
Beginning of year	21,735,893	6,430,533	8,903,270	-	4,130,035	41,199,731
End of year	\$ 19,976,723	\$ 410,438	\$ 8,970,481	\$ 1,537,111	\$ 7,635,492	\$ 38,530,245

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 Position
For the fiscal year ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (2,669,486)

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 Position, 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 \$2,191,778, which consisted of \$710,563 in additions attributable to internal service fund activity and \$1,481,215 in additions attributable to governmental funds)	\$ 1,481,215	
Gain on capital asset disposal (net of accumulated depreciation)	18,445,613	
Less current year depreciation. This amount is net of depreciation expense of the internal service funds in the amount of \$865,673	<u>(4,556,366)</u>	15,370,462

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.	(514,169)
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Revenues from North Peninsula Jewish Campus in this fiscal year that will not be collected for several years are not considered "available" revenue and are not reported in the governmental fund	(332,190)
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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	(440,323)	
Change in long-term compensated absences.	<u>153,817</u>	(286,506)

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>3,470,808</u>
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Change in Net Position of Governmental Activities \$ 15,038,919

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
ASSETS				
Current assets:				
Cash and investments	\$ 9,156,409	\$ 14,830,433	\$ 23,986,842	\$ 29,708,668
Receivables, net of allowance:				
Billed utility, net of allowance for uncollectibles	847,845	613,175	1,461,020	-
Unbilled utility	1,531,798	832,685	2,364,483	-
Other	57,558	-	57,558	-
Deposits and prepaid items	508	80	588	434
Inventory	101,021	191,620	292,641	104,452
Total current assets	11,695,139	16,467,993	28,163,132	29,813,554
Noncurrent assets:				
Capital assets:				
Nondepreciable	3,553,474	-	3,553,474	-
Depreciable, net of accumulated depreciation	20,544,870	35,286,033	55,830,903	2,206,050
Total noncurrent assets	24,098,344	35,286,033	59,384,377	2,206,050
Total assets	35,793,483	51,754,026	87,547,509	32,019,604
LIABILITIES				
Current liabilities:				
Accounts payable	902,056	712,315	1,614,371	384,010
Accrued payroll	57,428	60,588	118,016	62,280
Refundable deposits	66,525	-	66,525	-
Claims liability	-	-	-	97,198
Compensated absences - current portion	62,115	62,453	124,568	72,101
Total current liabilities	1,088,124	835,356	1,923,480	615,589
Noncurrent liabilities:				
Compensated absences - noncurrent portion	90,641	99,655	190,296	149,941
OPEB liability	139,446	134,868	274,314	140,502
Total noncurrent liabilities	230,087	234,523	464,610	290,443
Total liabilities	1,318,211	1,069,879	2,388,090	906,032
NET POSITION				
Net investment in capital assets	24,098,344	35,286,033	59,384,377	2,206,050
Unrestricted	10,376,928	15,398,114	25,775,042	28,907,522
Total net position	\$ 34,475,272	\$ 50,684,147	85,159,419	\$ 31,113,572
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			1,172,914	
Net position of business-type activities			<u>\$ 86,332,333</u>	

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the fiscal year ended June 30, 2013

	Enterprise Funds		Total	Internal Service Funds
	Water	Sewer		
OPERATING REVENUES:				
Sales and service charges	\$ 10,495,752	\$ 6,970,730	\$ 17,466,482	\$ -
Charges for service - internal	-	-	-	5,480,064
Other	45,283	13,023	58,306	76,341
Total operating revenues	10,541,035	6,983,753	17,524,788	5,556,405
OPERATING EXPENSES:				
Personnel	1,402,235	1,552,357	2,954,592	2,079,074
Utilities	6,009,874	201,648	6,211,522	-
Program supplies	188,076	97,784	285,860	-
Repairs and maintenance	7,450	46,153	53,603	1,124,655
General and administration	1,262,033	1,128,801	2,390,834	574,965
Depreciation and amortization	1,038,858	1,249,146	2,288,004	865,673
Contractual service	181,741	2,294,985	2,476,726	285,832
Insurance	58,500	58,500	117,000	177,264
Total operating expenses	10,148,767	6,629,374	16,778,141	5,107,463
OPERATING INCOME (LOSS)	392,268	354,379	746,647	448,942
NONOPERATING REVENUES (EXPENSES):				
Gains (loss) on sales of capital assets	(288,573)	(33,341)	(321,914)	3,300
Investment income	(53,509)	(87,993)	(141,502)	631,925
Total nonoperating revenues (expenses)	(342,082)	(121,334)	(463,416)	635,225
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS				
	50,186	233,045	283,231	1,084,167
CONTRIBUTIONS AND TRANSFERS:				
Capital contributions	-	19,305	19,305	13,242
Transfers in	-	-	-	3,112,644
Transfers out	-	-	-	(530,149)
Total contributions and transfers	-	19,305	19,305	2,595,737
Change in net position	50,186	252,350	302,536	3,679,904
NET POSITION:				
Beginning of the year	34,425,086	50,431,797		27,433,668
End of the year	\$ 34,475,272	\$ 50,684,147		\$ 31,113,572
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			209,096	
Change in net position of business-type activities			\$ 511,632	

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, 2013

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 10,412,974	\$ 7,018,902	\$ 17,431,876	\$ -
Cash received from inter-departmental charges	-	-	-	5,557,094
Cash payments to suppliers for goods and services	(7,162,284)	(3,736,852)	(10,899,136)	(2,025,340)
Cash payments to employees for services	(1,420,931)	(1,541,765)	(2,962,696)	(2,025,748)
Net cash provided (used) by operating activities	1,829,759	1,740,285	3,570,044	1,506,006
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers received	-	-	-	3,112,644
Transfer paid	-	-	-	(530,149)
Net cash provided (used) by noncapital financing activities	-	-	-	2,582,495
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Disposition of capital assets	(288,573)	(33,341)	(321,914)	-
Proceeds from sale of capital assets	-	-	-	3,300
Capital contributions received	-	-	-	13,242
Acquisition and construction of capital assets	(528,255)	-	(528,255)	(710,563)
Net cash provided (used) by capital and related financing activities	(816,828)	(33,341)	(850,169)	(694,021)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	(53,509)	(87,993)	(141,502)	631,925
Net cash provided (used) by investing activities	(53,509)	(87,993)	(141,502)	631,925
Net increase (decrease) in cash and cash equivalents	959,422	1,618,951	2,578,373	4,026,405
CASH AND CASH EQUIVALENTS:				
Beginning of year	8,196,987	13,211,482	21,408,469	25,682,263
End of year	\$ 9,156,409	\$ 14,830,433	\$ 23,986,842	\$ 29,708,668

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Cash Flows, Continued
Proprietary Funds
For the fiscal year ended June 30, 2013

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 392,268	\$ 354,379	\$ 746,647	\$ 448,942
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,038,858	1,249,146	2,288,004	865,673
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Billed receivables	(203,797)	(50,988)	(254,785)	-
Unbilled receivables	107,099	49,276	156,375	-
Other receivables	(31,363)	36,861	5,498	689
Due from other funds	-	-	-	-
Deposit and prepaid items	(448)	(80)	(528)	1,922
Inventory	17,221	9,286	26,507	7,920
Increase (decrease) in:				
Accounts payable and claims liability	522,190	290,234	812,424	206,961
Accrued payroll	(1,469)	117	(1,352)	4,257
Refundable deposits	6,427	(208,421)	(201,994)	-
Due to other funds	-	-	-	-
Claims liability	-	-	-	(79,427)
Compensated absences	(47,323)	(19,093)	(66,416)	17,917
OPEB liability	30,096	29,568	59,664	31,152
Total adjustments	1,437,491	1,385,906	2,823,397	1,057,064
Net cash provided (used) by operating activities	\$ 1,829,759	\$ 1,740,285	\$ 3,570,044	\$ 1,506,006
Noncash, Capital and related financing activities:				
Donated capital assets		\$ 19,305		

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2013

	Successor Agency of Community Development Agency
<hr/>	
ASSETS	
Cash and investments	\$ 2,444,428
	<hr/>
Total assets	\$ 2,444,428
	<hr/>
LIABILITIES	
Accounts payable	\$ 31,494
Loan payable	28,693
	<hr/>
Total liabilities	60,187
	<hr/>
NET POSITION	
Unrestricted	2,384,241
	<hr/>
Total Net Position	\$ 2,384,241
	<hr/>

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Fiduciary Fund
Statement of Changes in Fiduciary Net Position
June 30, 2013

	Successor Agency of Community Development Agency
Additions	
Property taxes	\$ 780,553
Investment earnings	32,686
Total additions	<u>813,239</u>
 Deductions	
Administrative expenses	179,842
Tax refund to the County	12,761,868
Affordable housing subsidy	6,867,956
Settlement	484,000
Capital outlay	995
Total deductions	<u>20,294,661</u>
 Extraordinary item	
Extraordinary gain	<u>6,300,000</u>
 Change in net position	 (13,181,422)
 Net position-Beginning of the year	 <u>15,565,663</u>
 Net position-End of the year	 <u>\$ 2,384,241</u>

See accompanying Notes to Basic Financial Statements.

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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, 2013

1. DESCRIPTION OF THE 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), the basic financial statements should include the City/District's blended component units, entities for which the City/District is considered to be financially accountable.

Due to the passage of ABx1 26 and AB1484, the Foster City Community Development Agency (Agency) was dissolved on January 31, 2012. The financial activities of the former Foster City Community Development Agency are no longer reported in the basic financial statements as a component unit, but reported separately under fiduciary fund type as private purpose trust fund.

On January 7, 2013 the City Council of the City of Foster City on behalf of the City and on behalf of the Successor Agency to the former Foster City Community Development Agency adopted a resolution terminated the Joint Powers Agreement and dissolved the Foster City Public Financing Authority as there was no outstanding bonds or obligations, and no financial balances or activity.

No existing blended component units as of June 30, 2013. There is no financial balances or activity reported as blended component units as of and for the fiscal year ended June 30, 2013.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities and Changes in Net Position display information about the primary government (City/District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. 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 Position 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 full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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, including fiduciary funds. Separate statements for each fund category — governmental, proprietary, and fiduciary — are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

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 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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 position 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) if necessary.

Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General fund is always a major fund. The City/District may also select other funds it believes should be presented as major funds.

The City/District reported the following major governmental funds in the accompanying financial statements:

General Fund - Accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City/District that are not accounted for through other funds.

Low and Moderate Income Housing Assets Fund - Accounts for all housing activities related to the assets assumed by the City as Housing Successor to the housing activities of the former Redevelopment Agency of the City.

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.

Capital Asset Preservation Fund - Accounts for revenues from the sale of City properties are being deposited into this fund. By policy direction, assets in this fund may only be used for the acquisition or replacement of significant assets or capital improvements by 4/5th vote of the City Council.

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, vehicle, equipment and building maintenance and usage fees, insurance charges, information services support charges, employee pension and other post-employment benefits charges, and compensated absences 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, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities are reported as nonoperating revenues and expenses.

The City/District reported all enterprise funds as major funds in the accompanying financial statements:

Water Fund - Accounts for activities associated with providing water services including construction of water plant facilities.

Sewer Fund - Accounts for activities associated with sewage transmissions and treatment including construction of sewer plant facilities.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The City/District also reports the following fund types:

Internal Service Funds – These funds account for the City/District’s vehicle rental, equipment replacement, self-insurance, information technology, building maintenance services, longevity recognition benefits, CalPERS’ public employees’ medical and hospital cared Act medical benefits plan, and compensated absences; all of which are provided to other departments of the City/District on a cost-reimbursement basis.

Fiduciary Funds – An agency fund is used to account for assets held by the City/District as an agent for Foster City Successor Agency. The Successor Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments of recognized obligations at appropriate amounts and times in the future. The financial activities of the funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Fiduciary funds (private-purpose trust fund) are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues (additions) are recorded when earned and expenses (deductions) are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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.

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 and Prepaid Items

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 at the time the individual inventory or prepaid item is consumed. Reported inventory and prepaid items are equally offset by a fund balance reservation, which indicates that they do not constitute “available spendable resources” even though they are a component of the net current assets.

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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). 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.

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.

A new Internal Service Fund was established to fund the payout of compensated absence balances, such as vacation and sick leave that are payable when employees separate from employment with the City related to governmental funds. \$2,650,000 was transferred from general fund to the compensated absences internal service fund in fiscal year 2012/2013.

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

	Secured	Unsecured
Valuation/tax lien dates	January 1	January 1
Levy dates	On or before November 1	On or before July 31
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 and home owner association (HOA) accounts are billed monthly. Amounts unbilled at June 30 are accrued and recognized as revenue, the billed and unbilled receivables are shown net of an allowance for uncollectibles for the Water and the Sewer Enterprise Funds. As of year end there were no material uncollected water and sewer service revenues.

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.”

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 and Assumptions

The preparation of basic financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. New Funds and Closed Funds

The City established the following new funds:

American Recovery and Reinvestment Act Fund to account for the grants received for the LED street light replacement project.

Foster City Affordable Housing Fund to dedicate the proceeds from the County redistribution of the unencumbered housing tax increments from the former Foster City Community Development Agency to future affordable housing projects in the City.

Sustainable Foster City Special Fund to dedicate the proceeds from the County redistribution of the unencumbered general tax increments from the former Foster City Community Development Agency to develop a sustainable economic development strategy for the City.

Capital Asset Preservation Fund to dedicate the proceeds from sale of the 11-acre site to North Peninsula Jewish Campus for future capital asset acquisition and replacements approved by the majority of the Council members.

Compensated Absences Fund to account for the payout of compensated absences (vacation and sick leaves) to governmental fund employees upon separation of employment.

The City closed The Public Transportation Fund in fiscal year 2011/2012 as the shuttle program has been terminated.

M. New Pronouncements

In 2013, the City/District has/is adopting new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Statement No. 62 – In December, 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

Financial Accounting Standards Board (FASB) Statements and Interpretations
Accounting Principles Board Opinions
Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This pronouncement is effective for periods beginning after December 15, 2011. The City has implemented the provisions of this Statement as of June 30, 2013, which does not have any significant impact on the financial statements.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Statement No. 63 - In June, 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of this Statement is to improve financial reporting by providing guidance and standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net positions. This pronouncement is effective for financial statements for periods beginning after December 15, 2011. The City has implemented the provision of this Statement as of June 30, 2013.

Statement No. 65 - In March, 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This pronouncement is effective for financial statements periods after December 15, 2012. The City does not believe there will be a significant financial statement effect related to this Statement.

Statement No. 66 - In March, 2012, GASB issued Statement No. 66, Technical Correction – 2012 – an amendment of GASB Statement No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Government Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This pronouncement is effective for financial statements periods after December 15, 2012. The City does not believe there will be a significant financial statement effect related to this Statement.

Statement No. 67 - In June, 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans – amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regards to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This pronouncement is effective for financial statements periods after June 15, 2013. Early implementation is encouraged. The City has not yet determined whether this Statement change will have an effect on the financial statements.

Statement No. 68 - In June, 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This pronouncement is effective for financial statements with fiscal year ending June 30, 2015. The City has not yet determined whether this Statement change will have an effect on the financial statements.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Statement No. 69 - In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The primary objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of Statement No. 69 are effective for financial statements for periods beginning after December 15, 2013, with earlier application encouraged. The City has not determined its effect on the financial statements.

Statement No. 70 – In April 2013, GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. The City is required to implement the provisions of this Statement in fiscal year ending June 30, 2015, and is currently evaluating the impact on the financial statements.

3. CASH AND INVESTMENTS

Policies

It is the City/District's policy to invest public funds in a manner which will provide the optimal return available consistent with the City/District's liquidity needs and the primary objective of protecting the safety of principal conforming to all laws of the State of California regarding the investment of public funds.

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

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

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

Classification

Cash and investments as of June 30, 2013 are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City lease or agency agreements.

Financial Statement Presentation:

Statement of Net Position:

City of Foster City/Estero Municipal Improvement District:

Cash and investments	\$ 96,233,535
Restricted cash and investments	<u>343,402</u>
Total Primary Government cash and investments	<u>96,576,937</u>

Statement of Fiduciary Net Position:

Cash and investments	<u>2,444,428</u>
Total Fiduciary Trust cash and investments	<u>2,444,428</u>

Total cash and investments	<u><u>\$ 99,021,365</u></u>
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Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 4,000
Deposits with financial institutions	1,052,660
Local Agency Investment Funds (LAIF)	22,306,092
Investments	<u>75,658,613</u>
Total	<u><u>\$ 99,021,365</u></u>

The City/District does not allocate investments by fund. Each proprietary funds portion of Cash and Investments Available for Operation is in substance a demand deposit available to finance operations and is considered a cash equivalent in preparing the statement of cash flows.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

Investments Authorized by the California Government Code and 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%

During fiscal year ended June 30, 2005, the City/District started to invest funds set aside for the Longevity Recognition Plan and Public Employees' Medical and Hospital Care Act (PEMHCA). 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 Rate Risk: It is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value of changes in market interest rates. 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. The City/District also manages its interest rate risk by holding most investments to maturity, thus reversing unrealized gains and losses.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

Investments held in City Treasury grouped by maturity date at June 30, 2013, 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	\$ 11,545,017	\$ -	\$ -	\$ -	\$ 2,731,192	\$ 8,813,825
Federal Farm Credit Bank Bonds-Coupon	17,613,774	-	-	-	3,955,890	13,657,884
Federal Home Loan Bank Bonds-Coupon	19,592,269	-	1,028,620	-	2,643,365	15,920,284
Federal Home Loan Mortgage Corporation Bonds-Coupon	13,749,575	-	-	-	2,004,460	11,745,115
Corporate Notes	4,618,110	-	-	4,123,480	-	494,630
Equity Mutual Funds-open end funds	8,539,868	8,539,868	-	-	-	-
Total	\$ 75,658,613	\$ 8,539,868	\$ 1,028,620	\$ 4,123,480	\$ 11,334,907	\$ 50,631,738

Credit Risk: It is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The 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 (Moody's, Standard & Poor's, and Fitch) nationally recognized rating services.

At June 30, 2013, 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+

Concentration of Credit Risk: The City/District's investment policy contains limitation of the amount that can be invested in any one issuer beyond that stipulated by the California Government Code Section 53601. 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, 2013, the City/District did not have more than 25 percent invested in any one issuer.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

	Amount	% of Portfolio
Certificate of Deposit	\$ 200,000	0.20%
Corporate Bond	4,618,110	4.70%
Securities of U.S. Government Agencies:		
Federal Farm Credit Bank Bonds (FFCB)	17,613,774	17.94%
Federal Home Loan Bank Bonds (FHLB)	19,592,269	19.96%
Federal Home Loan Mortg. Corp. Notes (FHLMC)	13,749,575	14.01%
Federal National Mortg. Assn. Notes (FNMA)	11,545,017	11.76%
Total Securities of U.S. Government Agencies	62,500,635	63.67%
Local Agency Investment Fund Pool	22,306,092	22.72%
Equity Mutual Funds-open end funds	8,539,868	8.70%
Total Investment Portfolio	<u>\$ 98,164,705</u>	<u>100.00%</u>

Custodial Credit Risk – Deposits: It is the risk that in the event of a bank failure, the City/District’s deposits may not be returned. 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.

As of June 30, 2013, the carrying amount of the City/District’s deposits was \$1,056,660 and the bank balance was \$1,720,252. Of the bank balance, \$793,401 was covered by federal depository insurance and \$926,851 was collateralized by the pledging financial institutions as required by the California Government Code Section 53652.

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 stipulated the safekeeping and custody requirements for custodial credit risk on all security transactions including the collateral for repurchase agreements. Securities shall be conducted on a delivery-versus-payment (DVP) basis, and will be held by a third party custodian designated by the City Treasurer and evidenced by safekeeping receipts/statements. Collateral will always be held by the third party custodian as well. The City/District’s investment policy requires a collateralization level of 102% of the market value for repurchase agreements which is in conformance with the California Government Code.

Investment in State Investment Pool: The City/District is a voluntary participant in Local Agency Investment Fund (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. The City/District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

The City/District valued its investments in LAIF as of June 30, 2013, by multiplying its account balance with LAIF (\$22,300,000) times a fair value factor (1.000273207) 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, 2013, the City/District's investments in LAIF, stated at fair value, equaled \$22,306,092.

4. LOANS RECEIVABLE

At June 30, 2013, Loans Receivable amounted to:

	Amount	Allowance	Net Amount
Metro Center Senior Homes Project	\$ 6,676,214	\$ (6,676,214)	\$ -
First Time Home Buyer Program	686,230	-	686,230
North Peninsula Jewish Campus Land	18,667,810	-	18,667,810
Total	\$ 26,030,254	\$ (6,676,214)	\$ 19,354,040

The Foster City Community Development Agency entered into the loan program for Metro Center Senior Homes project and First Time Homebuyer program to improve the quality of housing and to increase the availability of affordable housing. Due to the passage of ABx1 26 the Foster City Community Development Agency was dissolved and the City agreed to become the successor to the former redevelopment agency housing activities and as a result the City of Foster City assumed the loans receivable of the former Foster City Community Development Agency as of February 1, 2012.

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, 2013, the Agency provided a 100% valuation allowance equal to the loan balance outstanding in the amount of \$6,676,214 which includes principal of \$5,917,695 and accumulated interest in the amount of \$758,519 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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

4. LOANS RECEIVABLE, Continued

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 \$686,230 at June 30, 2013.

North Peninsula Jewish Campus Land, LLC

On September 28, 2012, the City sold 11 acre site bounded by Foster City Boulevard, Balclutha Drive, Shell Boulevard and south drive to the North Peninsula Jewish Campus Land, LLC for \$20,000,000. According to the business term of the sale and purchase agreement, \$1,000,000 of the purchase price was paid in cash at closing, the balance of the purchase price in the amount of \$19,000,000 is financed by the City via a seller carry-back financing loan. The loan terms are 25-year at a fixed rate of 3.25%, secured by a first position deed of trust. The monthly loan payment is in the amount of \$92,590.08 beginning on November 1, 2012 and ending on October 1, 2037.

5. INTERFUND TRANSACTIONS

Due To and From Other Funds

Amounts due to or due from other funds reflect inter-fund balances of services rendered or short-term loans expected to be repaid in the next fiscal year.

Due to other funds					
Due from other funds	Non-Major Governmental Fund Traffic Safety Fund	Non-Major Governmental Fund SLESF/COPS Grant Fund	Non-Major Governmental Fund Foster City Foundation Fund	Non-Major Governmental Fund Sustainable Foster City Special Fund	Total
	General Fund	\$ 24,952	\$ 20,866	\$ -	\$ 100,000
City Capital Projects	-	-	181,000	-	181,000
Total	\$ 24,952	\$ 20,866	\$ 181,000	\$ 100,000	\$ 326,818

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

5. INTERFUND TRANSACTIONS, Continued

Transfers

Resources may be transferred from one City/District fund to another. Transfers are made for the purposes of funding capital projects, capital outlays, or reimburse fund that has incurred expenditures on behalf of another fund. Expenditures reimbursed were for capital projects, maintenance and operation expenses, and contributions for post-employment benefits or other employment liabilities. The following schedule summarizes the City/District's transfer activity:

		Transfers in				
				Internal Service Fund	Internal Service Fund	
		General Fund	City Capital Projects	Equipment Replacement Fund	Compensated Absences Fund	Total
Transfers out	General Fund	\$ -	\$ 729,000	\$ -	\$ 2,650,000	\$ 3,379,000
	Non-Major Governmental Fund,					
	Foster City Foundation Fund	24,867	-	-	-	24,867
	Capital Asset Preservation Fund	205,000	-	-	-	205,000
	Internal Service Funds, Vehicle	-	-	10,454	-	10,454
	Internal Service Funds, Information Technology	-	-	452,190	-	452,190
Total		<u>\$ 229,867</u>	<u>\$ 729,000</u>	<u>\$ 462,644</u>	<u>\$ 2,650,000</u>	<u>\$ 4,071,511</u>

Transfers between funds were made during the fiscal year to fund capital improvement projects; to fund capital outlay; to fund compensated absences payout; to reimburse General Fund for crossing guard and summer concert; to reimburse General Fund for rental income no longer receive as a result of the sale of 11 acre site to the North Peninsula Jewish Campus Land, LLC.

The internal service funds recorded a transfer out in the amount of \$67,505 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
For the fiscal year ended June 30, 2013

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2013 follows:

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 11,680,881	\$ 190,534	\$ (248,503)	\$ -	\$ 11,622,912
Construction in progress	2,638,841	1,174,033	(7,955)	(3,595,684)	209,235
Total capital assets, not being depreciated	<u>14,319,722</u>	<u>1,364,567</u>	<u>(256,458)</u>	<u>(3,595,684)</u>	<u>11,832,147</u>
Capital assets, being depreciated:					
Infrastructure	99,823,180	49,143	(1,170,065)	3,595,684	102,297,942
Buildings	50,561,937	67,505	(6,000)	-	50,623,442
Improvements	6,139,556	-	(241,460)	-	5,898,096
Equipment	5,370,438	546,179	(274,590)	-	5,642,027
Vehicles	4,927,768	164,384	-	-	5,092,152
Software	792,016	-	(17,950)	-	774,066
Total capital assets, being depreciated	<u>167,614,895</u>	<u>827,211</u>	<u>(1,710,065)</u>	<u>3,595,684</u>	<u>170,327,725</u>
Less accumulated depreciation for:					
Infrastructure	(53,195,808)	(3,191,172)	1,015,091	-	(55,371,889)
Buildings	(11,975,686)	(1,171,639)	1,978	-	(13,145,347)
Improvements	(1,738,251)	(193,555)	94,572	-	(1,837,234)
Equipment	(4,392,477)	(446,385)	274,590	-	(4,564,272)
Vehicles	(3,616,933)	(376,359)	-	-	(3,993,292)
Software	(719,648)	(42,929)	17,950	-	(744,627)
Total accumulated depreciation	<u>(75,638,803)</u>	<u>(5,422,039)</u>	<u>1,404,181</u>	<u>-</u>	<u>(79,656,661)</u>
Total capital assets, being depreciated, net	<u>91,976,092</u>	<u>(4,594,828)</u>	<u>(305,884)</u>	<u>3,595,684</u>	<u>90,671,064</u>
Governmental activities capital assets, net	<u><u>\$106,295,814</u></u>	<u><u>\$(3,230,261)</u></u>	<u><u>\$ (562,342)</u></u>	<u><u>\$ -</u></u>	<u><u>\$102,503,211</u></u>

Total capital asset additions for the City for the fiscal year ended for governmental activities were \$2,191,778 which consisted of \$710,563 in additions attributable to internal service fund activity.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

6. CAPITAL ASSETS, Continued

	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 3,553,474	\$ -	\$ -	\$ -	\$ 3,553,474
Total capital assets, not being depreciated	<u>3,553,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,553,474</u>
Capital assets, being depreciated:					
Infrastructure	72,784,073	547,560	(1,143,223)	-	72,188,410
Sewer capacity rights	24,791,531	-	-	-	24,791,531
Equipment	2,450,649	-	-	-	2,450,649
Total capital assets, being depreciated	<u>100,026,253</u>	<u>547,560</u>	<u>(1,143,223)</u>	<u>-</u>	<u>99,430,590</u>
Less accumulated depreciation for:					
Infrastructure	(37,958,093)	(1,677,959)	809,564	-	(38,826,488)
Sewer capacity rights	(3,569,174)	(495,832)	-	-	(4,065,006)
Equipment	(593,980)	(114,213)	-	-	(708,193)
Total accumulated depreciation	<u>(42,121,247)</u>	<u>(2,288,004)</u>	<u>809,564</u>	<u>-</u>	<u>(43,599,687)</u>
Total capital assets, being depreciated, net	<u>57,905,006</u>	<u>(1,740,444)</u>	<u>(333,659)</u>	<u>-</u>	<u>55,830,903</u>
Business-type activities capital assets, net	<u>\$ 61,458,480</u>	<u>\$ (1,740,444)</u>	<u>\$ (333,659)</u>	<u>\$ -</u>	<u>\$ 59,384,377</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 596,046
Public safety - Police	303,339
Public safety- Fire	214,490
Public works	2,426,817
Community development	78,740
Parks and recreation	1,802,607
Total depreciation expense	<u>\$ 5,422,039</u>

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

Water	\$ 1,038,858
Sewer	1,249,146
Total depreciation expense	<u>\$ 2,288,004</u>

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

7. LONG TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2013:

	July 1, 2012	Additions	Retirements	June 30, 2013	Due Within One Year	Due in More Than One Year
Governmental activities:						
Claim liability	\$ 176,625	\$ 4,481	\$ (83,908)	\$ 97,198	\$ 97,198	\$ -
Compensated absences	2,712,999	213,567	(349,466)	2,577,100	1,011,820	1,565,280
OPEB obligation	1,810,350	557,420	(85,946)	2,281,824	-	2,281,824
Total governmental activities	<u>\$ 4,699,974</u>	<u>\$ 775,468</u>	<u>\$ (519,320)</u>	<u>\$ 4,956,122</u>	<u>\$ 1,109,018</u>	<u>\$ 3,847,104</u>
Business-type activities:						
Compensated absences	\$ 381,280	\$ 34,699	\$ (101,115)	\$ 314,864	\$ 124,568	\$ 190,296
OPEB obligation	214,650	70,613	(10,949)	274,314	-	274,314
Total business-type activities	<u>\$ 595,930</u>	<u>\$ 105,312</u>	<u>\$ (112,064)</u>	<u>\$ 589,178</u>	<u>\$ 124,568</u>	<u>\$ 464,610</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, \$222,042 of internal service funds compensated absences, \$97,198 of claims liability and \$140,502 of OPEB obligation are included in the above amounts.

8. NET POSITION AND FUND BALANCES

Net Position

The government-wide, proprietary fund and fiduciary fund financial statements utilize a net position presentation. Net positions are categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets: This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position: 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 Position: This category represents net positions of the City/District, not restricted for any project or other purpose.

Fund Balances

Fund balances presented in the governmental fund financial statements, represent the difference between assets and liabilities reported in a governmental fund. The City's fund balances are classified in accordance to the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
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8. NET POSITION AND FUND BALANCES, Continued

Nonspendables – represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, Inventory, notes receivable, and land held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted – represents balances have external restrictions imposed by creditors, grantors, contributors, laws, regulation, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances, donations, and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed – represents balances have constraints imposed by the City’s highest level of decision-making authority, the City Council, through Council Resolution. Commitments may be altered only by Council Resolution, which the City taking the same formal action that imposed the constraint originally. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned – represents balances are constrained by the City’s intend to be used for specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. The City Council had delegated authority to the City Manager to assign fund balances which are not otherwise restricted or committed. This category includes encumbrances and capital outlay; nonspendables, when it is the City’s intend to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue and Capital Improvement Projects Funds which have not been restricted or committed.

Unassigned – represents the residual fund balances that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

8. NET POSITION AND FUND BALANCES, Continued

Detailed classifications of the City's Fund Balances, as of June 30, 2013, are below:

	<u>Major Funds</u>				<u>Non-Major</u>	<u>Total</u>
	<u>General Fund</u>	<u>Low and Moderate Income Housing Assets Fund</u>	<u>City Capital Projects</u>	<u>Capital Asset Preservation</u>	<u>Governmental Funds</u>	
Nonspendable						
Prepays and deposits	\$ 17,869	\$ -	\$ -	\$ -	\$ -	\$ 17,869
Inventory	16,900	-	-	-	-	16,900
Total Nonspendable	<u>34,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,769</u>
Restricted						
Affordable housing	-	410,438	-	-	-	410,438
Roadway capital projects and maintenance	-	-	-	-	3,929,946	3,929,946
Public safety equipment and programs	-	-	-	-	53,828	53,828
Recreation programs and community events	-	-	-	-	150,992	150,992
Other	-	-	-	-	1,104	1,104
Total Restricted	<u>-</u>	<u>410,438</u>	<u>-</u>	<u>-</u>	<u>4,135,870</u>	<u>4,546,308</u>
Committed						
Solid waste reduction	257,662	-	-	-	-	257,662
Garbage rate stabilization fund	148,287	-	-	-	-	148,287
Capital projects	-	-	8,970,481	1,537,111	-	10,507,592
Affordable housing	-	-	-	-	3,263,973	3,263,973
CalOpps online recruitment program	-	-	-	-	256,448	256,448
Sustainable Foster City program	-	-	-	-	(20,799)	(20,799)
Total Committed	<u>405,949</u>	<u>-</u>	<u>8,970,481</u>	<u>1,537,111</u>	<u>3,499,622</u>	<u>14,413,163</u>
Assigned						
Capital outlay	510,417	-	-	-	-	510,417
Unassigned	<u>19,025,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,025,588</u>
Total Fund Balances	<u>\$ 19,976,723</u>	<u>\$ 410,438</u>	<u>\$ 8,970,481</u>	<u>\$ 1,537,111</u>	<u>\$ 7,635,492</u>	<u>\$ 38,530,245</u>

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, 2013, there were no encumbered fund balances.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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 the average of the final 3 years' compensation. Employees vest after five years of service and may eligible to retire and receive retirement benefits at age fifty, fifty-seven or sixty-two for safety and other employees based on the entering level of the retirement plan. 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.

	Safety (Police and Fire) Plan			Miscellaneous Plan	
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2
Hire date	prior to 1/1/2012	starting 1/1/2012	starting 1/1/2013	prior to 1/1/2012	starting 1/1/2013
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	50	57	50	62
Retirement plan	3%@50	2%@50	2.7%@57	2.7%@55	2%@62
Final compensation period	**	**	**	**	**
Required employee contribution rate	9%	9%	11.50%	8%	6.25%
Required employer contribution rate	29.261%	19.204%	11.50%	18.202%	18.202%
Total employee contribution FY 12/13	\$ 693,962	\$ 11,610	\$ 1,142	\$ 772,066	\$ 2,738
Total employer contribution FY 12/13	\$ 2,256,223	\$ 24,773	\$ 1,142	\$ 1,756,644	\$ 7,974

** Average of the highest 3 consecutive years' compensation

Funding Policy: Public safety employees and all other employees have an obligation to contribute 9% or 11.5% and 8% or 6.25% of their salary to the fund based on each employee's entering level of the retirement plans listed above. The minimum contribution requirements of the plan members are established by State statute. The City/District is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2013 were 18.202% for miscellaneous employees and 29.261%, 19.204% or 11.500% for safety employees of annual covered payroll based on each employee's entering level of the retirement plans listed above. The employer contribution rates are established and updated each fiscal year based on the annual valuation result provided by CalPERS.

Annual Pension Cost: For fiscal year 2013, 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, 2010 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	3.55% 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%.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

9. EMPLOYEES' RETIREMENT PLANS, Continued

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.

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
6/30/2011	\$ 1,415,345	100%	-	6/30/2011	\$ 2,818,318	100%	-
6/30/2012	\$ 1,623,578	100%	-	6/30/2012	\$ 2,353,773	100%	-
6/30/2013	\$ 1,764,618	100%	-	6/30/2013	\$ 2,282,138	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 not 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	Accrued Liability	Value of Assets	Unfunded Liability	Actuarial Value	Market Value	Covered Payroll	as a % of Payroll
6/30/2012	\$ 80,423,332	\$ 66,279,791	\$ 14,143,541	82.4%	68.9%	\$ 9,509,925	148.7%

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

9. EMPLOYEES' RETIREMENT PLANS, Continued

Public Employees' Pension Reform Act (PEPRA)

Assembly Bill (AB) 340 pension reform created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA.

The table below provides such information for safety and miscellaneous employees who meet the definition of new member under PEPRA effective January 1, 2013.

	Safety	Miscellaneous
Benefit formula	2.7% at age 57	2% at age 62
Final compensation period	3 year	3 year
Employer contribution rate as a percentage payroll	11.5% of reportable compensation	6.25% of reportable compensation
Member contribution rate as a percentage payroll	11.5% of reportable compensation	6.25% of reportable compensation

Internal Revenue Code Section 401(a) Plan and 457 Deferred Compensation Plan

City/District employees may contribute a portion of their compensation under the City/District sponsored 401(a) Retirement Plan and 457 Deferred Compensation Plan created in accordance with Internal Revenue Code Section 401(a) and 457. Under these Plans, participants are not taxed on their contributions to the Plans until it is distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

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

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

9. EMPLOYEES' RETIREMENT PLANS, Continued

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 single employer 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 \$112 and \$115 per month per family for the period from July 1, 2012 to December 31, 2012 and January 1, 2013 to June 30, 2013 respectively. The City/District's contribution for fiscal year 2013 amounted to \$96,895.

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	\$ 695,895
Interest on net OPEB obligation	84,000
Amortization of net OPEB obligation	<u>(155,000)</u>
Annual OPEB cost	624,895
Payments made	<u>(96,895)</u>
Increase (decrease) in net OPEB obligation	528,000
Net OPEB obligation - beginning of the year	<u>2,025,000</u>
Net OPEB obligation - end of year	<u><u>\$ 2,553,000</u></u>

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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 2013 and the preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>	<u>Cumulative OPEB Obligation</u>
6/30/2011	\$ 600,110	14.52%	\$ 513,000	\$ 1,616,000
6/30/2012	\$ 498,267	19.65%	\$ 409,000	\$ 2,025,000
6/30/2013	\$ 624,895	15.51%	\$ 528,000	\$ 2,553,000

Funded Status and Funding Progress. The funded status of the Plan as of June 30, 2013, the Plan's most recent actuarial valuation date, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
6/30/2013	-	\$ 4,500,000	0%	\$ 16,338,000	27.5%

** Additional information regarding the funded status of the OPEB can be found in the Required Supplementary Information section.

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 June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 6% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The healthcare cost trend rate minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payrolls over 15 years on a closed basis commencing in 2014.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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 2013, the City/District received \$26,709 of In-Lieu Rent and \$0 of In-Kind Rent.

In 2010, a lease dispute arose between the City and the North Peninsula Jewish Campus. The City claimed, among other things, that the North Peninsula Jewish Campus had not performed in terms of developing a Cultural Arts Center on the site as required under the Lease Agreement. To resolve the dispute, the sale and purchase of the 11-acre site was proposed. On September 28, 2012 the City sold the 11-acre land to the North Peninsula Jewish Campus Land, LLC and terminated the Lease Agreement. Please refer to Note 4 for the terms of the 11-acre land sale.

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. The City of San Mateo's audited financial statements may be obtained at 330 W 20th Avenue, San Mateo, CA 94403. 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. The wastewater treatment plant facility project was completed in fiscal year 2011.

For the year ended June 30, 2013, the District's share of the operating and maintenance costs was \$2,194,538 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
For the fiscal year ended June 30, 2013

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, 2013, the City/District paid premiums to The Cities Group of \$1,048,869, which are included in the General Fund's as insurance expenditures. Payments of City/District workers' compensation claims for the year ended June 30, 2013 were \$569,005.

Condensed financial information as of June 30, 2013 (the latest information available) for The Cities Group is presented below:

Total assets	\$ 2,629,002
Total liabilities	1,519,348
Total equity/net assets	1,109,654
Total revenues	2,646,291
Total expenses/expenditures	2,550,129
Increase (decrease) in equity/net assets	96,162

Audited financial information may be obtained for The Cities Group at P.O. Box 111, Burlingame, CA 94011.

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, 2013, the City/District's paid premiums of \$218,891 to ABAG.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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

Condensed financial information as of June 30, 2012 (the latest information available) for the ABAG PLAN is presented below:

Total assets	\$ 45,141,862
Total liabilities	24,677,330
Total equity/net assets	20,464,532
Total revenues	9,110,482
Total expenses/expenditures	15,179,160
Increase (decrease) in equity/net assets	(6,068,678)

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 all employees. 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, 2013, the liability for general liability self-insurance claims was \$97,198. 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, 2011	\$ 68,474
Current year claim deductibles and changes in estimates	129,653
Net payments	<u>(21,502)</u>
Liability at June 30, 2012	<u>176,625</u>
Current year claim deductibles and changes in estimates	4,481
Net payments	<u>(83,908)</u>
Liability at June 30, 2013	<u><u>\$ 97,198</u></u>

Audited financial information may be obtained from ABAG at P.O. Box 2050, Oakland, CA 94604.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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.

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 Union 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.

Since the dissolution of the Agency as of February 1, 2012, the annual installment payment of the outstanding obligation was paid by the Successor Agency (private-purpose trust fund). At its February 13, 2013 Regular Meeting, the Oversight Board approved Resolution 2013-002 that approved a Pass-through Implementation Agreement between the Successor Agency and San Mateo Union High School District that would call for the payout of the remaining liability under the 1991 Agreement totaling \$1,508,000. On May 24, 2013, the Successor Agency received a determination letter from the State Department of Finance that approved the Oversight Board's Resolution 2013-005 that approved a liquidation and payoff of the obligation with San Mateo Union High School District at a discount rate of 0.80%, which is equivalent to a 3- to 4-year Federal Home Loan Bank note, and is representative of the anticipated investment return of the San Mateo Union High School District. The present value of the future payments under the 1991 Agreement, using the 0.80% discount rate, equates to a total liability of \$1,484,000. That obligation will be paid in full by December 31, 2013.

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. For the fiscal year ended June 30, 2013, the Successor Agency paid to the developer the required installment of \$109,794.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

13. COMMITMENTS AND CONTINGENCIES, Continued

Marlin Cove Disposition and Development Agreement, Continued

(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, 2013, the Successor Agency paid the developer the Utility Subsidy in the amount of \$44,761.

(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, 2013, the Successor Agency paid the developer a tax increment subsidy in the amount of \$180,908.

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. The above DDA obligations were administered by the Successor Agency effective February 1, 2012 as the Agency ceased to exist.

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. For the fiscal year ended June 30, 2013, the Successor Agency paid the developer the required installment in the amount of \$232,493.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

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. The above DDA obligations were administered by the successor agency effective February 1, 2012 as the Agency ceased to exist.

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, 2013	Committed
Levee/Pedway Improvements and Repairs	\$ 2,200,000	\$ 696,962	\$ 1,503,038
Multi-Project Roadway Improvements	5,072,000	797,098	4,274,902
Sewer System Rehabilitation	150,000	-	150,000
Wastewater System-Auxiliary Pump Lift Station 59	75,000	-	75,000
Seismic Evaluation of Water Tanks 1,2 and 3	100,000	36,330	63,670
Water System-Booster Pump Building	55,000	7,109	47,891
Vintage Park Overcrossing Project	2,150,000	-	2,150,000
Seismic Evaluation of Lagoon Pump Station	75,000	7,160	67,840
Sanitary Sewer Lift Station Improvements Project Ph 5	150,000	-	150,000
Residential Street Resurfacing and Repair	1,264,874	5,216	1,259,658
Dredging At The Lagoon Intake Structure	150,000	-	150,000
Park Infrastructure Improvements	400,000	6,265	393,735
Veterans Honor Wall	50,000	44,279	5,721
Synthetic Surface - Edgewater Park	1,760,000	25,670	1,734,330
Werder Park Site Development	25,000	17,965	7,035
Destination Park Development	25,000	18,925	6,075
Site Improvement-East Third Avenue	175,802	1,581	174,221
Total	\$ 13,877,676	\$ 1,664,560	\$ 12,213,116

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2013

14. SUBSEQUENT EVENT

Effective January 31, 2012, all Redevelopment Agencies in California were dissolved. Certain assets of the former Redevelopment Agency Low and Moderate Income Housing Fund were distributed to a Housing Successor; and all remaining former Redevelopment Agency assets and liabilities were distributed to the Successor Agency.

ABx1 26 and AB 1484 direct the State Controller to review the activities of all former redevelopment agencies and successor agencies to determine whether an asset transfer between a former redevelopment agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency.

On August 29, 2013, the Successor Agency City of Foster City (“Successor Agency”) received “the final determination” regarding the “Other Funds” Due Diligence Review (“DDR-AOF”) from the State Department of Finance by email.

The determination Letter states that the Successor Agency is required to submit the sum of \$2,177,803 (the “Payment Demand”) to the County Auditor-Controller for distribution to the taxing entities. On September 6, 2013, the Successor Agency has transmitted a payment check for the undisputed amount of \$810,957.28, which represents \$809,293.00 originally reported in the DDR-AOF plus \$1,664.28 in accumulated interest earned on those funds since June 30, 2012.

By remitting these Undisputed Funds, neither the Successor Agency nor the City waive any constitutional, statutory, legal, or equitable rights, and each such entity expressly reserves any and all rights, privileges, remedies and defenses available under law and equity.

For the reasons stated below, the City has withheld the following amounts from the Payment Demand: (i) \$1,272,382 repaid to the City pursuant to two valid and binding loans originating in 2005 and 2010, (ii) \$76,559 repaid to the City for its payment to Verde Design, Inc. for synthetic turf improvements under a Public Improvements Reimbursement Agreement between the City and the former RDA, and (iii) \$19,569 expended under a Cooperative Services Agreement to reimburse the City for assuming the former RDA’s obligations in connection with a Stipulated Judgment. Each of these amounts is pursuant to an enforceable obligation and is the subject of ongoing litigation, as the City and Successor Agency have challenged the Determination Letters Payment Demand by petition for writ of mandate. The hearing and briefing dates will be scheduled in December of 2013.

15. SUCCESSOR HOUSING AGENCY TRANSFERRED ASSETS TO THE FORMER REDEVELOPMENT AGENCY

The purpose of this footnote is to explain the impacts of the dissolution of the former Redevelopment Agency on the City's financial statements. Subsequent to the adoption of AB 1X 26 and AB 1X 27, the California State Legislature adopted AB 1484 in June 2012. Amongst other things, AB 1484 required a process to transfer housing assets of the former redevelopment agency to the entity designated to receive these assets. In the case of the City, cash in the amount of \$6,300,000 was transferred to the Successor Agency of the Community Development Agency. This transfer is reflected in these financial statements as an extraordinary loss in the Low & Moderate Income Housing Assets Fund and as extraordinary gain in the Successor Agency of the Community Development Agency.

Required Supplementary Information

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 and Special Revenue 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, 2013. Encumbrances are expected to be reappropriated in the following fiscal year.

City of Foster City and Estero Municipal Improvement District
Required Supplementary Information
For the Fiscal Year Ended June 30, 2013

Budgetary Comparison Schedule - General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, June 30, 2012	\$ 21,735,893	\$ 21,735,893	\$ 21,735,893	\$ -
Resources (inflows):				
Property taxes:				
Secured	14,418,000	14,418,000	16,324,328	1,906,328
Unsecured	844,000	844,000	881,958	37,958
Motor vehicle in lieu	2,410,000	2,410,000	2,359,882	(50,118)
Total	17,672,000	17,672,000	19,566,168	1,894,168
Other taxes:				
Sales and use and sales tax in lieu	4,419,000	4,419,000	3,848,768	(570,232)
Transient occupancy	1,847,000	1,847,000	2,015,909	168,909
Franchise	1,191,000	1,191,000	1,227,976	36,976
Real property transfer	160,000	160,000	315,962	155,962
Total	7,617,000	7,617,000	7,408,615	(208,385)
Licenses and permits:				
Business licenses	529,000	529,000	658,717	129,717
Permits	1,222,000	1,222,000	695,784	(526,216)
Total	1,751,000	1,751,000	1,354,501	(396,499)
Intergovernmental:				
Motor vehicle in lieu	-	-	15,837	15,837
Homeowner property tax relief	100,000	100,000	99,589	(411)
Reimbursements and grants	-	-	281,503	281,503
Total	100,000	100,000	396,929	296,929
Charges for current services:				
Service fees	645,000	645,000	571,921	(73,079)
Recreation and leisure	1,244,000	1,244,000	1,065,368	(178,632)
Total	1,889,000	1,889,000	1,637,289	(251,711)
Fines and forfeitures:				
Traffic fines and court fees	20,000	20,000	22,622	2,622
False alarm fines	13,000	13,000	36,214	23,214
Total	33,000	33,000	58,836	25,836
Investment income and rentals:				
Investment income	280,000	280,000	(284,822)	(564,822)
Rent	878,000	878,000	770,668	(107,332)
Total	1,158,000	1,158,000	485,846	(672,154)
Other revenues	196,100	196,100	227,080	30,980
Total revenues	30,416,100	30,416,100	31,135,264	719,164
Transfers in	-	205,000	229,867	24,867
Amounts available for appropriation	52,151,993	52,356,993	53,101,024	744,031

(Continued)

**City of Foster City and Estero Municipal Improvement District
 Required Supplementary Information, Continued
 For the Fiscal Year Ended June 30, 2013**

Budgetary Comparison Schedule - General Fund, Concluded

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to appropriations (outflows):				
General government:				
Council/Board	\$ 212,506	\$ 212,906	\$ 206,693	\$ 6,213
City/District Manager	1,028,888	1,028,888	951,050	77,838
City Clerk	250,102	257,602	229,158	28,444
City/District Attorney	275,508	275,508	247,581	27,927
Human Resources	344,460	394,460	333,601	60,859
Financial Services	913,818	913,818	832,444	81,374
Subtotal	<u>3,025,282</u>	<u>3,083,182</u>	<u>2,800,527</u>	<u>282,655</u>
Public safety - Police	9,132,390	9,158,390	8,982,153	176,237
Public safety - Fire	8,475,357	8,597,857	7,685,785	912,072
Public works	1,416,043	1,803,043	1,544,739	258,304
Community development	1,819,732	2,252,868	1,872,763	380,105
Parks and recreation	7,181,369	7,239,369	6,830,941	408,428
Capital outlay	-	-	28,393	(28,393)
Subtotal	<u>28,024,891</u>	<u>29,051,527</u>	<u>26,944,774</u>	<u>2,106,753</u>
Total expenditures	<u>31,050,173</u>	<u>32,134,709</u>	<u>29,745,301</u>	<u>2,389,408</u>
Transfers out	3,379,000	3,379,000	3,379,000	-
Total charges to appropriations	<u>34,429,173</u>	<u>35,513,709</u>	<u>33,124,301</u>	<u>2,389,408</u>
Fund balance, June 30, 2013	<u>\$ 17,722,820</u>	<u>\$ 16,843,284</u>	<u>\$ 19,976,723</u>	<u>\$ 3,133,439</u>

City of Foster City and Estero Municipal Improvement District
Required Supplementary Information, Continued
For the Fiscal Year Ended June 30, 2013

Budgetary Comparison Schedule - Low and Moderate Income Housing Assets Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Investment and rental income	\$ 74,700	\$ 74,700	\$ 122,610	\$ 47,910
Other	24,000	24,000	251,914	227,914
Total revenues	98,700	98,700	374,524	275,824
EXPENDITURES:				
Community development	126,200	126,200	94,619	31,581
Total Expenditures	126,200	126,200	94,619	31,581
SPECIAL AND EXTRAORDINARY ITEMS:				
Extraordinary loss	-	-	(6,300,000)	(6,300,000)
Total special and extraordinary loss	-	-	(6,300,000)	(6,300,000)
NET CHANGE IN FUND BALANCE	(27,500)	(27,500)	(6,020,095)	(5,992,595)
FUND BALANCE:				
Beginning of year	6,430,533	6,430,533	6,430,533	-
End of year	\$ 6,403,033	\$ 6,403,033	\$ 410,438	\$ (5,992,595)

**City of Foster City and Estero Municipal Improvement District
 Required Supplementary Information, Continued
 For the fiscal year ended June 30, 2013**

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 not available.

Funded Status of Pension Plan - Miscellaneous Employees

Valuation Date	Accrued Liability	Value of Assets	Unfunded Liability	Actuarial Value	Market Value	Covered Payroll	as a % of Payroll
6/30/2010	\$ 71,829,999	\$ 58,941,745	\$ 12,888,254	82.1%	64.4%	\$ 10,634,191	121.2%
6/30/2011	\$ 76,201,207	\$ 62,829,160	\$ 13,372,047	82.5%	73.5%	\$ 10,409,877	128.5%
6/30/2012	\$ 80,423,332	\$ 66,279,791	\$ 14,143,541	82.4%	68.9%	\$ 9,509,925	148.7%

Funded Status of OPEB Obligation

Actuarial Valuation Date	Actuarial Asset Value	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
1/1/2009	-	\$ 4,116,000	0%	\$ 18,241,000	22.6%
1/1/2011	-	\$ 5,085,000	0%	\$ 17,857,000	28.5%
6/30/2013	-	\$ 4,500,000	0%	\$ 16,338,000	27.5%

Non-Major Governmental Funds

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, 2013

	Non-Major Special Revenue Funds
REVENUES:	
Property taxes	\$ 3,268,301
Sales and use taxes	564,699
Intergovernmental	1,613,160
Fines and forfeitures	134,818
Investment income	(27,309)
Other	428,905
Total revenues	5,982,574
EXPENDITURES:	
Current:	
General government	180,290
Public safety - Police	96,069
Public safety - Fire	3,705
Public works	1,447,321
Parks and recreation	23,761
Capital outlay	701,104
Total expenditures	2,452,250
REVENUES OVER (UNDER) EXPENDITURES	3,530,324
OTHER FINANCING SOURCES (USES):	
Transfer out	(24,867)
Total other financing sources (uses)	(24,867)
NET CHANGE IN FUND BALANCES	3,505,457
FUND BALANCES:	
Beginning of year	4,130,035
End of year	\$ 7,635,492

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 *Measure M Fund* accounts for the revenues generated by a special ten dollar vehicle registration fee that was approved by the voters of San Mateo County in 2010. These funds are restricted for the maintenance of City/District streets, provide transportation options to reduce congestion, safe routes to schools, reduce water pollution from oil and gas runoff, etc.

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 *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 *Proposition 1B Fund* accounts for revenues received from the States issued general obligation bond proceeds to fund State and local transportation improvement projects to relieve congestions, improve movement of goods, improve air quality, and enhance safety and security of the transportation program.

The *American Recovery and Reinvestment Act Fund (ARRA)* accounts for the federal grants received and used for the LED street light replacement project.

The *Foster City Affordable Housing Fund* was to dedicate the proceeds from the San Mateo County redistribution of the unencumbered housing tax increments from the former Foster City Community Development Agency to future affordable housing projects in the City.

The *Sustainable Foster City Special Fund* was to dedicate the proceeds from the San Mateo County redistribution of the unencumbered general tax increments from the former Foster City Community Development Agency to develop a sustainable economic development strategy for the City.

City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2013

	Traffic Safety	Measure A	Gas Tax	Measure M	SLESF/ COPS Grant
ASSETS					
Cash and investments	\$ -	\$ 3,049,610	\$ 677,423	\$ 39,681	\$ -
Receivables, net of allowance:					
Intergovernmental	24,952	-	64,562	46,906	20,866
Taxes	-	51,764	-	-	-
Other	-	-	-	-	-
Total assets	\$ 24,952	\$ 3,101,374	\$ 741,985	\$ 86,587	\$ 20,866
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-	-
Due to other funds	24,952	-	-	-	20,866
Total liabilities	24,952	-	-	-	20,866
Fund Balances:					
Restricted	-	3,101,374	741,985	86,587	-
Committed	-	-	-	-	-
Total fund balances	-	3,101,374	741,985	86,587	-
Total liabilities and fund balances	\$ 24,952	\$ 3,101,374	\$ 741,985	\$ 86,587	\$ 20,866

California Law Enforcement Equipment	California Opportunities	Foster City Foundation	Proposition 1B	American Recovery & Reinvestment (ARRA)	Foster City Affordable Housing	Sustainable Foster City Special Fund	Total
\$ 7,989	\$ 192,114	\$ 372,962	\$ -	\$ -	\$ 3,263,973	\$ 94,746	\$ 7,698,498
-	-	-	-	-	-	-	157,286
-	-	-	-	-	-	-	51,764
-	66,000	9,500	-	-	-	-	75,500
<u>\$ 7,989</u>	<u>\$ 258,114</u>	<u>\$ 382,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,263,973</u>	<u>\$ 94,746</u>	<u>\$ 7,983,048</u>
\$ -	\$ 671	\$ 3,527	\$ -	\$ -	\$ -	\$ 15,545	\$ 19,743
-	995	-	-	-	-	-	995
-	-	181,000	-	-	-	100,000	326,818
-	1,666	184,527	-	-	-	115,545	347,556
7,989	-	197,935	-	-	-	-	4,135,870
-	256,448	-	-	-	3,263,973	(20,799)	3,499,622
<u>7,989</u>	<u>256,448</u>	<u>197,935</u>	<u>-</u>	<u>-</u>	<u>3,263,973</u>	<u>(20,799)</u>	<u>7,635,492</u>
<u>\$ 7,989</u>	<u>\$ 258,114</u>	<u>\$ 382,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,263,973</u>	<u>\$ 94,746</u>	<u>\$ 7,983,048</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, 2013

	Traffic Safety	Measure A	Gas Tax	Measure M	SLESF/ COPS Grant	California Law Enforcement Equipment
REVENUES:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use tax	-	564,699	-	-	-	-
Intergovernmental	-	-	718,991	55,069	91,286	-
Fines and forfeitures	134,818	-	-	-	-	-
Investment income	-	(17,635)	(3,638)	-	19	-
Other	-	-	-	-	-	-
Total revenues	134,818	547,064	715,353	55,069	91,305	-
EXPENDITURES:						
Current:						
General government	-	-	106,820	-	-	-
Public safety - police	-	-	-	-	91,305	-
Public safety - fire	-	-	-	-	-	-
Public works	173,311	2,516	523,680	-	-	-
Parks and recreation	-	-	-	-	-	-
Capital outlay	-	128,586	-	-	-	-
Total expenditures	173,311	131,102	630,500	-	91,305	-
REVENUES OVER (UNDER) EXPENDITURES	(38,493)	415,962	84,853	55,069	-	-
OTHER FINANCING SOURCES (USES):						
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
NET CHANGES IN FUND BALANCES	(38,493)	415,962	84,853	55,069	-	-
FUND BALANCES:						
Beginning of year	38,493	2,685,412	657,132	31,518	-	7,989
End of year	\$ -	\$ 3,101,374	\$ 741,985	\$ 86,587	\$ -	\$ 7,989

California Opportunities	Foster City Foundation	Proposition 1B	American Recovery & Reinvestment (ARRA)	Foster City Affordable Housing	Sustainable Foster City Special Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ 3,268,301	\$ -	\$ 3,268,301
-	-	-	-	-	-	564,699
-	-	-	747,814	-	-	1,613,160
-	-	-	-	-	-	134,818
(1,159)	-	(568)	-	(4,328)	-	(27,309)
<u>106,950</u>	<u>321,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,905</u>
<u>105,791</u>	<u>321,955</u>	<u>(568)</u>	<u>747,814</u>	<u>3,263,973</u>	<u>-</u>	<u>5,982,574</u>
52,059	612	-	-	-	20,799	180,290
-	4,764	-	-	-	-	96,069
-	3,705	-	-	-	-	3,705
-	-	-	747,814	-	-	1,447,321
-	23,761	-	-	-	-	23,761
-	<u>121,358</u>	<u>451,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>701,104</u>
<u>52,059</u>	<u>154,200</u>	<u>451,160</u>	<u>747,814</u>	<u>-</u>	<u>20,799</u>	<u>2,452,250</u>
<u>53,732</u>	<u>167,755</u>	<u>(451,728)</u>	<u>-</u>	<u>3,263,973</u>	<u>(20,799)</u>	<u>3,530,324</u>
-	<u>(24,867)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,867)</u>
-	<u>(24,867)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,867)</u>
<u>53,732</u>	<u>142,888</u>	<u>(451,728)</u>	<u>-</u>	<u>3,263,973</u>	<u>(20,799)</u>	<u>3,505,457</u>
<u>202,716</u>	<u>55,047</u>	<u>451,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,130,035</u>
<u>\$ 256,448</u>	<u>\$ 197,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,263,973</u>	<u>\$ (20,799)</u>	<u>\$ 7,635,492</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Fines and forfeitures	\$ 179,000	\$ 179,000	\$ 134,818	\$ (44,182)
Total revenues	<u>179,000</u>	<u>179,000</u>	<u>134,818</u>	<u>(44,182)</u>
EXPENDITURES:				
Public works	<u>268,000</u>	<u>268,000</u>	<u>173,311</u>	<u>94,689</u>
Total expenditures	<u>268,000</u>	<u>268,000</u>	<u>173,311</u>	<u>94,689</u>
NET CHANGE IN FUND BALANCE	<u>(89,000)</u>	<u>(89,000)</u>	<u>(38,493)</u>	<u>50,507</u>
FUND BALANCE:				
Beginning of year	<u>38,493</u>	<u>38,493</u>	<u>38,493</u>	<u>-</u>
End of year	<u>\$ (50,507)</u>	<u>\$ (50,507)</u>	<u>\$ -</u>	<u>\$ 50,507</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Sales and use taxes	\$ 521,000	\$ 521,000	\$ 564,699	\$ 43,699
Investment income	25,000	25,000	(17,635)	(42,635)
Total revenues	546,000	546,000	547,064	1,064
EXPENDITURES:				
Public Works	3,000	3,000	2,516	484
Capital outlay	386,050	386,050	128,586	257,464
Total expenditures	389,050	389,050	131,102	257,948
NET CHANGE IN FUND BALANCE	156,950	156,950	415,962	259,012
FUND BALANCE:				
Beginning of year	2,685,412	2,685,412	2,685,412	-
End of year	\$ 2,842,362	\$ 2,842,362	\$ 3,101,374	\$ 259,012

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 804,000	\$ 804,000	\$ 718,991	\$ (85,009)
Investment income	10,400	10,400	(3,638)	(14,038)
Total revenues	814,400	814,400	715,353	(99,047)
EXPENDITURES:				
General government	106,820	106,820	106,820	-
Public works	523,680	523,680	523,680	-
Total expenditures	630,500	630,500	630,500	-
NET CHANGE IN FUND BALANCE	183,900	183,900	84,853	(99,047)
FUND BALANCE:				
Beginning of year	657,132	657,132	657,132	-
End of year	\$ 841,032	\$ 841,032	\$ 741,985	\$ (99,047)

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Measure M
For the fiscal year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 106,000	\$ 106,000	\$ 55,069	\$ (50,931)
Total revenues	106,000	106,000	55,069	(50,931)
NET CHANGE IN FUND BALANCE	106,000	106,000	55,069	(50,931)
FUND BALANCE:				
Beginning of year	31,518	31,518	31,518	-
End of year	\$ 137,518	\$ 137,518	\$ 86,587	\$ (50,931)

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 91,286	\$ (8,714)
Investment income	-	-	19	19
Total revenues	100,000	100,000	91,305	(8,695)
EXPENDITURES:				
Public safety - police	100,000	100,000	91,305	8,695
Total expenditures	100,000	100,000	91,305	8,695
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
Capital outlay	\$ -	\$ 7,989	\$ -	\$ 7,989
Total expenditures	-	7,989	-	7,989
NET CHANGE IN FUND BALANCE	-	(7,989)	-	7,989
FUND BALANCE:				
Beginning of year	7,989	7,989	7,989	-
End of year	\$ 7,989	\$ -	\$ 7,989	\$ 7,989

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 2,400	\$ 2,400	\$ (1,159)	\$ (3,559)
Other	102,000	102,000	106,950	4,950
Total revenues	104,400	104,400	105,791	1,391
EXPENDITURES:				
General government	69,995	69,995	52,059	17,936
Total expenditures	69,995	69,995	52,059	17,936
NET CHANGE IN FUND BALANCE	34,405	34,405	53,732	19,327
FUND BALANCE:				
Beginning of year	202,716	202,716	202,716	-
End of year	\$ 237,121	\$ 237,121	\$ 256,448	\$ 19,327

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other	\$ 79,500	\$ 79,500	\$ 321,955	\$ 242,455
Total revenues	<u>79,500</u>	<u>79,500</u>	<u>321,955</u>	<u>242,455</u>
EXPENDITURES:				
General government	1,316	1,316	612	704
Public Safety- Police	20,737	20,737	4,764	15,973
Public Safety- Fire	23,551	23,551	3,705	19,846
Parks and recreation	45,400	45,400	23,761	21,639
Capital outlay	266,943	266,943	121,358	145,585
Total Expenditures	<u>357,947</u>	<u>357,947</u>	<u>154,200</u>	<u>203,747</u>
OTHER FINANCING SOURCES:				
Transfer out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(24,867)</u>	<u>133</u>
NET CHANGE IN FUND BALANCE	<u>(303,447)</u>	<u>(303,447)</u>	<u>142,888</u>	<u>446,335</u>
FUND BALANCE:				
Beginning of year	<u>55,047</u>	<u>55,047</u>	<u>55,047</u>	<u>-</u>
End of year	<u>\$ (248,400)</u>	<u>\$ (248,400)</u>	<u>\$ 197,935</u>	<u>\$ 446,335</u>

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Proposition 1B Special Revenue Fund
For the fiscal year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Investment Income	\$ -	\$ -	\$ (568)	\$ (568)
Total revenues	<u>-</u>	<u>-</u>	<u>(568)</u>	<u>(568)</u>
EXPENDITURES:				
Capital outlay	451,160	451,160	451,160	-
Total expenditures	<u>451,160</u>	<u>451,160</u>	<u>451,160</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(451,160)</u>	<u>(451,160)</u>	<u>(451,728)</u>	<u>(568)</u>
FUND BALANCE:				
Beginning of year	451,728	451,728	451,728	-
End of year	<u>\$ 568</u>	<u>\$ 568</u>	<u>\$ -</u>	<u>\$ (568)</u>

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ 747,814	\$ 747,814	\$ -
Total revenues	-	747,814	747,814	-
EXPENDITURES:				
Public Works	-	747,814	747,814	-
Total Expenditures	-	747,814	747,814	-
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
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
Foster City Affordable Housing
For the fiscal year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ 3,300,000	\$ 3,268,301	\$ (31,699)
Investment income	-	-	(4,328)	(4,328)
Total revenues	<u>-</u>	<u>3,300,000</u>	<u>3,263,973</u>	<u>(36,027)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>3,300,000</u>	<u>3,263,973</u>	<u>(36,027)</u>
FUND BALANCE:				
Beginning of year	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ 3,300,000</u>	<u>\$ 3,263,973</u>	<u>\$ (36,027)</u>

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Sustainable Foster City Special Fund
For the fiscal year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
General Government	\$ -	\$ 100,000	\$ 20,799	\$ 79,201
Total Expenditures	<u>-</u>	<u>100,000</u>	<u>20,799</u>	<u>79,201</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>(100,000)</u>	<u>(20,799)</u>	<u>79,201</u>
FUND BALANCE:				
Beginning of year	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ (20,799)</u>	<u>\$ 79,201</u>

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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.

The *Compensated Absences Fund* accounts for the payout of the compensated absences (vacation and sick leaves) to governmental fund employees upon separation of employment.

City of Foster City and Estero Municipal Improvement District
Combining Statement of Fund Net Position
Internal Service Funds
June 30, 2013

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
ASSETS				
Current assets:				
Cash and investments	\$ 6,048,712	\$ 5,311,204	\$ 1,310,958	\$ 3,592,042
Deposit and prepaid items	434	-	-	-
Inventory	62,289	42,163	-	-
Total current assets	6,111,435	5,353,367	1,310,958	3,592,042
Noncurrent assets:				
Capital assets:				
Depreciable	1,098,860	1,077,751	-	-
Depreciable - Intangible	-	29,439	-	-
Total noncurrent assets	1,098,860	1,107,190	-	-
Total assets	7,210,295	6,460,557	1,310,958	3,592,042
LIABILITIES				
Current liabilities:				
Accounts payable	18,398	4,621	4,491	299,074
Accrued payroll	16,528	-	-	25,834
Claims liability	-	-	97,198	-
Compensated absences - current portion	13,433	-	-	31,838
Total current liabilities	48,359	4,621	101,689	356,746
Noncurrent liabilities:				
Compensated absences	22,137	-	-	85,213
OPEB liability	36,270	-	-	64,353
Total noncurrent liabilities	58,407	-	-	149,566
Total liabilities	106,766	4,621	101,689	506,312
NET POSITION				
Net investment in capital assets	1,098,860	1,107,190	-	-
Unrestricted	6,004,669	5,348,746	1,209,269	3,085,730
Total net position	\$ 7,103,529	\$ 6,455,936	\$ 1,209,269	\$ 3,085,730

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Compensated Absences	Total
\$ 2,536,507	\$ 2,745,283	\$ 5,805,225	\$ 2,358,737	\$ 29,708,668
-	-	-	-	434
-	-	-	-	104,452
<u>2,536,507</u>	<u>2,745,283</u>	<u>5,805,225</u>	<u>2,358,737</u>	<u>29,813,554</u>
-	-	-	-	2,176,611
-	-	-	-	29,439
-	-	-	-	2,206,050
<u>2,536,507</u>	<u>2,745,283</u>	<u>5,805,225</u>	<u>2,358,737</u>	<u>32,019,604</u>
57,426	-	-	-	384,010
19,918	-	-	-	62,280
-	-	-	-	97,198
<u>26,830</u>	-	-	-	<u>72,101</u>
<u>104,174</u>	-	-	-	<u>615,589</u>
42,591	-	-	-	149,941
39,879	-	-	-	140,502
<u>82,470</u>	-	-	-	<u>290,443</u>
<u>186,644</u>	-	-	-	<u>906,032</u>
-	-	-	-	2,206,050
<u>2,349,863</u>	<u>2,745,283</u>	<u>5,805,225</u>	<u>2,358,737</u>	<u>28,907,522</u>
<u>\$ 2,349,863</u>	<u>\$ 2,745,283</u>	<u>\$ 5,805,225</u>	<u>\$ 2,358,737</u>	<u>\$ 31,113,572</u>

City of Foster City and Estero Municipal Improvement District
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the fiscal year ended June 30, 2013

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
OPERATING REVENUES:				
Charges for services	\$ 1,572,135	\$ 588,334	\$ 278,800	\$ 1,376,411
Other	1,990		74,351	
Total operating revenues	1,574,125	588,334	353,151	1,376,411
OPERATING EXPENSES:				
Personnel	373,387	-	-	661,888
Repairs and maintenance	366,482	123,022	-	369,417
General and administration	10,901	-	505	83,353
Depreciation	376,359	489,314	-	-
Contractual services	6,507	-	84,019	-
Insurance	37,800	-	139,464	-
Total operating expenses	1,171,436	612,336	223,988	1,114,658
OPERATING INCOME (LOSS)	402,689	(24,002)	129,163	261,753
NONOPERATING REVENUES (EXPENSES):				
Gain (loss) on sale of capital assets	-	3,300	-	-
Investment income (expense)	(35,616)	(32,405)	(8,215)	(23,008)
Total nonoperating revenues (expenses)	(35,616)	(29,105)	(8,215)	(23,008)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	367,073	(53,107)	120,948	238,745
CONTRIBUTIONS AND TRANSFERS:				
Capital contribution	-	13,242	-	-
Transfers in	-	462,644	-	-
Transfers out	(10,454)	-	-	(452,190)
Total transfers	(10,454)	475,886	-	(452,190)
Changes in Net Position	356,619	422,779	120,948	(213,445)
NET POSITION:				
Beginning of the year	6,746,910	6,033,157	1,088,321	3,299,175
End of the year	\$ 7,103,529	\$ 6,455,936	\$ 1,209,269	\$ 3,085,730

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Compensated Absences	Total
\$ 1,604,458	\$ -	\$ -	\$ 59,926	\$ 5,480,064
		-	-	76,341
1,604,458	-	-	59,926	5,556,405
486,472	111,682	96,895	348,750	2,079,074
265,734	-	-	-	1,124,655
480,206	-	-	-	574,965
-	-	-	-	865,673
195,306	-	-	-	285,832
-	-	-	-	177,264
1,427,718	111,682	96,895	348,750	5,107,463
176,740	(111,682)	(96,895)	(288,824)	448,942
-	-	-	-	3,300
(16,384)	243,317	506,675	(2,439)	631,925
(16,384)	243,317	506,675	(2,439)	635,225
160,356	131,635	409,780	(291,263)	1,084,167
-	-	-	-	13,242
-	-	-	2,650,000	3,112,644
(67,505)	-	-	-	(530,149)
(67,505)	-	-	2,650,000	2,595,737
92,851	131,635	409,780	2,358,737	3,679,904
2,257,012	2,613,648	5,395,445	-	27,433,668
\$ 2,349,863	\$ 2,745,283	\$ 5,805,225	\$ 2,358,737	\$ 31,113,572

City of Foster City and Estero Municipal Improvement District
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2013

	Vehicle Rental	Equipment Replacement	Self Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from inter-departmental charges	\$ 1,574,814	\$ 588,334	\$ 353,151
Cash payments to suppliers for goods and services	(409,457)	(147,522)	(299,202)
Cash payments to employees for services	(362,098)	-	-
Net cash provided (used) by operating activities	803,259	440,812	53,949
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers received	-	462,644	-
Transfer paid	(10,454)	-	-
Net cash provided (used) by noncapital financing activities	(10,454)	462,644	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of capital assets	-	3,300	-
Capital contributions received	-	13,242	-
Acquisition and construction of capital assets	(164,384)	(546,179)	-
Net cash provided (used) by capital and related financing activities	(164,384)	(529,637)	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	(35,616)	(32,405)	(8,215)
Net cash provided (used) by investing activities	(35,616)	(32,405)	(8,215)
Net increase (decrease) in cash and cash equivalents	592,805	341,414	45,734
CASH AND CASH EQUIVALENTS:			
Beginning of year	5,455,907	4,969,790	1,265,224
End of year	<u>\$ 6,048,712</u>	<u>\$ 5,311,204</u>	<u>\$ 1,310,958</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 402,689	\$ (24,002)	\$ 129,163
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	376,359	489,314	-
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	689	-	-
Due from other funds	-	-	-
Deposit and prepaid items	(33)	-	-
Inventory	7,920	-	-
Increase (decrease) in:			
Accounts payable	4,346	(24,500)	4,213
Accrued payroll	428	-	-
Due to other funds	-	-	-
Claims liability	-	-	(79,427)
Compensated absences	2,941	-	-
OPEB liability	7,920	-	-
Total adjustments	400,570	464,814	(75,214)
Net cash provided (used) by operating activities	\$ 803,259	\$ 440,812	\$ 53,949

Information Technology	Building Maintenance	Longevity Recognition Benefits	PEMHCA	Compensated Absences	Total
\$ 1,376,411	\$ 1,604,458	\$ -	\$ -	\$ 59,926	\$ 5,557,094
(165,057)	(1,003,902)	(200)	-	-	(2,025,340)
(632,436)	(473,887)	(111,682)	(96,895)	(348,750)	(2,025,748)
578,918	126,669	(111,882)	(96,895)	(288,824)	1,506,006
-	-	-	-	2,650,000	3,112,644
(452,190)	(67,505)	-	-	-	(530,149)
(452,190)	(67,505)	-	-	2,650,000	2,582,495
-	-	-	-	-	3,300
-	-	-	-	-	13,242
-	-	-	-	-	(710,563)
-	-	-	-	-	(694,021)
(23,008)	(16,384)	243,317	506,675	(2,439)	631,925
(23,008)	(16,384)	243,317	506,675	(2,439)	631,925
103,720	42,780	131,435	409,780	2,358,737	4,026,405
3,488,322	2,493,727	2,613,848	5,395,445	-	25,682,263
<u>\$ 3,592,042</u>	<u>\$ 2,536,507</u>	<u>\$ 2,745,283</u>	<u>\$ 5,805,225</u>	<u>\$ 2,358,737</u>	<u>\$ 29,708,668</u>
\$ 261,753	\$ 176,740	\$ (111,682)	\$ (96,895)	\$ (288,824)	\$ 448,942
-	-	-	-	-	865,673
-	-	-	-	-	689
-	-	-	-	-	-
1,955	-	-	-	-	1,922
-	-	-	-	-	7,920
285,758	(62,656)	(200)	-	-	206,961
581	3,248	-	-	-	4,257
-	-	-	-	-	-
-	-	-	-	-	(79,427)
15,143	(167)	-	-	-	17,917
13,728	9,504	-	-	-	31,152
317,165	(50,071)	(200)	-	-	1,057,064
<u>\$ 578,918</u>	<u>\$ 126,669</u>	<u>\$ (111,882)</u>	<u>\$ (96,895)</u>	<u>\$ (288,824)</u>	<u>\$ 1,506,006</u>

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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.

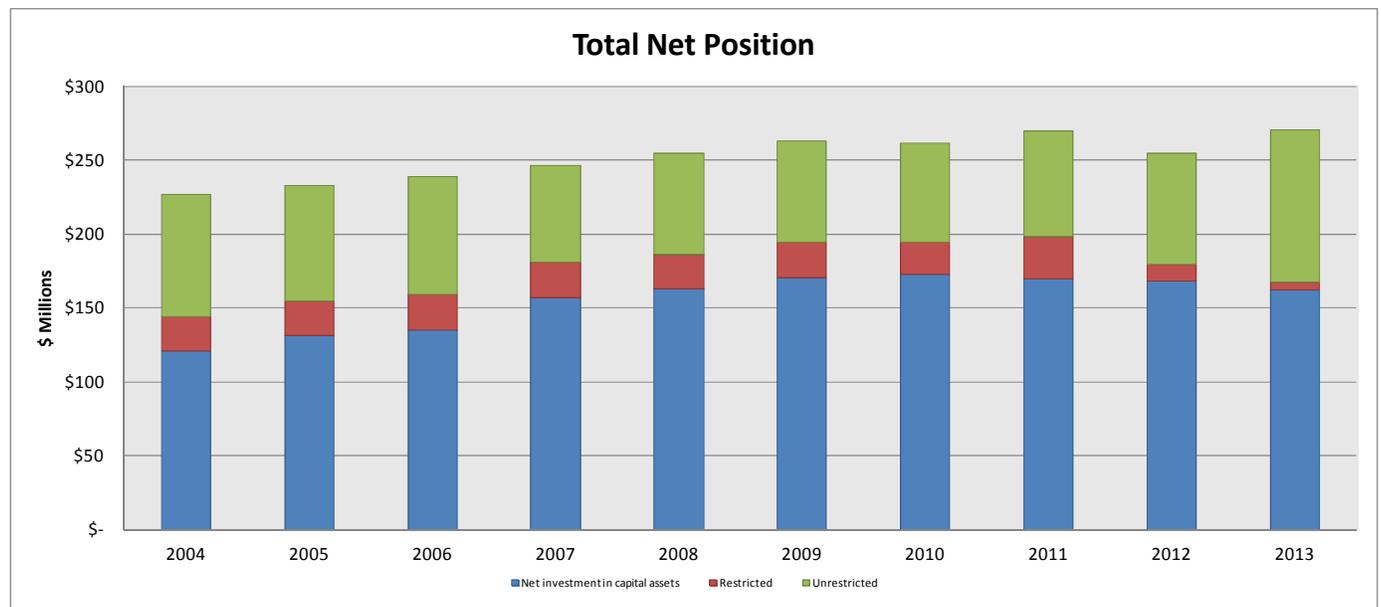
City of foster City and Estero Municipal Improvement District

Net Position by Component

Last Ten Fiscal Years

(Accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 89,440,178	\$ 92,896,656	\$ 95,785,241	\$ 97,403,808	\$ 101,122,436	\$ 109,387,638	\$ 111,894,545	\$ 108,007,645	\$ 106,295,814	\$ 102,503,211
Restricted	21,720,965	22,592,125	23,209,747	23,657,789	23,606,731	24,293,134	22,043,974	28,263,106	11,760,967	5,488,986
Unrestricted	35,928,134	36,848,780	39,557,946	44,825,904	49,475,890	48,498,680	46,699,565	49,579,722	50,530,026	75,633,529
Total governmental activities net position	\$ 147,089,277	\$ 152,337,561	\$ 158,552,934	\$ 165,887,501	\$ 174,205,057	\$ 182,179,452	\$ 180,638,084	\$ 185,850,473	\$ 168,586,807	\$ 183,625,726
Business-type activities										
Net investment in capital assets	\$ 31,588,358	\$ 38,216,716	\$ 39,528,336	\$ 59,649,262	\$ 61,434,009	\$ 60,853,224	\$ 60,575,907	\$ 61,718,653	\$ 61,458,480	\$ 59,384,377
Restricted	954,328	622,786	644,200	301,692	-	-	-	-	-	-
Unrestricted	47,355,944	41,640,689	39,908,805	20,548,181	18,775,807	20,010,431	20,356,291	21,659,733	24,362,221	26,947,956
Total business-type activities net position	\$ 79,898,630	\$ 80,480,191	\$ 80,081,341	\$ 80,499,135	\$ 80,209,816	\$ 80,863,655	\$ 80,932,198	\$ 83,378,386	\$ 85,820,701	\$ 86,332,333
Primary government										
Net investment in capital assets	\$ 121,028,536	\$ 131,113,372	\$ 135,313,577	\$ 157,086,070	\$ 162,556,445	\$ 170,240,862	\$ 172,470,452	\$ 169,726,298	\$ 167,754,294	\$ 161,887,588
Restricted	22,675,293	23,214,911	23,853,947	23,959,481	23,606,731	24,293,134	22,043,974	28,263,106	11,760,967	5,488,986
Unrestricted	83,284,078	78,489,469	79,466,751	65,374,085	68,251,697	68,509,111	67,055,856	71,239,455	74,892,247	102,581,485
Total primary government net position	\$ 226,987,907	\$ 232,817,752	\$ 238,634,275	\$ 246,419,636	\$ 254,414,873	\$ 263,043,107	\$ 261,570,282	\$ 269,228,859	\$ 254,407,508	\$ 269,958,059



City of foster City and Estero Municipal Improvement District

Changes in Net Position

Last Ten Fiscal Years

(Accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 2,705,217	\$ 2,848,557	\$ 3,401,929	\$ 3,172,917	\$ 3,384,497	\$ 3,673,100	\$ 3,715,494	\$ 3,135,273	\$ 3,596,590	\$ 3,514,037
Police	7,458,401	7,672,926	7,874,658	8,414,456	8,598,000	9,601,374	9,635,944	9,393,100	9,316,093	9,316,093
Fire	6,558,290	6,456,232	7,707,520	7,129,555	7,277,640	7,376,366	7,960,605	8,011,016	8,222,350	7,685,722
Public works	6,192,009	4,272,573	4,938,721	5,832,257	4,795,377	4,746,696	4,792,866	4,924,309	5,253,074	5,718,340
Community development	6,734,993	4,330,177	3,939,444	4,517,721	4,399,597	5,165,200	10,058,917	5,904,547	2,215,164	2,078,968
Parks and recreation	5,967,687	6,201,991	6,112,184	6,274,796	6,969,205	7,540,180	7,486,684	7,889,206	7,978,548	8,387,726
Interest on long-term debt	2,003,449	1,394,022	1,149,134	714,924	527,048	286,765	71,079	-	-	-
Total governmental activities expenses	37,620,046	33,176,478	35,123,590	36,056,626	35,951,364	38,426,051	43,687,019	39,500,295	36,658,826	36,700,886
Business-type activities:										
Water	6,484,751	6,342,028	6,713,789	6,868,450	7,575,909	7,804,377	8,272,135	8,690,887	9,782,394	10,336,188
Wastewater	4,640,074	4,739,273	5,276,815	5,099,038	5,861,595	5,351,927	5,875,701	5,334,103	5,909,150	6,554,771
Public transportation	211,109	103,281	119,496	131,378	155,344	245,589	298,964	204,321	201,696	-
Total business-type activities expenses	11,335,934	11,184,582	12,110,100	12,098,866	13,592,848	13,401,893	14,446,800	14,229,311	15,893,240	16,890,959
Total primary government expenses	\$ 48,955,980	\$ 44,361,060	\$ 47,233,690	\$ 48,155,492	\$ 49,544,212	\$ 51,827,944	\$ 58,133,819	\$ 53,729,606	\$ 52,552,066	\$ 53,591,845
Program Revenues										
Governmental activities:										
Charges for services:										
Public works	\$ 398,625	\$ 430,209	\$ 556,598	\$ 76,488	\$ 160,062	\$ 84,958	\$ 146,430	\$ 150,183	\$ 115,060	\$ 185,606
Parks and recreation	1,043,428	1,092,235	1,103,417	1,017,538	1,032,979	1,065,675	1,055,300	1,264,706	1,082,263	1,065,366
Other activities	1,848,369	1,563,775	1,570,945	1,638,345	1,679,892	1,722,734	1,204,446	1,641,925	2,420,613	1,755,523
Operating grants and contributions	1,191,358	1,181,974	1,642,813	996,947	854,272	1,000,607	1,374,103	1,483,915	1,479,057	1,479,057
Capital grants and contributions	746,541	1,076,241	1,771,121	128,000	-	733,684	680,355	4,157,426	449,989	938,348
Total governmental activities program revenues	5,228,321	5,344,434	6,644,894	3,857,318	3,727,205	4,607,658	3,899,827	8,588,343	5,551,840	5,423,900
Business-type activities:										
Charges for services:										
Water	6,095,677	5,800,508	5,782,979	6,027,769	6,769,890	7,182,212	7,531,859	9,166,844	10,328,467	10,495,752
Sewer	5,036,794	5,141,871	5,155,092	5,170,037	5,570,010	6,175,068	6,543,036	6,862,627	7,509,281	6,970,730
Other activities	206,231	79,590	55,479	69,955	-	-	-	-	7,317	-
Operating grants and contributions	-	-	-	-	-	-	-	140,709	100,756	-
Capital grants and contributions	11,522	-	1,762	-	-	-	-	-	-	19,305
Total business-type activities program revenues	11,350,224	11,021,969	10,995,312	11,267,761	12,339,900	13,357,280	14,074,895	16,170,180	17,945,821	17,485,787
Total primary government program revenues	\$ 16,578,545	\$ 16,366,403	\$ 17,640,206	\$ 15,125,079	\$ 16,067,105	\$ 17,964,938	\$ 17,974,722	\$ 24,758,523	\$ 23,497,661	\$ 22,909,687
Net (Expense)/Revenue										
Governmental activities	\$ (32,391,725)	\$ (27,832,044)	\$ (28,478,696)	\$ (32,199,308)	\$ (32,224,159)	\$ (33,818,393)	\$ (39,787,192)	\$ (30,911,952)	\$ (31,106,986)	\$ (31,276,986)
Business-type activities	14,290	(162,613)	(1,114,788)	(831,105)	(1,252,948)	(44,613)	(371,905)	1,940,869	2,052,581	594,828
Total primary government net expense	\$ (32,377,435)	\$ (27,994,657)	\$ (29,593,484)	\$ (33,030,413)	\$ (33,477,107)	\$ (33,863,006)	\$ (40,159,097)	\$ (28,971,083)	\$ (29,054,405)	\$ (30,682,158)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 21,258,698	\$ 22,067,892	\$ 22,656,311	\$ 23,946,796	\$ 25,326,023	\$ 26,525,347	\$ 27,328,303	\$ 26,225,287	\$ 19,140,435	\$ 22,850,306
Franchise taxes	838,572	875,033	909,123	981,494	1,029,576	1,044,988	1,017,749	1,088,266	1,122,847	1,227,976
Sales taxes	3,527,247	3,670,336	4,136,136	4,485,030	5,059,382	4,950,468	4,365,018	4,225,824	4,853,339	4,413,470
Other taxes	1,873,576	1,980,139	2,202,260	2,396,793	2,552,680	2,307,231	2,099,539	2,165,353	2,596,057	3,090,178
Payments in lieu of taxes	1,607,385	2,405,400	2,190,769	2,605,998	2,250,733	2,359,092	2,417,925	-	-	-
Investment earnings	603,723	1,701,412	1,652,286	4,463,127	3,933,537	2,449,586	2,193,541	2,409,846	2,331,007	1,539,026
Miscellaneous	477,594	378,185	991,956	768,061	438,822	847,954	253,121	117,764	210,189	19,494,949
Transfers	177,619	1,931	(44,772)	(80,424)	(82,038)	(110,733)	(10,519)	(108,000)	(60,501)	-
Total governmental activities	30,364,414	33,080,328	34,694,069	39,566,875	40,508,715	40,373,933	39,664,677	36,124,340	30,193,373	52,615,905
Business-type activities:										
Property Tax	1,942	-	-	-	-	-	-	-	-	-
Investment earnings	609,432	746,105	671,166	1,145,239	809,666	451,762	296,930	256,984	292,258	(141,502)
Loss on sales of capital assets	-	-	-	-	(17,198)	-	-	-	-	-
Miscellaneous	-	-	-	28,262	89,123	135,957	132,999	140,335	36,975	58,306
Transfers	(177,619)	(1,931)	44,772	80,424	82,038	110,733	10,519	108,000	60,501	-
Total business-type activities	433,755	744,174	715,938	1,253,925	963,629	698,452	440,448	505,319	389,734	(83,196)
Total primary government	\$ 30,798,169	\$ 33,824,502	\$ 35,410,007	\$ 40,820,800	\$ 41,472,344	\$ 41,072,385	\$ 40,105,125	\$ 36,629,659	\$ 30,583,107	\$ 52,532,709
Extraordinary Items										
Governmental activities:										
Extraordinary items										
Total governmental activities	-	-	-	-	-	-	-	-	(16,350,052)	(6,300,000)
Total primary government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,350,052)	\$ (6,300,000)
Change in Net Position										
Governmental activities	\$ (2,027,311)	\$ 5,248,284	\$ 6,215,373	\$ 7,367,567	\$ 8,284,556	\$ 6,555,540	\$ (122,515)	\$ 5,212,388	\$ (17,263,665)	\$ 15,038,919
Business-type activities	448,045	581,561	(398,850)	422,820	(289,319)	653,839	68,543	2,446,188	2,442,315	511,632
Total primary government	\$ (1,579,266)	\$ 5,829,845	\$ 5,816,523	\$ 7,790,387	\$ 7,995,237	\$ 7,209,379	\$ (53,972)	\$ 7,658,576	\$ (14,821,350)	\$ 15,550,551

City of foster City and Estero Municipal Improvement District
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes	\$ 28,482,468	\$ 30,773,530	\$ 31,881,063	\$ 33,523,781	\$ 35,329,687	\$ 36,322,157	\$ 36,445,627	\$ 32,846,406	\$ 27,014,176	\$ 30,807,783
Licenses, fees and permits	845,900	925,063	1,145,886	1,156,192	1,166,550	1,085,643	1,050,758	1,289,106	2,200,437	1,354,501
Fines and penalties	238,786	231,281	190,439	194,613	164,661	142,887	158,199	159,303	179,717	193,654
Charges for services	1,164,994	1,218,808	1,334,881	1,383,692	1,347,279	1,403,448	1,392,205	1,659,773	1,640,114	1,637,289
Special assessments	1,229,743	1,466,046	1,316,143	799,236	352,443	189,911	-	4,000,000	-	-
Intergovernmental	1,375,769	1,709,815	1,716,468	1,183,015	1,443,393	1,601,956	1,546,873	1,522,599	1,994,051	2,010,089
Investment earnings	2,942,074	3,554,502	3,800,211	5,127,172	4,706,132	3,444,940	2,608,180	1,796,472	1,814,301	907,101
Other revenues	1,347,151	578,459	1,032,866	1,024,736	1,012,569	1,661,625	827,083	559,764	436,977	1,178,203
Total revenues	37,626,885	40,457,504	42,417,957	44,392,437	45,522,714	45,852,567	44,028,925	43,833,423	35,279,773	38,088,620
Expenditures										
General government	2,011,884	2,173,641	2,371,339	2,471,650	2,979,792	3,150,439	3,271,525	2,689,200	2,980,808	2,980,817
Police	7,458,401	7,629,412	7,886,775	8,470,914	8,650,231	9,271,457	9,535,983	9,362,853	9,171,064	9,078,222
Fire	6,449,536	6,412,718	6,831,111	7,213,382	7,373,331	7,385,613	7,876,172	7,917,966	8,148,675	7,689,490
Public works	2,699,440	2,254,732	2,571,047	2,428,438	2,435,402	2,700,326	2,426,798	2,603,647	2,876,718	3,343,143
Community development	6,463,105	4,099,415	4,191,028	4,550,667	4,429,165	7,194,733	10,017,098	5,825,075	2,229,747	1,967,382
Parks and recreation	5,330,070	5,199,602	5,500,330	5,704,605	6,361,683	6,543,724	6,340,330	6,780,921	6,780,597	6,879,810
Capital outlay	5,131,537	1,885,475	2,276,329	1,186,620	2,110,297	6,255,420	2,391,675	970,235	3,384,339	1,201,432
Debt service										
Interest	3,989,991	2,971,975	2,921,459	2,387,604	1,998,571	1,509,465	996,412	156,685	-	-
Principal	13,355,000	5,540,000	9,656,000	5,695,000	5,210,000	3,800,000	4,775,000	-	-	-
Total expenditures	52,888,964	38,166,970	44,205,418	40,108,880	41,548,472	47,811,177	47,630,993	36,306,582	35,571,948	33,140,296
Excess of revenues over (under) expenditures	(15,262,079)	2,290,534	(1,787,461)	4,283,557	3,974,242	(1,958,610)	(3,602,068)	7,526,841	(292,175)	4,948,324
Other Financing Sources (uses)										
Proceeds from sale of capital assets	-	-	130,000	500	-	-	-	-	-	1,332,190
Transfers in	4,950,870	4,940,702	8,863,966	5,895,607	5,843,405	9,184,980	10,548,804	25,391,490	7,729,944	958,867
Transfers out	(4,773,251)	(4,938,771)	(8,918,100)	(6,255,434)	(5,925,443)	(9,295,713)	(11,860,304)	(25,499,490)	(7,799,024)	(3,608,867)
Total other financing sources (uses)	177,619	1,931	75,866	(359,327)	(82,038)	(110,733)	(1,311,500)	(108,000)	(69,080)	(1,317,810)
Extraordinary Item										
Extraordinary loss	-	-	-	-	-	-	-	-	(16,350,052)	(6,300,000)
Total extraordinary item	-	-	-	-	-	-	-	-	(16,350,052)	(6,300,000)
Net change in fund balances	\$ (15,084,460)	\$ 2,292,465	\$ (1,711,595)	\$ 3,924,230	\$ 3,892,204	\$ (2,069,343)	\$ (4,913,568)	\$ 7,418,841	\$ (16,711,307)	\$ (2,669,486)
Debt service as a percentage of noncapital expenditures	57.03%	30.65%	42.85%	26.21%	22.37%	14.65%	14.62%	0.45%	0.00%	0.00%

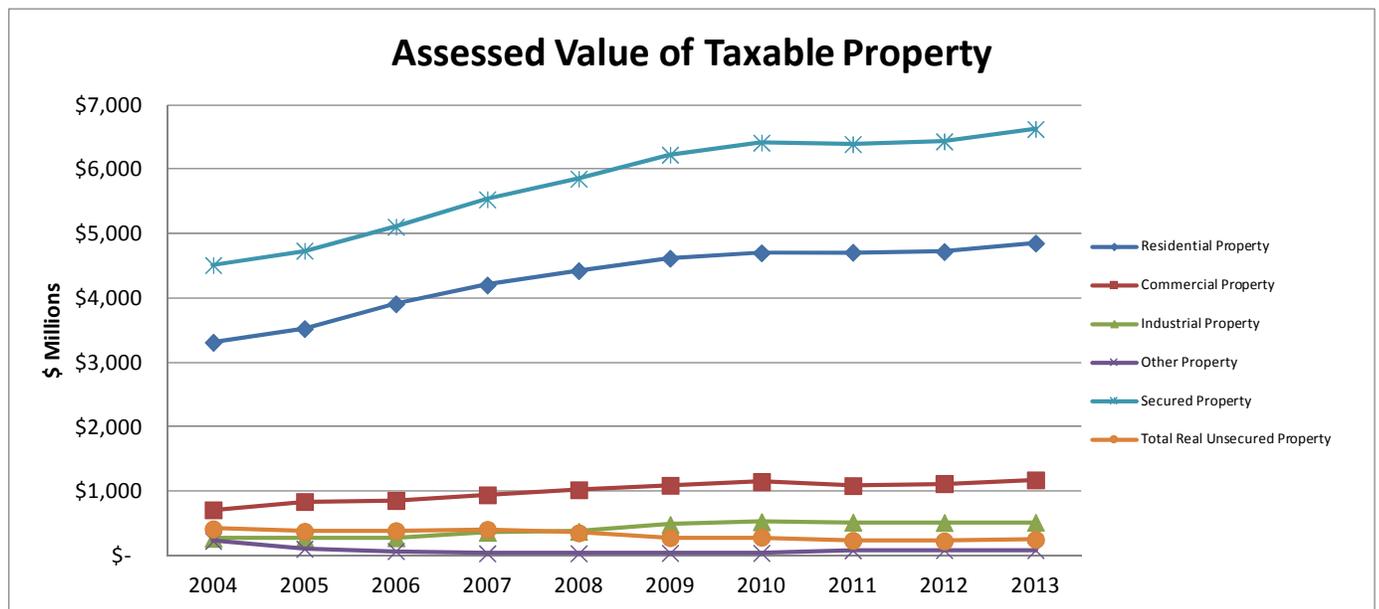
City of foster City and Estero Municipal Improvement District
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 13,334,107	\$ 17,146,836	\$ 16,239,583	\$ 14,763,522	\$ 11,828,982	\$ 8,209,971	\$ 1,159,290	\$ -	\$ -	\$ -
Unreserved	18,887,235	14,634,507	16,185,228	17,873,192	20,287,727	22,039,476	23,944,755	-	-	-
Non-Spendable	-	-	-	-	-	-	-	33,527	32,448	34,769
Committed	-	-	-	-	-	-	-	812,807	466,016	405,949
Assigned	-	-	-	-	-	-	-	1,052,366	964,536	510,417
Unassigned	18,887,235	14,634,507	16,185,228	17,873,192	20,287,727	22,039,476	23,944,755	19,304,982	20,272,893	19,025,588
Total general fund	\$ 51,108,577	\$ 46,415,850	\$ 48,610,039	\$ 50,509,906	\$ 52,404,436	\$ 52,288,923	\$ 49,048,800	\$ 21,203,682	\$ 21,735,893	\$ 19,976,723
All Other Governmental Funds										
Reserved	\$ 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	2,360,150	2,820,266	2,209,785	2,541,599	2,890,661	2,748,765	3,300,455	-	-	-
Capital projects funds	(3,808,994)	(3,573,312)	(2,667,367)	(228,646)	2,188,916	4,388,977	4,499,907	-	-	-
Restricted	-	-	-	-	-	-	-	28,608,240	10,357,852	4,546,308
Committed	-	-	-	-	-	-	-	8,099,116	9,105,986	14,007,214
Total all other governmental funds	\$ 16,856,462	\$ 19,588,926	\$ 17,233,863	\$ 20,946,190	\$ 25,358,399	\$ 25,156,318	\$ 25,388,152	\$ 36,707,356	\$ 19,463,838	\$ 18,553,522

Note: In compliance with GASB 54 issued in year 2011, fund balances are re-categorized.

City of foster City and Estero Municipal Improvement District
Assessed Value of Taxable Property
Last Ten Fiscal Years
(In thousands of dollars)

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	Other Property	Total Real Secured Property	Unsecured Property	Total Assessed	Estimated Full Market ¹	Total Direct Tax Rate ²
2004	\$ 3,310,326	\$ 709,040	\$ 265,988	\$ 225,184	\$ 4,510,538	\$ 412,636	\$ 4,923,174	\$ 4,923,174	0.30730
2005	3,525,902	837,154	268,701	102,655	4,734,412	375,101	5,109,513	5,109,513	0.29666
2006	3,909,826	855,220	274,483	68,868	5,108,397	384,974	5,493,371	5,493,371	0.29209
2007	4,202,217	940,245	357,821	31,948	5,532,231	405,100	5,937,331	5,937,331	0.29382
2008	4,424,764	1,019,063	375,300	33,416	5,852,543	351,316	6,203,859	6,203,859	0.29144
2009	4,619,037	1,088,907	479,764	38,069	6,225,777	276,761	6,502,538	6,502,538	0.29565
2010	4,703,107	1,146,981	524,207	39,063	6,413,358	283,165	6,696,523	6,696,523	0.29099
2011	4,709,407	1,083,260	516,044	80,957	6,389,668	234,475	6,624,143	6,624,143	0.29192
2012	4,721,378	1,116,185	512,381	83,466	6,433,410	226,067	6,659,477	6,659,477	0.28770
2013	4,851,575	1,174,781	514,770	84,880	6,626,006	250,130	6,876,136	6,876,136	0.28889



Source: The HdL Company and San Mateo County Assessor 2003/04 - 2012/13 Combined TaxRolls

Notes: ¹ 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.

² California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

City of Foster City and Estero Municipal Improvement District
Property Tax Rates – Direct and Overlapping Governments
Last Ten Fiscal Years
(Per \$100 of Assessed Value)

Agency	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Basic Levy ¹	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Belmont Elementary	0.01030	0.00990	0.01070	0.00930	0.00870	0.00840	0.00830	0.00920	0.01970	0.01970
Millbrae Elementary Bond	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.01850	0.02540	0.02950	0.03550
San Mateo Foster City Elementary	0.04280	0.03840	0.03820	0.03320	0.03330	0.03150	0.03260	0.03410	0.03470	0.03380
San Mateo Junior College	0.00650	0.00650	0.00650	0.01840	0.01710	0.01650	0.01820	0.01930	0.01990	0.01940
San Mateo Union High	0.01610	0.01740	0.01740	0.01560	0.01500	0.02980	0.03190	0.03220	0.03830	0.03810
Sequoia Union High	0.02380	0.01640	0.02230	0.02080	0.02050	0.02820	0.02770	0.03110	0.03580	0.03560
Total Direct & Overlapping² Tax Rates	1.09950	1.08860	1.09510	1.09730	1.09460	1.11440	1.13720	1.15130	1.17790	1.18210
City's Share of 1% Levy Per Prop 13³	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
General Obligation Debt Rate	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Redevelopment Rate⁴	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	0.00000
Total Direct Rate⁵	0.30730	0.29666	0.29209	0.29382	0.29144	0.29565	0.29099	0.29192	0.28770	0.28889

Notes:

¹In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

²Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all City property owners.

³City's Share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the City. ERAF general fund tax shifts may not be included in the tax ratio figures.

⁴Redevelopment Rate is based on the largest RDA tax rate area and only includes rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012/13 and years thereafter.

⁵Because basic and debt rates vary by tax rate area individual rates cannot be summed. The Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.

Source:

The HdL Company, 2003/04 through 2012/13 Direct and Overlapping Property Tax Rates Schedule
San Mateo County Assessor 2003/04 -2012/13 Tax Rate Table

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

<u>Taxpayer</u>	<u>FY 20012/2013</u>			<u>FY 2003/2004</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City</u>
			<u>Taxable Assessed Value</u>			<u>Taxable Assessed Value</u>
GILEAD SCIENCES INC	\$ 507,642,133	1	7.38%			
VISA USA INC	240,018,894	2	3.49%			
SPK - METRO CENTER LLC LESSEE	196,287,827	3	2.85%	159,523,572	1	3.24%
PARKSIDE TOWERS LP	156,014,681	4	2.27%			
BMR-LINCOLN CENTRE LP	112,789,476	5	1.64%			
BRE PROPERTIES INC	75,414,223	6	1.10%	65,309,688	8	1.33%
ESSEX HARBOR COVE A PARTMENTS LP	73,787,818	7	1.07%			
HINES VAF NO CAL PROPERTIES LP	72,704,922	8	1.06%			
BAYSIDE TOWERS INC	71,535,864	9	1.04%			
PWM RESIDENTIAL VENTURE LLC	63,192,637	10	0.92%			
VISA LAND DEVELOPMENT II LP				158,919,213	2	3.23%
ELECTRONICS FOR IMAGING INC				133,720,452	3	2.72%
APPLERA CORPORATION				132,333,434	4	2.69%
SPIEKER PROPERTIES LP				92,811,912	5	1.89%
GATEWAY PHOENIX & 5990 SEPULVEDA ASSOCIATES				78,000,000	6	1.58%
SPK-INDUSTRIAL PORTFOLIO LLC				69,054,000	7	1.40%
PERKIN-ELMER CORPORATION				58,012,145	9	1.18%
VISA INTERNATIONAL SERVICE ASSOCIATION LESSEE				57,802,927	10	1.17%
Top Ten Total	1,569,388,475		22.82%	1,005,487,343		20.42%
City Total	\$ 6,876,136,315			\$ 4,923,173,553		

Source: The HdL Company and San Mateo County Assessor 2012/13 & 2003/04 Combined Tax Rolls and the SBE Non Unitary Tax Roll.

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
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% ³	31,783	12,727,937	103.76%
2012	17,066,910	15,111,377	88.54%	(7,011)	15,104,366	88.50%
2013	17,614,023	17,312,886	98.29%	-	17,312,886	98.29%

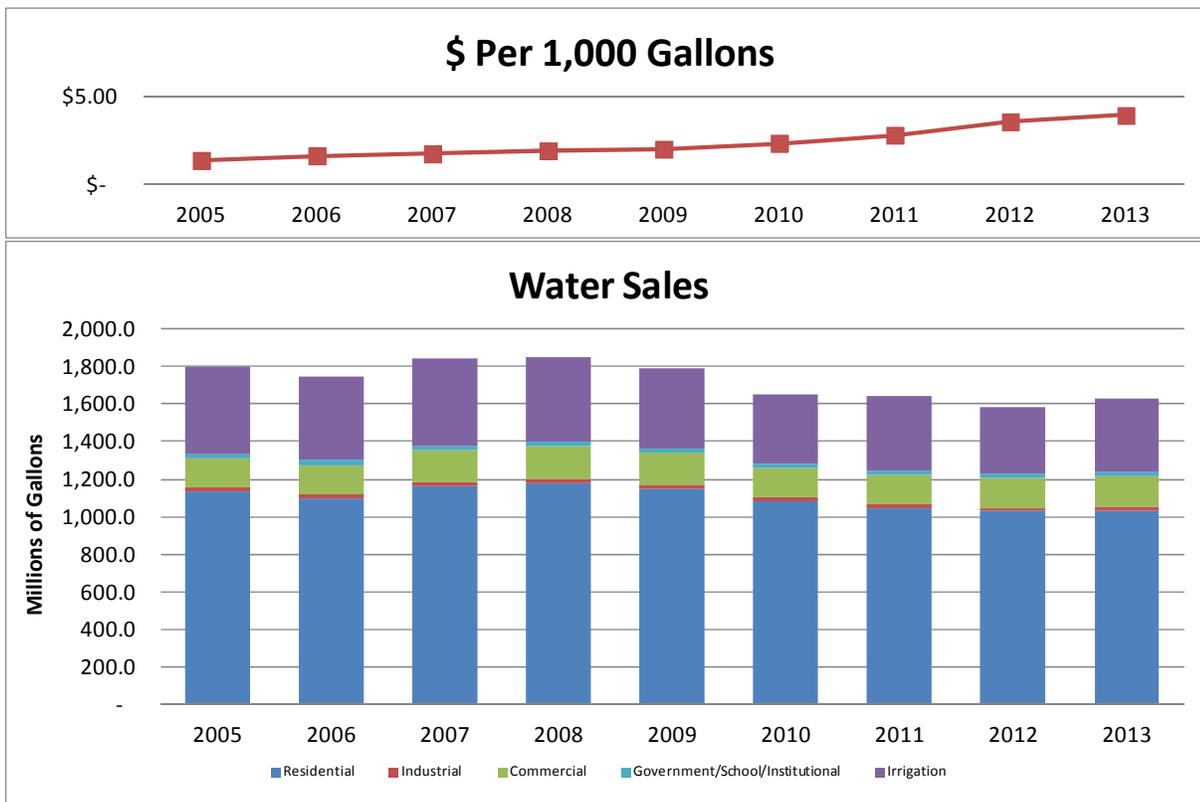
Notes:

- 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
Water Sales by Type of Customer
Last Nine 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>	<u>2012</u>	<u>2013</u>
Residential	1,131.9	1,097.9	1,162.1	1,178.5	1,151.9	1,081.4	1,048.9	1,029.2	1,032.1
Industrial	21.8	22.5	21.5	21.9	21.9	20.8	18.8	17.8	18.4
Commercial	157.1	157.4	171.6	173.5	163.3	154.1	155.3	164.3	163.8
Government/School/Institutional	21.9	24.1	25.9	26.7	25.6	22.1	23.0	21.3	24.9
Irrigation	466.9	444.3	461.0	450.4	426.0	368.9	395.0	351.1	388.0
Total	1,799.6	1,746.2	1,842.1	1,851.0	1,788.7	1,647.3	1,641.0	1,583.7	1,627.2
Total direct rate per 1,000 gallons	\$ 1.36	\$ 1.63	\$ 1.74	\$ 1.91	\$ 2.00	\$ 2.33	\$ 2.79	\$ 3.55	\$ 3.91

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 nine years of data.



City of foster City and Estero Municipal Improvement District

Water and Sewer Rates

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Water										
<i>Availability / Meter Charge (per Month)</i>										
5/8 inch	\$ 9.50	\$ 12.50	\$ 12.50	\$ 12.90	\$ 13.90	\$ 15.60	\$ 16.85	\$ 17.55	\$ 17.55	\$ 15.80
3/4 inch	\$ 9.50	\$ 12.50	\$ 12.50	\$ 12.90	\$ 13.90	\$ 15.60	\$ 16.85	\$ 17.55	\$ 17.55	\$ 15.80
1 inch	\$ 23.75	\$ 31.25	\$ 31.25	\$ 32.25	\$ 34.75	\$ 39.00	\$ 42.15	\$ 43.90	\$ 43.90	\$ 39.50
1&1/2 inch	\$ 47.50	\$ 62.50	\$ 62.50	\$ 64.40	\$ 69.50	\$ 78.00	\$ 84.25	\$ 87.75	\$ 87.75	\$ 79.00
2 inch	\$ 76.00	\$ 100.00	\$ 100.00	\$ 103.00	\$ 111.20	\$ 124.80	\$ 134.80	\$ 140.40	\$ 140.40	\$ 126.40
3 inch	\$ 133.00	\$ 175.00	\$ 175.00	\$ 180.00	\$ 194.60	\$ 218.40	\$ 235.90	\$ 245.70	\$ 245.70	\$ 221.20
4 inch	\$ 209.00	\$ 275.00	\$ 275.00	\$ 280.00	\$ 305.80	\$ 343.20	\$ 370.70	\$ 386.10	\$ 386.10	\$ 347.60
6 inch	\$ 399.00	\$ 525.00	\$ 525.00	\$ 540.00	\$ 583.80	\$ 655.20	\$ 707.70	\$ 737.10	\$ 737.10	\$ 663.60
8 inch	\$ 627.00	\$ 825.00	\$ 825.00	\$ 850.00	\$ 917.40	\$ 1,029.60	\$ 1,112.10	\$ 1,158.30	\$ 1,158.30	\$ 1,042.80
<i>Consumption Charge (per Unit*)</i>										
All Classes	\$ 1.57	\$ 1.26	\$ 1.26	\$ 1.29	\$ 1.49	\$ 1.60	\$ 1.73			
Single Family Residential										
0-10 units							\$ 1.57	\$ 2.00	\$ 2.35	
11-20 units							\$ 2.09	\$ 2.66	\$ 3.13	
> 20 units							\$ 4.18	\$ 4.66	\$ 4.70	
Multi Family Residential										
0-5 units							\$ 1.57	\$ 2.00	\$ 2.35	
6-10 units							\$ 2.09	\$ 2.66	\$ 3.13	
> 10 units							\$ 4.18	\$ 4.66	\$ 4.70	
Irrigation										
0-100% of annual water budget							\$ 2.09	\$ 2.66	\$ 3.13	
> 100% of annual water budget							\$ 4.18	\$ 4.66	\$ 4.70	
Commercial and Fire Line										
							\$ 2.09	\$ 2.66	\$ 3.13	
<i>Private Fire Protection Service</i>										
<i>Availability / Meter Charge (per Month)</i>										
3/4 inch	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75	\$ 27.65
1 inch	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75	\$ 27.65
1&1/2 inch	\$ 15.07	\$ 21.88	\$ 21.88	\$ 22.50	\$ 24.33	\$ 27.30	\$ 29.50	\$ 30.75	\$ 30.75	\$ 27.65
2 inch	\$ 24.10	\$ 35.00	\$ 35.00	\$ 36.25	\$ 38.92	\$ 43.68	\$ 47.20	\$ 49.15	\$ 49.15	\$ 44.25
3 inch	\$ 42.18	\$ 61.25	\$ 61.25	\$ 63.25	\$ 68.11	\$ 76.44	\$ 82.60	\$ 86.00	\$ 86.00	\$ 77.45
4 inch	\$ 66.29	\$ 96.25	\$ 96.25	\$ 99.25	\$ 107.03	\$ 120.12	\$ 129.75	\$ 135.15	\$ 135.15	\$ 121.70
6 inch	\$ 126.55	\$ 183.75	\$ 183.75	\$ 189.25	\$ 204.33	\$ 229.32	\$ 247.70	\$ 258.00	\$ 258.00	\$ 232.30
8 inch	\$ 198.86	\$ 288.75	\$ 288.75	\$ 297.50	\$ 321.09	\$ 360.36	\$ 389.25	\$ 405.45	\$ 405.45	\$ 365.00
Sewer										
Residential (per Month)										
Single Family	\$ 34.11	\$ 35.13	\$ 35.13	\$ 35.13	\$ 37.94	\$ 40.98	\$ 43.85	\$ 46.05	\$ 46.05	\$ 46.05
Townhouse	\$ 28.68	\$ 29.54	\$ 29.54	\$ 29.54	\$ 31.90	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75	\$ 38.75
Duplex	\$ 28.68	\$ 29.54	\$ 29.54	\$ 29.54	\$ 31.90	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75	\$ 38.75
Apartment / Condominium	\$ 27.13	\$ 27.94	\$ 27.94	\$ 27.94	\$ 30.18	\$ 34.45	\$ 36.90	\$ 38.75	\$ 38.75	\$ 38.75
Commercial (per Unit* of Water Billed)										
Restaurant	\$ 6.20	\$ 6.39	\$ 6.39	\$ 6.39	\$ 6.90	\$ 7.45	\$ 7.97	\$ 8.37	\$ 8.37	\$ 8.37
Miscellaneous	\$ 2.02	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.25	\$ 2.62	\$ 2.80	\$ 2.94	\$ 2.94	\$ 2.94
Institutional (per Unit* of Water Billed)										
School	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 1.66	\$ 1.66
Church	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 1.66	\$ 1.66
Public Facility	\$ 1.23	\$ 1.27	\$ 1.27	\$ 1.27	\$ 1.37	\$ 1.48	\$ 1.58	\$ 1.66	\$ 1.66	\$ 1.66

Unit* = 748 Gallons

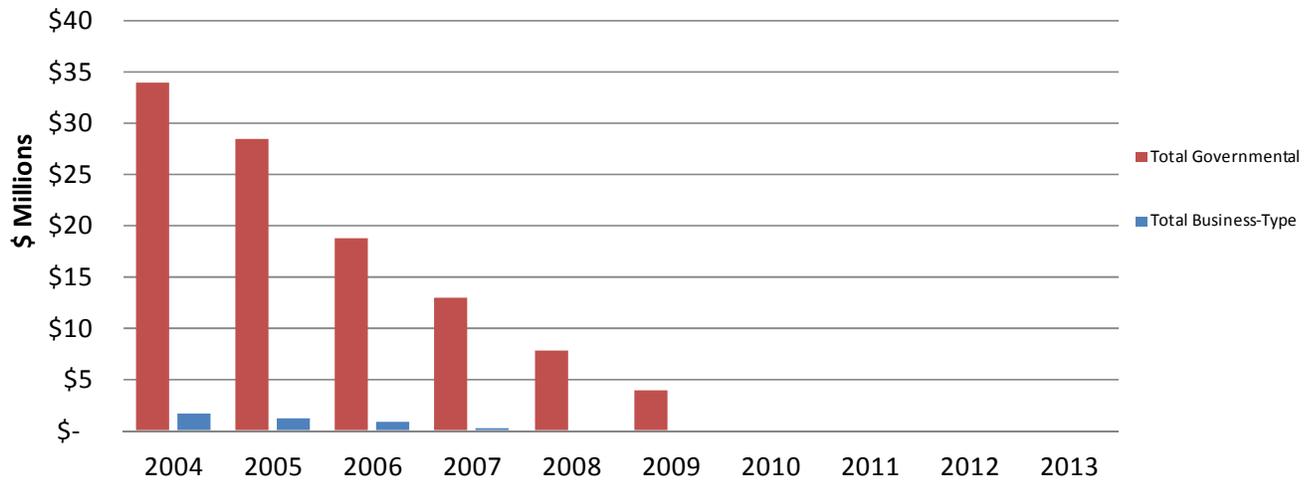
Source: City of Foster City Financial Services Department

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	Total	Sewer Bonds				
2004	\$ 4,941	\$ 23,430	\$ 5,505	\$ 33,876	\$ 1,582	\$ 35,458	2.170	1,188	
2005	3,491	20,400	4,445	28,336	1,242	29,578	1.670	990	
2006	1,985	13,385	3,310	18,680	785	19,465	0.970	651	
2007	635	10,250	2,100	12,985	280	13,265	0.006	438	
2008	-	6,975	800	7,775	-	7,775	0.004	257	
2009	-	3,560	415	3,975	-	3,975	0.002	131	
2010	-	-	-	-	-	-	n/a	-	
2011	-	-	-	-	-	-	n/a	-	
2012	-	-	-	-	-	-	n/a	-	
2013	-	-	-	-	-	-	n/a	-	

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

Outstanding Debt



**City of foster City and Estero Municipal Improvement District
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2013**

2012-13 Assessed Valuation: \$6,865,019,959

	Total Debt Outstanding 06/30/13	Percentage Applicable (1)	City's Share of Overlapping Debt 6/30/13
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Mateo Community College District	\$580,659,994	4.633%	\$26,901,978
San Mateo Union High School District	453,412,289	13.406%	60,784,451
Sequoia Union High School District	336,340,000	0.007%	23,544
San Mateo-Foster City School District	191,512,385	28.337%	54,268,865
Belmont-Redwood Shores School District	33,159,348	0.042%	13,927
Estero Municipal Improvement District	0	100.000%	0
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$141,992,765
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$311,729,816	4.633%	\$14,442,442
San Mateo County Board of Education Certificates of Participation	11,455,000	4.633%	530,710
Midpeninsula Regional Park District General Fund Obligations	135,649,717	0.006%	8,139
TOTAL OVERLAPPING GENERAL FUND DEBT			\$14,981,291
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$156,974,056
COMBINED TOTAL DEBT			\$156,974,056 (2)

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

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

Ratios to 2012-13 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.07%
Combined Total Debt	2.29%

Source: California Municipal Statistics, Inc.

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

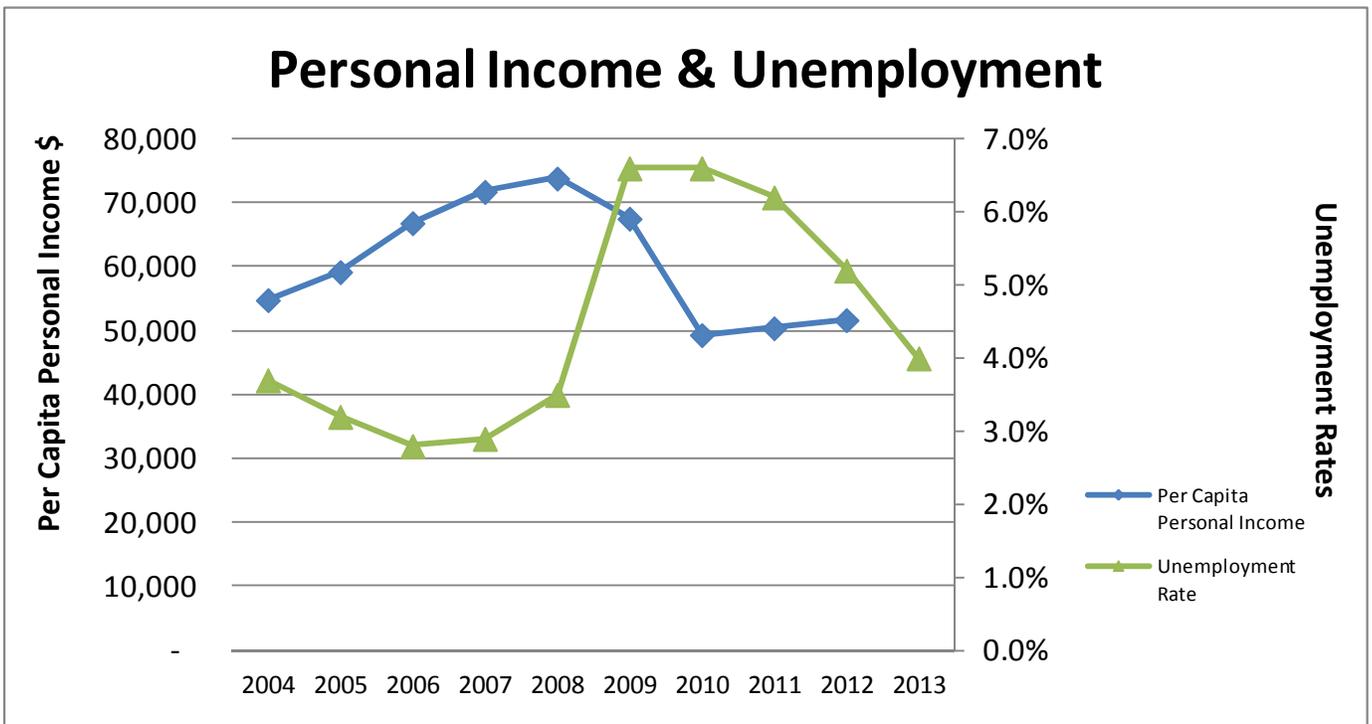
	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Debt limit	\$ 731,087	\$ 759,294	\$ 815,558	\$ 882,082	\$ 922,063	\$ 967,627	\$ 995,982	\$ 985,253	\$ 984,013	\$ 1,016,775
Total net debt applicable to limit	<u>3,059</u>	<u>1,469</u>	<u>-</u>							
Legal debt margin	<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>	<u>\$ 984,013</u>	<u>\$ 1,016,775</u>
Total net debt applicable to the limit as a percentage of debt limit	0.42%	0.19%	0.00%	0.00%	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

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
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	6.6%
2010	30,719	1,516,228	49,358	6.6%
2011	30,790	1,557,571	50,415	6.2%
2012	30,895	1,608,593	51,690	5.2%
2013	31,120	n/a	n/a	4.0%

Sources: Population: State Department of Finance
 Personal income: State Employment Development Department for County of San Mateo
 Unemployment Rate: Bureau of Labor Statistics for City of Foster City



**City of foster City and Estero Municipal Improvement District
Principal Employers
Current Year and Seven Years Ago**

Employer	2013			2006		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
VISA U.S.A. INC.	2,895	1	23.23%	1,193	2	8.47%
GILEAD SCIENCES, INC.	2,156	2	17.30%	1,025	4	7.28%
INOVANT LLC	1,872	3	15.02%			
SONY COMPUTER ENTERTAINMENT, LLC	1,350	4	10.83%	725	5	5.15%
ELECTRONICS FOR IMAGING, INC.	1,255	5	10.07%	1,054	3	7.49%
APPLIED BIOSYSTEMS, LLC	689	6	5.53%	1,578	1	11.21%
GUIDEWIRE SOFTWARE, INC.	682	7	5.47%			
IBM CORPORATION	530	8	4.25%			
REARDEN COMMERCE, INC.	483	9	3.88%			
QUINSTREET, INC.	286	10	2.29%	253	7	1.80%
LEGACY PARTNERS, LLC				300	6	2.13%
COSTCO				223	8	1.58%
CITY OF FOSTER CITY				213	9	1.51%
CROWNE PLAZA FOSTER CITY				140	10	0.99%
Top Ten Total	12,198		97.87%	6,704		47.61%
City Total	14,080			12,464		

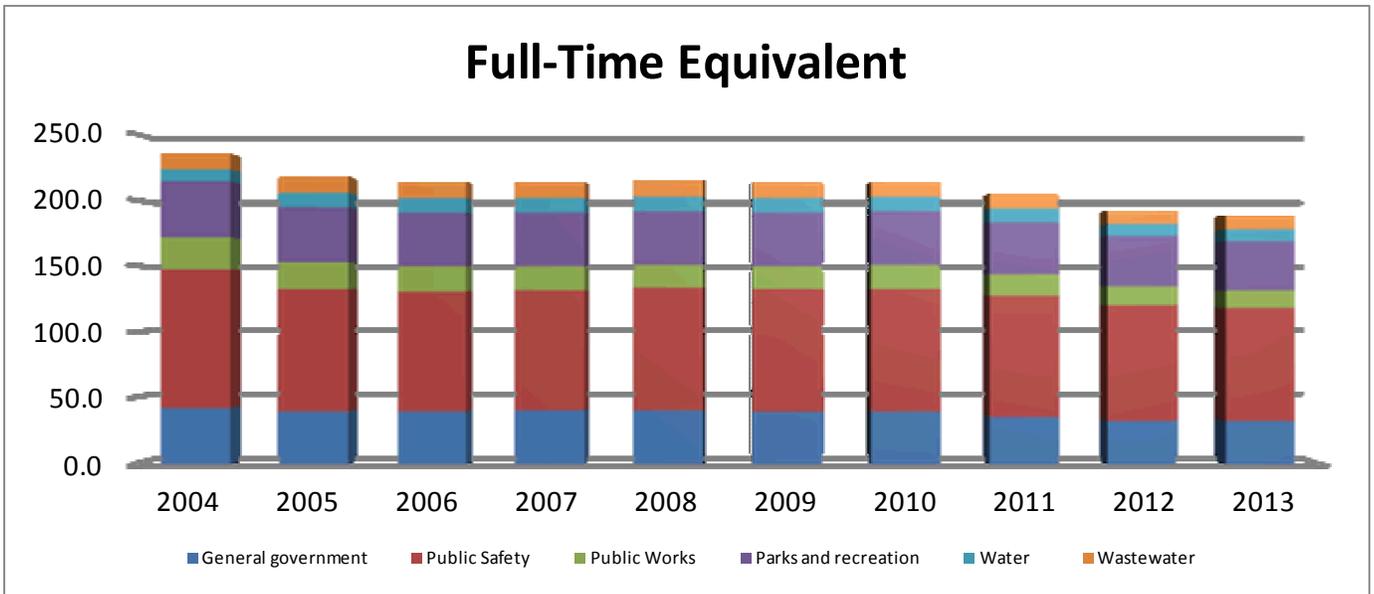
Source: 2006 and 2013 Business License Database of Financial Services Department

Note: Data from 2004-2005 is not available as required by GASB 44

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

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of June 30</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>	<u>2012</u>	<u>2013</u>
General government										
Management services	18.0	19.0	19.0	19.0	20.0	19.0	19.0	16.0	14.0	13.0
Finance	10.0	9.0	9.0	9.0	8.0	8.0	8.0	8.0	8.0	8.0
Planning	7.0	5.0	5.0	5.5	5.5	5.5	6.5	5.5	5.0	6.0
Building	6.5	6.0	6.0	6.5	6.5	6.5	5.5	5.5	5.0	5.0
Police										
Officers	45.0	39.0	37.0	37.0	39.0	39.0	39.0	39.0	36.0	36.0
Civilians	18.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	15.0	13.0
Fire										
Firefighters and officers	40.0	36.0	36.0	36.0	36.0	36.0	36.0	35.0	35.0	35.0
Civilians	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Other public works										
Engineering	12.0	10.0	9.0	8.0	7.0	7.0	7.0	7.0	6.0	5.0
Other	12.0	10.0	10.0	10.0	10.0	10.0	11.0	9.0	9.0	9.0
Parks and recreation	43.0	42.0	41.0	41.0	41.0	41.0	41.0	39.0	37.5	36.5
Water	9.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	9.0	9.0
Wastewater	11.0	11.0	11.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0
Total	234.5	217.0	213.0	213.0	214.0	213.0	213.0	204.0	191.5	187.5

Source: City Budget



City of foster City and Estero Municipal Improvement District
Operating Indicators by Function/Program
Last Nine 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>	<u>2012</u>	<u>2013</u>
Police									
Physical arrests	797	727	762	769	677	831	728	650	520
Parking violations	1,065	956	863	891	854	865	624	673	673
Traffic violations	2,472	1,772	2,396	1,870	2,004	2,811	2,317	2,693	2,774
Fire									
Emergency responses	1,882	1,981	1,940	2,095	1,895	1,828	1,873	1,946	2,012
Fires extinguished	116	116	105	107	102	85	73	88	61
Inspections	1,779	1,813	1,102	1,128	1,026	966	1,231	1,143	1,029
Other public works									
Street resurfacing (miles)	-	3	1	2	1	1	5	1	1
Potholes repaired	30	27	30	25	45	70	40	45	36
Parks and recreation									
Athletic field permits issued	37	48	49	52	45	54	57	64	66
Community center admissions	8,279	8,481	8,804	9,144	8,648	8,209	8,123	7,582	7,580
Water									
New connections	-	6	4	2	-	-	-	7	1
Water mains breaks	19	17	-	14	6	1	6	6	3
Average daily consumption (thousands of gallons)	5,174	5,257	5,574	5,520	5,230	4,890	4,822	4,660	4,100
Peak daily consumption (thousands of gallons)	10,202	11,146	10,634	10,450	10,530	10,340	9,750	9,165	8,890
Wastewater									
Average daily sewage treatment (thousands of gallons)	3,103	3,185	3,074	2,980	2,600	2,450	2,340	2,267	2,200

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 nine years of data.

**City of foster City and Estero Municipal Improvement District
Capital Asset Statistics by Function/Program
Last Nine 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>	<u>2012</u>	<u>2013</u>
Police									
Stations	1	1	1	1	1	1	1	1	1
Zone offices	1	1	1	1	1	1	1	1	1
Patrol vehicles	13	13	13	13	13	12	12	12	11
Fire stations	1	1	1	1	1	1	1	1	1
Other public works									
Streets (miles)	46	46	46	46	46	46	46	46	46
Streetlights	1,918	1,918	1,918	1,918	1,918	1,918	2,063	2,062	2,031
Traffic signals	20	23	25	25	25	25	25	25	25
Parks and recreation									
Acreage	104	168	171	210	210	210	210	210	213
Playgrounds	21	21	21	21	21	21	21	21	21
Baseball/softball diamonds	8/3	8/3	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	10/0	10/0
Community centers	2	2	2	2	3	3	3	3	3
Water									
Water mains (miles)	110	110	110	110	110	110	110	110	107
Fire hydrants	1,149	1,149	1,149	1,149	1,149	1,149	1,153	1,153	1,109
Storage capacity (thousands of gallons)	12,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Wastewater									
Sanitary sewers (miles)	66	66	66	66	66	66	66	66	65
Storm sewers (miles)	83	83	83	83	83	83	83	83	81
Treatment capacity (thousands of gallons)	52,130	52,130	52,130	52,130	52,130	52,130	52,130	52,130	52,130
Transit—minibuses	1	1	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 nine years of data.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial statements. This includes not only sales and purchases but also expenses, income, and transfers between accounts.

Next, the document outlines the process of reconciling bank statements with the company's records. This involves comparing the bank's record of transactions with the company's ledger to identify any discrepancies. Common reasons for these differences include timing differences, such as deposits in transit or outstanding checks, as well as errors in recording or bank charges.

The document then provides a detailed explanation of the accounting cycle, which consists of eight steps: 1) identifying and recording transactions, 2) journalizing, 3) posting to the ledger, 4) determining account balances, 5) preparing a trial balance, 6) adjusting entries, 7) preparing financial statements, and 8) closing the books. Each step is described in detail, including the necessary journal entries and ledger postings.

Finally, the document discusses the importance of internal controls to prevent fraud and errors. It suggests implementing measures such as segregation of duties, requiring approvals for transactions, and conducting regular audits. These controls are essential for ensuring the accuracy and reliability of the financial information.