

**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, 2008

Pam Frisella, Mayor

John Kiramis, Vice Mayor

Art Kiesel, Councilmember

Rick Wykoff, Councilmember

Linda Koelling, Councilmember

James C. Hardy, City Manager/City Treasurer

Kristi A. Chappelle, Assistant City Manager

Jean B. Savaree, City Attorney

Ricardo G. Santiago, Finance Director

Ray Towne, Public Works Director

Audrey Daniels, Human Resources Director

Craig Courtin, Police Chief

Kevin Miller, Parks & Recreation Director

Tom Reaves, Fire Chief

Richard Marks, Community Development Director

Therese Calic, City Clerk

Steve Toler, Administrative Services Director

**City of Foster City and Estero Municipal Improvement District
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2008**

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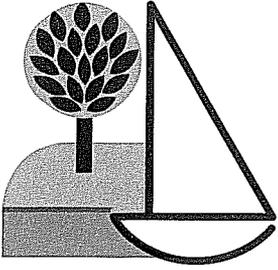
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City of Foster City

ESTERO MUNICIPAL IMPROVEMENT DISTRICT

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October 13, 2008

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, 2008 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, 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 (CAFR) using the financial reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. This GASB Statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

The CAFR is organized into three sections:

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

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

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

INDEPENDENT AUDIT

The City/District requires that its financial statements be audited annually by an independent certified public accountant selected by the City Council/District Board. The City/District has contracted with Caporicci and Larson Certified Public Accountants to conduct the audit for FY 2007-2008 and the independent auditor's opinion is included in this report.

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

PROFILE OF THE GOVERNMENT

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

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

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

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

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

- Upgrading and maintaining the street system, resurfacing, and modifying of traffic signals at various locations;
- Providing police services at a low per capita cost while maintaining a very low crime rate within the community through neighborhood watch programs and community-oriented policing;
- Providing various safety programs designed to protect the lives and property of the citizens of Foster City;
- Improving and increasing leisure and recreational programs; developing new programs in order to meet the community needs, and making the City/District a more enjoyable place to live through entertaining activities, clean facilities, and a safe atmosphere;
- Guiding City/District development while maintaining and protecting its physical environment, and overseeing the proposed development of structure and facilities; and assessing cost effective delivery of services provided by all City/District departments.

LOCAL ECONOMY

The City/District is an area that has very high property values and significant economic vitality. Property taxes continue to be the primary source for the City/District, contributing 41% of the General Fund revenues. Growth in assessed valuation of taxable property has increased by 5% from the prior year. The City/District's other major revenue sources are sales tax, investment income and rentals, motor vehicle in lieu fees, charges for current services, licenses and permits and transient occupancy tax.

City/District's revenues continue to grow with a 2% increase in FY 2007-2008 when compared with prior year.

Since 1980, several major commercial and industrial developments have been completed, adding a substantial daytime population to the City/District, and providing employment opportunities to City/District residents. The major employers in the City/District are VISA International, Applied Biosystems, Gilead Sciences, and Electronics for Imaging. The major sales and use tax revenues are from general retail, food products, electronic and office equipments, professional, scientific, and technical services.

LONG TERM FINANCIAL PLAN

The City/District has established its reserved, designated fund balance in the General Fund which represents 25% of the annual operating budget for General Fund, Water and Sewer Funds. In addition, \$1 million emergency reserve for General Fund, Capital Projects Fund - City, and Water and Sewer Capital Program were also established. The unreserved, undesignated fund balance in the General Fund represents 63% of the total General Fund balance.

The City/District began the process of updating the City's General Plan in 2001 and will continue the update in 2008. This project included planning commission review of the land use and circulation element. The updated General Plan will guide the development of the City/District over the next fifteen years. A new General Plan is required to address the changing needs of the City/District and its residents.

The Land Use Plan designation for the 15-acre vacant site between City Hall and the New Government Center and the North Peninsula Jewish Campus, along Foster City and Shell Boulevards is the last remaining undeveloped parcel of publicly owned land in the City and represents a very valuable public asset. Due to its location, size, street access, and topography, the property could be developed in a number of ways to meet City and resident needs.

The City Council selected the development team led by Pacific Retirement Services and Sares Regis of Northern California, L.P. after over 18 months of public input and closed session meetings, project site visits, and financial analysis and reference checks.

The proposal for the development will include the following:

- Continuing Care Retirement Community - 350 units for independent living.
- 20 Assisted living apartments, 20 memory care units and 30 bed skilled nursing facility. Residents can downsize from their large, single family homes and continue to reside in Foster City as they age.
- Affordable housing - 70 units of rental apartments. Senior with limited income can live in attractive and safe housing, with access to convenient services, programs and amenities.
- Retail - 30,000 Sq. ft. to 50,000 sq. ft. of restaurants, boutique stores, and service businesses, located along Shell Boulevard and wrapped around a central village square.
- Public spaces and farmer's market - provides opportunities for all residents, not just those who live nearby. To spend time with friends and family enjoying music, art, water features, fresh produce and outdoor dining.

The Pilgrim-Triton Master Plan Project, a 20.75 acres east of the intersection of Pilgrim Drive and Triton Drive between State Route 92 and E. Hillsdale Boulevard and the Foster City Executive Park on the west side of Pilgrim Drive. The project will be developed by Sares Regis Group of Northern California, a privately held commercial real estate development, project management, investment, and property management firm.

In April 2008 the City Council certified the Final Environment Impact Report and approved a General Plan Amendment to allow housing in the Pilgrim-Triton area. An ordinance was adopted in May 2008 to rezone the area to include a General Development Plan that includes housing.

The proposal for the development will include the following:

- Commercial/Industrial of 296,000 square feet.
- Housing consisted of 730 residential units, including up to 64 live-work units and 20% integrated affordable units.
- Open Space/Plaza of approximately 1 acre centrally located within the development, proposed to include grass areas and pathways, fountains, gardens, play equipment, art wall, informal stage, seating and tables.
- The proposal is for a number of buildings ranging from 30-95 feet in height (approximately 2-7 stories) arranged with the taller sections/buildings toward the project interior.

Mixed use developments, like Metro Center and Marlin Cove, have been highly successful in Foster City. It is expected that the mixed use redevelopment of the Pilgrim-Triton area also will promote the retention of existing businesses, encourage new business development, and help the City meet its state-mandated fair share housing requirements.

MAJOR INITIATIVES

- During the year various projects were undertaken such as: wastewater treatment plant expansion phase II, a construction for the anaerobic digester and dewatering facility improvements was awarded in January, 2005 by the lead agency the City of San Mateo with the notice to proceed effective on April, 2005. With contract duration of 769 days, construction is expected to be completed approximately 6 to 9 months beyond the contractual date of May 2007.
- Arterial and collector overlay project complements the residential street resurfacing and repair project which targets primarily residential streets and focuses on slurry seals. The intent of this project is to maximize the use of available federal and state transportation grant funding to address the resurfacing needs of arterial and collector streets
- Sea Cloud Park S-3 and Catamaran Park – Synthetic Turf and Park Improvements. This capital projects is for two (2) acre synthetic turf soccer fields. The first two (2) acre synthetic turf soccer field is located at Sea Cloud Park S-3. The second two (2) acre synthetic turf soccer field is located at Catamaran Park. Additional elements of the Catamaran Park project include a 2-3 lane synthetic walking track and the lighting of the full court basketball court.
- Foster Center Teen Center and recreational facilities. – The first scheduled component of this capital improvement project is the Edgewater Park Tennis court construction element. The scope of work includes the construction of one new tennis court, lighting of all five tennis courts, the relocation of existing playground equipment, and the tennis backboard.
- Other capital improvement projects include Water Valve Replacement, and Rehabilitation of City lagoon structures.

ACCOUNTING AND BUDGETING SYSTEMS

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

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

The City/District's budget is a detailed operating plan, which 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/Board of the District are made and then implemented.

In addition to internal controls, the City/District also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council/District Board of Directors. The City/District is required to adopt annual budgets on or before June 30th, for the ensuing fiscal year for the General Fund, Special Revenue Funds and the Debt Service Funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various departments.

The City Council and District Board of Directors may amend the budget by resolution. The City Manager may transfer appropriations from one program, activity, or object to another within a department. All appropriations lapse at the end of the fiscal year. The budget is adopted at the character level of expenditure within departments. As described above, the City Manager is authorized to make transfers of excess appropriations within departments. Accordingly, the lowest level of budgetary control established by the City Council and District Board of Directors is the department level.

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

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City/District for the year ended June 30, 2007. In order to be awarded a Certificate of Achievement, the City/District published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the report in a timely manner is the result of the dedicated service of the members of the Financial Services Department to whom I wish to express my appreciation, especially Lin-Lin Cheng and Fiti Rusli. I would like to thank the auditors from Caporicci and Larson Certified Public Accountants for their invaluable professional assistance.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Santiago", written in a cursive style.

Ricardo G. Santiago
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Foster City and Estero
Municipal Improvement District
California

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

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



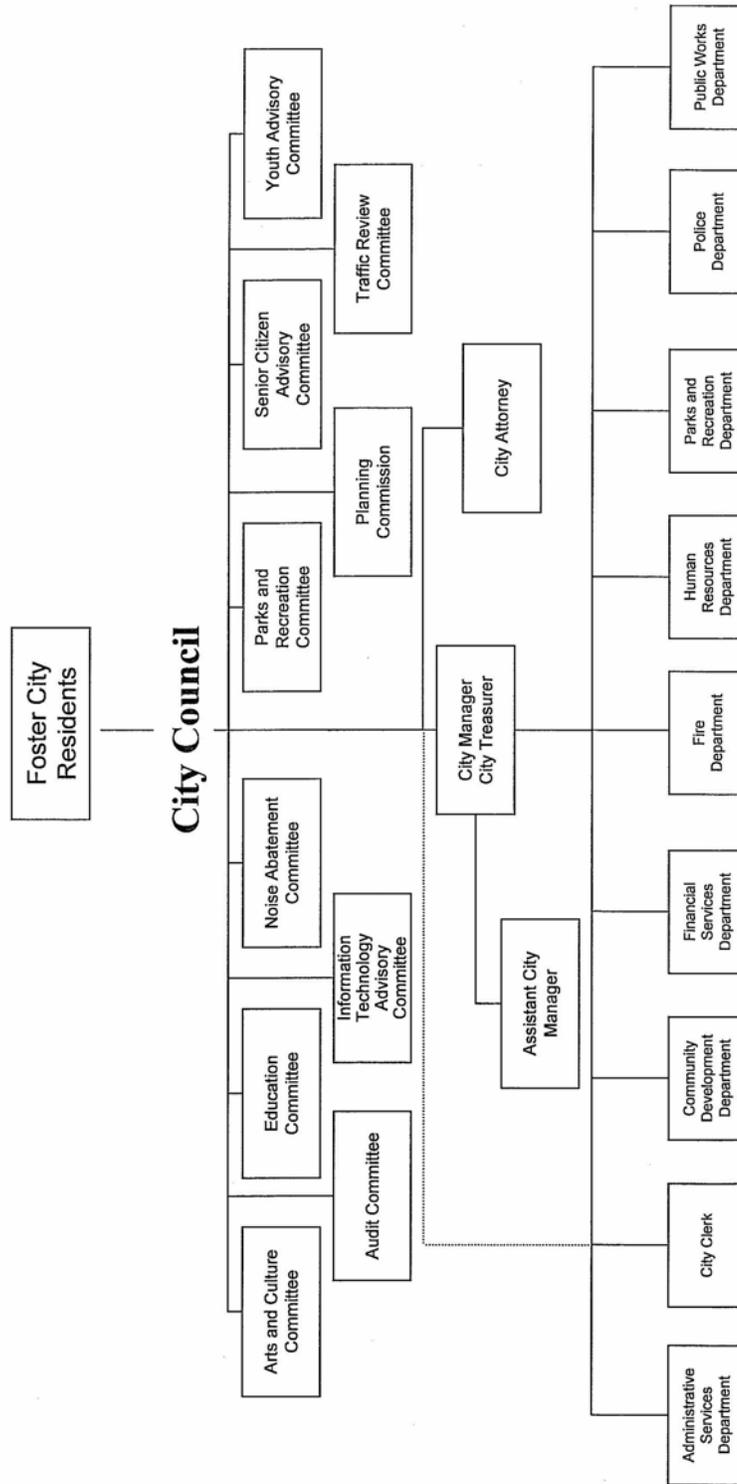
Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

Foster City Organization Chart



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Foster City and the Estero Municipal Improvement District, California (City/District), as of and for the year ended June 30, 2008, which collectively comprise the City/District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City/District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the City/District has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements.

In our opinion, the basic 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/District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 2 to the basic financial statements, the City/District adopted Statement of Governmental Accounting Standards Board No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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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
Page2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008 on our consideration of the City/District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City/District's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Capricci & Carson

Oakland, California
December 2, 2008

CITY OF FOSTER CITY AND ESTERO MUNICIPAL IMPROVEMENT DISTRICT

Management's Discussion and Analysis

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, 2008. We encourage readers to consider the information presented here in conjunction with our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City/District exceeded liabilities at the close of the fiscal year 2007-2008 by \$254,414,873 (*net assets*). Of this amount, \$68,251,697 (*unrestricted net assets*) may be used to meet the City/District's ongoing obligations to citizens and creditors, \$23,606,731 is restricted for specific purposes (*restricted net assets*), and \$162,556,445 is invested in capital assets, net of related debt.
- The government's total net assets increased by \$7,995,237 during the fiscal year. Governmental activities account for an increase in net assets in the amount of \$8,284,556 and business-type activities account for a decrease in net assets by \$289,319.
- As of June 30, 2008, the City/District's governmental funds reported combined ending fund balances of \$57,475,108.
- Approximately 44% of the combined fund balances, \$25,367,304 (*unreserved fund balance*) is available to meet the City/District's current and future needs.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$20,287,727, or 73% of total General Fund expenditures.
- The City/District's total long-term obligations decreased by \$5,357,298 in comparison with the prior year. The decrease resulted primarily from scheduled principal retirement of bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City/District's basic financial statements. The City/District's basic financial statements comprise three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. This report also contains Required Supplementary Information (Schedule of Funding Progress and General Fund Budgetary Comparison Schedule) and Other Supplementary Information (combining financial statements and nonmajor governmental funds budgetary comparison schedules) in addition to the basic financial statements themselves.

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

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

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

Both of these government-wide financial statements distinguish functions of the City/District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City/District include general government, public safety, public works, community development, and parks and recreation. The business-type activities of the City/District include water, sewer and public transportation operations.

CITY OF FOSTER CITY AND ESTERO MUNICIPAL IMPROVEMENT DISTRICT

Management's Discussion and Analysis

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

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

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

The City/District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund; Metro Center Special Assessments Bonds, Tax Allocation Refunding Bonds, City Capital Projects, and Community Development Agency, all of which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation entitled "other funds." Individual and combining fund data for each of these nonmajor governmental funds is provided as other supplementary information in this report.

Proprietary funds are generally used to account for services for which the City/District charges customers – either outside customers, or internal units of departments of the City/District. Proprietary funds provide the same type of information as 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, sewer and transportation operations.
- *Internal service funds* are used to report activities that provide supplies and services for certain City/District programs and activities. The City/District uses the internal service fund to account for the City/District's vehicle rental, equipment replacement, self-insurance, information technology, building maintenance and longevity recognition benefits services. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

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

Management's Discussion and Analysis

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table provides a condensed statement of net assets as of June 30, 2008.

**Condensed Statement of Net Assets
June 30, 2008**

	Governmental Activities		Business-Type Activities		Total		Percent of Change
	2008	2007	2008	2007	2008	2007	
Assets:							
Current and other assets	\$ 79,752,523	\$ 74,688,074	\$ 42,374,574	\$ 44,164,565	\$ 122,127,097	\$ 118,852,639	2.76%
Capital assets	109,697,436	111,423,475	40,011,692	38,826,871	149,709,128	150,250,346	-0.36%
Total assets	189,449,959	186,111,549	82,386,266	82,991,436	271,836,225	269,102,985	1.02%
Liabilities:							
Current and other liabilities	3,953,024	3,756,817	1,865,426	1,966,334	5,818,450	5,723,151	1.67%
Long-term liabilities	11,291,878	16,434,231	311,024	525,969	11,602,902	16,960,200	-31.59%
Total liabilities	15,244,902	20,191,048	2,176,450	2,492,303	17,421,352	22,683,351	-23.20%
Net assets:							
Invested in capital assets, net of related debt	101,122,436	97,436,808	61,434,009	59,649,262	162,556,445	157,086,070	3.48%
Restricted	23,606,731	23,657,789	-	301,692	23,606,731	23,959,481	-1.47%
Unrestricted	49,475,890	44,825,904	18,775,807	20,548,181	68,251,697	65,374,085	4.40%
Total net assets	\$ 174,205,057	\$ 165,920,501	\$ 80,209,816	\$ 80,499,135	\$ 254,414,873	\$ 246,419,636	3.24%

Analysis of Net Assets – As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City/District, assets exceeded liabilities by \$254,414,783 at the close of the current fiscal year. The invested in capital assets, net of related debt net assets have increased by \$5,470,375 (3%) due primarily to the decrease of non-housing related long term debt obligation during current fiscal year.

A portion of the City/District's net assets (27%) represents *unrestricted net assets* of \$68,251,697, which may be used to meet the City/District's ongoing obligations to citizens and creditors. Another significant portion of the City/District's net assets of \$162,556,445 (64%) reflects its investment in capital assets (e.g. land, structures and improvements, infrastructure, and equipment) less any related debt used to acquire those assets that are still outstanding. The City/District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City/District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City/District's net assets of \$23,606,731 (9%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City/District reported positive balances in all categories of net assets, both for the City/District as a whole, as well as for its business type activities. For governmental activities, the City/District reported a positive balance of \$49,475,890 in unrestricted net assets. For business-type activities, the City/District reported a positive balance of \$18,775,807 in unrestricted net assets.

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

Management's Discussion and Analysis

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

**Condensed Statement of Activities
For the Year Ended June 30, 2008**

	Governmental Activities		Business-Type Activities		Total		Percent of Change
	2008	2007	2008	2007	2008	2007	
Program Revenues:							
Charges for services	\$ 2,872,933	\$ 2,732,371	\$ 12,339,900	\$ 11,267,761	\$ 15,212,833	\$ 14,000,132	8.66%
Operating grants and contributions	854,272	996,947	-	-	854,272	996,947	-14.31%
Capital grants and contributions	-	128,000	-	-	-	128,000	-100.00%
General revenues:							
Taxes	31,159,012	27,325,083	-	-	31,159,012	27,325,083	14.03%
Contributions not restricted to specific purposes	5,059,382	7,091,028	-	-	5,059,382	7,091,028	-28.65%
Unrestricted investment and rental income	3,933,537	4,463,127	809,666	1,145,239	4,743,203	5,608,366	-15.43%
Other	438,822	768,061	71,925	28,262	510,747	796,323	-35.86%
Total revenues	44,317,958	43,504,617	13,221,491	12,441,262	57,539,449	55,945,879	2.85%
Expenses:							
General government	3,384,497	3,172,917	-	-	3,384,497	3,172,917	6.67%
Public safety	15,875,640	15,544,011	-	-	15,875,640	15,544,011	2.13%
Public works	4,795,377	5,832,257	-	-	4,795,377	5,832,257	-17.78%
Community development	4,399,597	4,517,721	-	-	4,399,597	4,517,721	-2.61%
Parks and recreation	6,969,205	6,274,796	-	-	6,969,205	6,274,796	11.07%
Interest on long term debt	527,048	714,924	-	-	527,048	714,924	-26.28%
Water operations	-	-	7,575,909	6,868,450	7,575,909	6,868,450	10.30%
Sewer operations	-	-	5,861,595	5,099,038	5,861,595	5,099,038	14.95%
Public transportation	-	-	155,344	131,378	155,344	131,378	18.24%
Total expenses	35,951,364	36,056,626	13,592,848	12,098,866	49,544,212	48,155,492	2.88%
Excess (deficiency) of revenues over (under) expenses before transfers	8,366,594	7,447,991	(371,357)	342,396	7,995,237	7,790,387	2.63%
Transfers	(82,038)	(80,424)	82,038	80,424	-	-	
Change in net assets	8,284,556	7,367,567	(289,319)	422,820	7,995,237	7,790,387	2.63%
Net assets, beginning of year	165,920,501	158,552,934	80,499,135	80,081,341	246,419,636	238,634,275	3.26%
Prior year adjustments	-	-	-	(5,026)	-	(5,026)	0.00%
Net assets, end of year	\$ 174,205,057	\$ 165,920,501	\$ 80,209,816	\$ 80,499,135	\$ 254,414,873	\$ 246,419,636	3.24%

Analysis of Change in Net Assets – The City/District's governmental activities net assets increased by \$8,284,556 during the current fiscal year.

Key elements of the increase/decrease in revenues for the City/District's governmental activities are as follows:

- Charges for services have increased by \$140,562 or 5% from General Government, Public Works, and Community Development departments' services.
- Operating grants and contributions decreased by \$142,675 or 14% is due to less donations received by Foster City Foundation Fund.
- Capital grants and contributions decreased by \$128,000 or 100% due to payoff of Metro Center Special Assessment bonds, decrease of Vintage Park Special Assessment bonds tax, and the City/District received Prop 1B revenue in the current year.
- Taxes increased by \$3,833,929 or 14% primarily due to the increase in property taxes revenue and reclassification of motor vehicle license in-lieu fees.
- Contributions not restricted for special purposes decreased by \$2,031,646 or 29% due to reclassification of motor vehicle lines in-lieu fees.
- Unrestricted investment and rental revenues decreased by \$529,590 or 15% due to the decrease of weighted average interest rate from 4.6% to 2.972% of the investment portfolio.
- Other revenues decreased by \$329,239 or 36% due to the less reimbursement received from Comcast in comparing to prior year.

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

Management's Discussion and Analysis

Key elements of the Increase/Decrease in expenses for the City/District's governmental activities are as follows:

- General government expenses increased by \$211,580 or 7% due to the increase in personnel costs and operating expenses.
- Public safety expenses increased by \$331,629 or 2% due to the increase in personnel costs.
- Public works expenses decreased by \$1,036,880 or 18% due to reduction of staffing and less capital improvement project expenditures in comparing to prior year.
- Community development expenses decreased by \$118,124 or 3% due to savings from staff vacancy and less capital improvement project expenditures in comparing to prior year.
- Parks and recreation expenses increased by \$694,409 or 11% due to the increase of personnel costs and teen center capital improvement project.
- Interest on long-term debt decreased by \$187,876 or 26% due to lower outstanding debt obligations. The decrease primarily due to reaching the final years of retiring the long-term debt.

Activity related to the water operations, sewer operations, and public transportation will be discussed in the Financial Analysis of the City/District's funds below.

FINANCIAL ANALYSIS OF THE CITY/DISTRICT'S FUNDS

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

Governmental funds The focus of the City/District's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City/District's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City/District include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of the current fiscal year, the City/District's governmental funds reported combined fund balances of \$57,475,108. Of this total amount, \$25,367,304 constitutes *unreserved fund balance*, which is available for spending at the City/District's discretion. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because: 1) \$11,811,904 reflects fund equity in assets that are long-term in nature and, thus, do not represent available spendable resources; 2) \$7,012,025 is reserved for debt service; 3) \$8,878 are advance payments made for conferences and membership dues; 4) \$8,200 is reserve for emergency supplies; 5) \$13,266,797 is reserved for the Community Development Agency's housing programs.

For fiscal year ended June 30, 2008, revenues for governmental functions overall totaled \$45,522,714 while expenditures totaled \$41,548,472.

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

Management's Discussion and Analysis

The following table provides an explanation of revenues by source.

Revenues Classified by Source
Governmental Funds

	FY 2008		FY 2007		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
Revenues by Source:						
Taxes	\$ 35,329,687	77.61%	\$ 33,523,781	75.52%	\$ 1,805,906	5.39%
Licenses and permits	1,166,550	2.56%	1,156,192	2.60%	10,358	0.90%
Fines and forfeitures	164,661	0.36%	194,613	0.44%	(29,952)	-15.39%
Investment income and rentals	4,706,132	10.34%	5,127,172	11.55%	(421,040)	-8.21%
Intergovernmental	1,443,393	3.17%	1,183,015	2.66%	260,378	22.01%
Charges for current services	1,347,279	2.96%	1,383,692	3.12%	(36,413)	-2.63%
Special assessments	352,443	0.77%	799,236	1.80%	(446,793)	-55.90%
Other	1,012,569	2.22%	1,024,736	2.31%	(12,167)	-1.19%
Total	<u>\$ 45,522,714</u>	<u>100.00%</u>	<u>\$ 44,392,437</u>	<u>100.00%</u>	<u>\$ 1,130,277</u>	<u>2.55%</u>

- Taxes increased by \$1,805,906 or 5% are due to the increase of revenues from property tax, sales and use tax, franchise tax, and transient occupancy tax.
- Licenses and permits increased by \$10,358 or 1% primarily due to business license tax revenue as result of continuing business license enforcement.
- Fines and forfeitures decreased by \$29,925 or 15% due to the decrease of traffic fines revenue.
- Investment income and rentals decreased by \$421,040 or 8% due to the decrease interest revenue from CDA loan, and the decrease of weighted average interest rate of the investment portfolio.
- Intergovernmental revenue increased by \$260,378 or 22% due to one time revenue from Proposition 1B.
- Charges for current services decreased by \$36,413 or 3% due to the decrease of revenues from special recreation programs and plan checking fees.
- Special assessments revenue decreased by \$446,793 or 56% due to the payoff of Metro Center Special Assessment Bonds.
- Other revenue decreased by \$12,167 or 1% due to less amount of reimbursements from Comcast in comparing with prior year.

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

Management's Discussion and Analysis

The following table provides an explanation of expenditures by function that changed significantly over the prior year.

Expenditures by Function
Governmental Funds

Expenditures by Function	FY 2008		FY 2007		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Change
General government	\$ 2,979,792	7.18%	\$ 2,471,650	6.15%	\$ 508,142	20.56%
Public safety	16,023,562	38.57%	15,684,296	39.10%	339,266	2.16%
Public works	2,435,402	5.86%	2,428,438	6.05%	6,964	0.29%
Community development	4,429,165	10.66%	4,550,667	11.35%	(121,502)	-2.67%
Parks and recreation	6,361,683	15.31%	5,704,605	14.22%	657,078	11.52%
Capital outlay	2,110,297	5.08%	1,186,620	2.96%	923,677	77.84%
Debt service	5,808,191	13.98%	6,563,437	16.36%	(755,246)	-11.51%
Interest on interfund loans	1,400,380	3.37%	1,519,167	3.79%	(118,787)	-7.82%
Total	\$ 41,548,472	100.01%	\$ 40,108,880	99.98%	\$ 1,439,592	3.59%

- General government expenditure increased by \$508,142 or 21% primarily due to the increase of personnel costs.
- Public safety expenditure increased by \$339,266 or 2% primarily due to the increase of personnel costs.
- Public works expenditures increased by \$6,964 or 0.3% is the net of increase in personnel costs, elimination of an Office Assistant position, and the completion of one time expenses of Solar Bee project in prior year.
- Community development expenditures decreased by \$121,502 or 3% due to the decrease of capital improvement project expenses funded by redevelopment agency.
- Parks and recreation expenditures increased by \$657,078 or 12% due to the increase of personnel costs.
- Capital outlay increased by \$923,677 or 78% due to the increase of capital improvement expenses of teen center project.
- Debt service decreased by \$755,246 or 12% due to the payoff of Metro Center Special Assessment bond.
- Interest on inter-fund loans decreased by \$118,787 or 8% reflects the decrease of outstanding principal due to the scheduled annual loan repayment.

General Fund - The General Fund is the chief operating fund of the City/District. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$20,287,727 while total fund balance was \$32,116,709. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 73% of total General Fund expenditures of \$27,932,559, while total fund balance represents 115% of that same amount.

The fund balance in the General Fund decreased by \$520,005 during the fiscal year mainly due to the increase of expenditures in personnel costs

**CITY OF FOSTER CITY AND
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Management's Discussion and Analysis

Metro Center Special Assessment Bonds Fund - The Metro Center Special Assessment Bonds was paid off on September 2, 2007.

Tax Allocation Refunding Bonds Fund - The Tax Allocation Refunding Bonds Fund accounts for the payment of principal and interest on 2001 tax allocation refunding bonds that refunded the 1993 and 1996 revenue bonds. The outstanding principal was \$6,975,000 as of June 30, 2008.

City Capital Projects Fund - The City Capital Projects Fund accounts for development, construction or acquisition of approved capital projects funded by certain general obligations bonds and capital grants. During the current fiscal year, \$269,313 was spent on various capital projects.

Community Development Agency Fund - The Community Development Agency Fund accounts for revenues from the property tax increments derived from the Community Development Agency's (Agency) investment in upgrading properties for further development.

Proprietary funds - The City/District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the water operation were \$7,282,604 and the sewer operation was \$11,099,068.

The total decrease in net assets for enterprise funds was \$403,099. Factors concerning the decrease in net assets are as follows:

- The ***Water Fund*** had an operating loss of \$559,664 due to the increase of personnel costs and cost of water purchase.
- The ***Sewer Fund*** had an operating gain of \$152,198 due to the 8% sewer rate increase.
- The ***Public Transportation Fund*** had net fund balance increase of \$4,367 due to the transfer in from general fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual revenues and transfers in were lower than the budgetary estimates by \$204,863. The City/District had negative variances in budget versus actual comparison of revenues such as sales and use tax, transient occupancy tax, real property transfer tax, permits, home owner property tax relief, charges for current services, special recreation programs, fines and forfeitures, and transfer in. Actual expenditures and transfers out were \$2,959,835 less than budget due to budgetary savings.

CAPITAL ASSETS

The City/District's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to \$149,709,128 (net of accumulated depreciation). This investment in capital assets includes land, building, infrastructure, structures and improvements, equipment, vehicle, and construction in progress.

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

Management's Discussion and Analysis

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

Capital Assets (Net of Accumulated Depreciation)		Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007	
Land	\$ 10,234,421	\$ 10,234,421	\$ 3,553,474	\$ 3,553,474	\$ 13,787,895	\$ 13,787,895	
Infrastructure, structures and improvements	93,520,710	96,134,062	36,013,139	34,667,906	129,533,849	130,801,968	
Equipment and vehicles	4,123,760	4,458,737	353,736	211,067	4,477,496	4,669,804	
Construction in progress	1,818,545	596,255	91,343	394,424	1,909,888	990,679	
Total	<u>\$ 109,697,436</u>	<u>\$ 111,423,475</u>	<u>\$ 40,011,692</u>	<u>\$ 38,826,871</u>	<u>\$ 149,709,128</u>	<u>\$ 150,250,346</u>	

Major capital asset events during the current fiscal year included the following:

- For governmental activities, construction in progress increased by \$1,222,290 due to the Teen Center project.
- For governmental activities, infrastructure, structures and improvements decreased by \$2,613,352 due to the annual depreciation.
- For business-type activities, construction in progress decreased by \$303,081 due to the completion of the Phase III Sanitary Sewer Lift Station Improvement project.
- For business-type activities, infrastructure, structures and improvements increased by \$1,345,233 due to the completion of Phase III Sanitary Sewer Lift Station Improvement project.

Additional information about the City/District's capital assets including construction commitments can be found in Note 6 to the basic financial statements.

DEBT ADMINISTRATION

At June 30, 2008, the City/District had total long-term obligations outstanding in the amount of \$11,602,902, which was comprised of tax allocation refunding bonds - \$6,975,000, special assessment bonds - \$800,000, COSTCO notes - \$800,000, claims liability - \$106,287, and compensated absences - \$2,921,615.

The City/District did not issue any new bonds during fiscal year 2007-2008. The only financial activities during the fiscal year were scheduled principal and interest payments according to the debt service schedules. The City/District retired \$5,210,000 of debt principal in fiscal year 2007-2008.

Additional information about the City/District's long-term liabilities can be found in Note 7 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City/District will be in full compliance with the requirements of GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment benefits Other Than Pensions.
- Public Employees' Retirement System contribution rates increased for public safety employees from 32.885% to 33.103%, and decreased for miscellaneous employees from 14.371% to 13.936%.
- The State is expected to take over \$1.2 million dollars of the City/District's local revenues under the original ERAF legislation.

**CITY OF FOSTER CITY AND
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Management's Discussion and Analysis

- With the passage of AB1389, the State will be taking \$1,160 million dollars in Community Development Agency's tax increment revenue.

All of these factors were considered in the City/District's budget for fiscal year 2008-2009.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City/District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 610 Foster City Boulevard, Foster City, CA 94404.

City of Foster City and Estero Municipal Improvement District
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 68,046,285	\$ 17,433,725	\$ 85,480,010
Receivable, net	2,748,578	2,910,568	5,659,146
Internal balances	(370,767)	370,767	-
Inventory	38,291	237,197	275,488
Prepays and deposits	8,878	-	8,878
Restricted cash and investments	8,061,373	-	8,061,373
Loans receivable (net)	1,029,490	-	1,029,490
Special assessment receivable	190,395	-	190,395
Sewer capacity rights	-	21,422,317	21,422,317
Capital assets:			
Nondepreciable	12,052,967	3,644,817	15,697,784
Depreciable, net of accumulated depreciation	97,644,469	36,366,875	134,011,344
Total assets	189,449,959	82,386,266	271,836,225
LIABILITIES			
Accounts payable	2,118,465	1,744,943	3,863,408
Accrued payroll	1,022,823	117,351	1,140,174
Interest payable	168,060	-	168,060
Refundable deposits	389,281	3,132	392,413
Unearned revenue	254,395	-	254,395
Long-term liabilities:			
Due within one year	4,921,863	130,471	5,052,334
Due in more than one year	6,370,015	180,553	6,550,568
Total liabilities	15,244,902	2,176,450	17,421,352
NET ASSETS			
Invested in capital assets, net of related debt	101,122,436	61,434,009	162,556,445
Restricted for:			
Debt service	8,814,339	-	8,814,339
Housing	11,038,783	-	11,038,783
Public safety	38,111	-	38,111
Roads	2,157,529	-	2,157,529
Other purposes	1,557,969	-	1,557,969
Unrestricted	49,475,890	18,775,807	68,251,697
Total net assets	\$ 174,205,057	\$ 80,209,816	\$ 254,414,873

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 3,384,497	\$ 294,853	\$ 181,676
Public safety - Police	8,598,000	216,725	114,977
Public safety - Fire	7,277,640	78,798	-
Public works	4,795,377	160,062	557,619
Community development	4,399,597	1,089,516	-
Parks and recreation	6,969,205	1,032,979	-
Interest on long-term debt	527,048	-	-
Total governmental activities	35,951,364	2,872,933	854,272
Business-type activities:			
Water	7,575,909	6,769,890	-
Sewer	5,861,595	5,570,010	-
Public transportation	155,344	-	-
Total business-type activities	13,592,848	12,339,900	-
Total primary government	\$ 49,544,212	\$ 15,212,833	\$ 854,272

General revenues and transfers:

- Taxes:
 - Property taxes
 - Transient occupancy tax
 - Franchise tax
 - Other taxes
 - Contributions not restricted to specific programs:
 - Sales and use tax and sales tax in lieu
 - Unrestricted investment income
 - Loss on sale of capital assets
 - Other
 - Transfers
- Total general revenues and transfers**
- Change in net assets**
- Net assets - beginning of year**
- Net assets - end of year**

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,907,968)	\$ -	\$ (2,907,968)
(8,266,298)	-	(8,266,298)
(7,198,842)	-	(7,198,842)
(4,077,696)	-	(4,077,696)
(3,310,081)	-	(3,310,081)
(5,936,226)	-	(5,936,226)
(527,048)	-	(527,048)
<u>(32,224,159)</u>	<u>-</u>	<u>(32,224,159)</u>
-	(806,019)	(806,019)
-	(291,585)	(291,585)
-	(155,344)	(155,344)
<u>-</u>	<u>(1,252,948)</u>	<u>(1,252,948)</u>
<u>(32,224,159)</u>	<u>(1,252,948)</u>	<u>(33,477,107)</u>
27,576,756	-	27,576,756
1,415,371	-	1,415,371
1,029,576	-	1,029,576
1,137,309	-	1,137,309
5,059,382	-	5,059,382
3,933,537	809,666	4,743,203
-	(17,198)	(17,198)
438,822	89,123	527,945
(82,038)	82,038	-
<u>40,508,715</u>	<u>963,629</u>	<u>41,472,344</u>
8,284,556	(289,319)	7,995,237
<u>165,920,501</u>	<u>80,499,135</u>	<u>246,419,636</u>
<u>\$ 174,205,057</u>	<u>\$ 80,209,816</u>	<u>\$ 254,414,873</u>

City of Foster City and Estero Municipal Improvement District
Balance Sheet
Governmental Funds
June 30, 2008

	Major Funds				
	General Fund	Metro Center Special Assessment Bonds	Tax Allocation Refunding Bonds	City Capital Projects	Community Development Agency
ASSETS					
Cash and investments	\$ 19,915,396		\$ -	\$ 8,510,802	\$ 20,067,524
Receivables, net of allowance:					
Accrued interest	694,273	-	-	-	-
Intergovernmental	17,766	-	-	-	-
Taxes	1,519,739	-	-	-	-
Other	247,349	-	-	1,300	-
Prepays and deposits	8,878	-	-	-	-
Inventory	8,200	-	-	-	-
Restricted cash and investments	107,792	-	6,327,371	-	-
Loans receivables, net of allowance	-	-	-	-	1,029,490
Special assessments receivable	-	-	-	-	-
Advances to other funds	11,811,904	-	-	-	-
Total assets	\$ 34,331,297	\$ -	\$ 6,327,371	\$ 8,512,102	\$ 21,097,014
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 612,525	\$ -	\$ -	\$ 449,387	\$ 858,556
Accrued payroll	962,302	-	-	-	151
Refundable deposits	385,366	-	-	-	3,915
Deferred revenue	254,395	-	-	-	1,029,490
Advances from other funds	-	-	-	-	11,811,904
Total liabilities	2,214,588	-	-	449,387	13,704,016
Fund Balances:					
Reserved:					
Advances to other funds	11,811,904	-	-	-	-
Debt service	-	-	6,327,371	-	-
Prepaid expenses	8,878	-	-	-	-
Inventory	8,200	-	-	-	-
Housing programs	-	-	-	-	13,266,797
Unreserved, designated:					
Capital projects	526,960	-	-	1,619,416	-
Emergency	1,000,000	-	-	1,000,000	-
Unreserved, undesignated:					
General fund	18,760,767	-	-	-	-
Special revenue funds	-	-	-	-	-
Capital project funds	-	-	-	5,443,299	(5,873,799)
Total fund balances	32,116,709	-	6,327,371	8,062,715	7,392,998
Total liabilities and fund balances	\$ 34,331,297	\$ -	\$ 6,327,371	\$ 8,512,102	\$ 21,097,014

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental		
Funds		Total
\$ 2,911,033	\$	51,404,755
-		694,273
195,984		213,750
45,561		1,565,300
18,000		266,649
-		8,878
-		8,200
414,200		6,849,363
-		1,029,490
190,395		190,395
-		11,811,904
<u>\$ 3,775,173</u>	<u>\$</u>	<u>74,042,957</u>

\$ 5,818	\$	1,926,286
3,645		966,098
-		389,281
190,395		1,474,280
-		11,811,904
<u>199,858</u>		<u>16,567,849</u>

-		11,811,904
684,654		7,012,025
-		8,878
-		8,200
-		13,266,797
-		2,146,376
-		2,000,000
-		18,760,767
2,890,661		2,890,661
-		(430,500)
<u>3,575,315</u>		<u>57,475,108</u>
<u>\$ 3,775,173</u>	<u>\$</u>	<u>74,042,957</u>

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City of Foster City and Estero Municipal Improvement District
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balances - Total Governmental Funds		\$ 57,475,108
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Amounts reported for governmental activities in the Statement of Net Assets were reported differently because:

Capital assets used in governmental activities are not financial resources and therefore were not reported in governmental funds. This amount is net of capital assets of the internal service funds in the amount of \$4,264,222.		105,433,214
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Loans receivable and other long-term receivables are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.		1,029,490
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Special assessments are reported as revenue when levied in Government-Wide Financial Statements. In governmental funds, these assessments are reported as deferred revenue (a liability) since they are not available to pay current period expenditures.		190,395
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Assets.		21,257,856
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Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Tax allocation refunding bonds	\$ (6,975,000)		
Special assessment bonds	(800,000)		
COSTCO notes	(800,000)		
Accrued interest payable	(168,060)		
Compensated absences. This amount is net of compensated absences of the internal service funds in the amount of \$172,645.	(2,437,946)		
	(2,437,946)	(11,181,006)	

Net Assets of Governmental Activities		\$ 174,205,057
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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, 2008

	Major Funds				
	General Fund	Metro Center Special Assessment Bonds	Tax Allocation Refunding Bonds	City Capital Projects	Community Development Agency
REVENUES:					
Property taxes	\$ 13,628,833	\$ -	\$ 9,441,712	\$ -	\$ 4,506,211
Sales and use and sales tax in lieu	4,583,632	-	-	-	-
Transient occupancy tax	1,415,371	-	-	-	-
Franchise tax	1,029,576	-	-	-	-
Other taxes	248,602	-	-	-	-
Licenses and permits	1,166,550	-	-	-	-
Intergovernmental	298,918	-	-	-	-
Charges for current services	1,347,279	-	-	-	-
Fines and forfeitures	47,657	-	-	-	-
Special assessment	-	-	-	-	-
Investment income and rental	2,926,017	3,697	153,537	364,760	1,137,197
Other	797,711	-	-	34,765	4,696
Total revenues	27,490,146	3,697	9,595,249	399,525	5,648,104
EXPENDITURES:					
Current:					
General government	2,798,829	-	-	-	-
Public safety - Police	8,548,958	-	-	-	-
Public safety - Fire	7,366,699	-	-	-	-
Public works	1,718,867	-	-	-	-
Community development	1,222,061	-	-	-	3,207,104
Parks and recreation	6,277,145	-	-	84,538	-
Capital outlay	-	-	-	184,775	1,270,724
Debt service:					
Principal retirement	-	940,000	3,275,000	-	-
Interest and fiscal charges	-	64,150	373,673	-	64,000
Interest on interfund loans from other funds	-	-	-	-	1,400,380
Total expenditures	27,932,559	1,004,150	3,648,673	269,313	5,942,208
REVENUES OVER (UNDER) EXPENDITURES	(442,413)	(1,000,453)	5,946,576	130,212	(294,104)
OTHER FINANCING SOURCES (USES):					
Transfers in	4,447	-	-	-	5,838,958
Transfers out	(82,039)	(4,447)	(5,838,957)	-	-
Total other financing sources (uses)	(77,592)	(4,447)	(5,838,957)	-	5,838,958
NET CHANGE IN FUND BALANCES	(520,005)	(1,004,900)	107,619	130,212	5,544,854
FUND BALANCES:					
Beginning of year	32,636,714	1,004,900	6,219,752	7,932,503	1,848,144
End of year	\$ 32,116,709	\$ -	\$ 6,327,371	\$ 8,062,715	\$ 7,392,998

See accompanying Notes to Basic Financial Statements.



Other	
Governmental	
Funds	Total
\$ -	\$ 27,576,756
475,750	5,059,382
-	1,415,371
-	1,029,576
-	248,602
-	1,166,550
1,144,475	1,443,393
-	1,347,279
117,004	164,661
352,443	352,443
120,924	4,706,132
175,397	1,012,569
<u>2,385,993</u>	<u>45,522,714</u>
180,963	2,979,792
101,273	8,650,231
6,632	7,373,331
716,535	2,435,402
-	4,429,165
-	6,361,683
654,798	2,110,297
995,000	5,210,000
96,368	598,191
-	1,400,380
<u>2,751,569</u>	<u>41,548,472</u>
<u>(365,576)</u>	<u>3,974,242</u>
-	5,843,405
-	<u>(5,925,443)</u>
-	<u>(82,038)</u>
(365,576)	3,892,204
<u>3,940,891</u>	<u>53,582,904</u>
<u>\$ 3,575,315</u>	<u>\$ 57,475,108</u>

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City of Foster City and Estero Municipal Improvement District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	<u>3,892,204</u>
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Governmental activities in the Statement of Activities were reported differently because:

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

Capital assets additions	\$	2,185,518	
Contributed capital assets		6,400	
Less capital assets disposals		(2,749)	
Less current year depreciation. This amount is net of depreciation expense of the internal service funds in the amount of \$917,572.		<u>(3,678,533)</u>	(1,489,364)

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.	370,303
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Special assessment revenues 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.	(969,605)
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Gain from a lender's forgiveness of a long-term obligation is not a receipt of current financial resources and therefore is not reported as revenues in governmental funds: Forgiveness of current year principal relating to the COSTCO note payable	201,667
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Repayment of bond and long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. General obligation bonds	635,000		
Tax allocation refunding bonds		3,275,000	
Special assessment bonds		<u>1,300,000</u>	5,210,000

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. Change in accrued interest	71,143		
Change in long-term compensated absences. This amount is net of changes in compensated absences of the internal service funds in the amount of \$58		<u>(188,884)</u>	(117,741)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.	<u>1,187,092</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>8,284,556</u></u>
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See accompanying Notes to Basic Financial Statements.

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City of Foster City and Estero Municipal Improvement District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2008

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Non-Major - Public Transportation		
ASSETS					
Current assets:					
Cash and investments	\$ 6,845,894	\$ 10,587,831	\$ -	\$ 17,433,725	\$ 16,641,530
Receivables, net of allowance:					
Billed utility, net of allowance for uncollectible	636,817	506,955	-	1,143,772	-
Unbilled utility	980,076	735,092	-	1,715,168	-
Other	11,418	-	40,210	51,628	8,606
Inventory	72,372	164,825	-	237,197	30,091
Restricted cash and investments	-	-	-	-	1,212,010
Total current assets	8,546,577	11,994,703	40,210	20,581,490	17,892,237
Noncurrent assets:					
Sewer capacity rights	-	21,422,317	-	21,422,317	-
Capital assets:					
Nondepreciable	3,631,317	13,500	-	3,644,817	140,465
Depreciable, net of accumulated depreciation	23,596,354	12,770,521	-	36,366,875	4,123,757
Total noncurrent assets	27,227,671	34,206,338	-	61,434,009	4,264,222
Total assets	35,774,248	46,201,041	40,210	82,015,499	22,156,459
LIABILITIES					
Current liabilities:					
Accounts payable	1,055,563	672,538	16,842	1,744,943	192,179
Accrued payroll	56,086	61,265	-	117,351	56,725
Refundable deposits	3,132	-	-	3,132	-
Claims liability	-	-	-	-	106,287
Compensated absences - current portion	62,531	67,940	-	130,471	58,527
Total current liabilities	1,177,312	801,743	16,842	1,995,897	413,718
Noncurrent liabilities:					
Compensated absences - noncurrent portion	86,661	93,892	-	180,553	114,118
Total noncurrent liabilities	86,661	93,892	-	180,553	114,118
Total liabilities	1,263,973	895,635	16,842	2,176,450	527,836
NET ASSETS					
Invested in capital assets, net of related debt	27,227,671	34,206,338	-	61,434,009	4,264,222
Restricted for:					
Other purposes	-	-	-	-	1,212,010
Unrestricted	7,282,604	11,099,068	23,368	18,405,040	16,152,391
Total net assets	\$ 34,510,275	\$ 45,305,406	\$ 23,368	79,839,049	\$ 21,628,623
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				370,767	
Net assets of business-type activities				<u>\$ 80,209,816</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 Assets
Proprietary Funds
For the fiscal year ended June 30, 2008

	Enterprise Funds			Internal Service Funds
	Water	Sewer	Non-Major - Public Transportation	
OPERATING REVENUES:				
Sales and service charges	\$ 6,769,890	\$ 5,570,010	\$ -	\$ 12,339,900
Charges for service - internal	-	-	-	5,306,640
Other	3,606	7,844	77,673	89,123
Total operating revenues	6,773,496	5,577,854	77,673	12,429,023
OPERATING EXPENSES:				
Personnel	1,310,515	1,324,170	-	2,634,685
Utilities	3,674,278	174,104	-	3,848,382
Program supplies	162,351	118,067	-	280,418
Repairs and maintenance	8,015	106,846	-	114,861
General and administration	1,284,124	1,160,976	-	2,445,100
Depreciation and amortization	1,062,299	872,338	-	1,934,637
Contractual service	89,631	2,123,570	155,344	2,368,545
Insurance	40,000	40,000	-	80,000
Total operating expenses	7,631,213	5,920,071	155,344	13,706,628
OPERATING INCOME (LOSS)	(857,717)	(342,217)	(77,671)	(1,277,605)
NONOPERATING REVENUES (EXPENSES):				
Gains (loss) on sales of capital assets	(17,198)	-	-	(17,198)
Investment income	315,251	494,415	-	809,666
Total nonoperating revenues (expenses)	298,053	494,415	-	792,468
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(559,664)	152,198	(77,671)	(485,137)
CONTRIBUTIONS AND TRANSFERS:				
Capital contributions	-	-	-	101,657
Transfers in	-	-	82,038	82,038
Transfers out	-	-	-	(204,848)
Total contributions and transfers	-	-	82,038	26,436
Change in net assets	(559,664)	152,198	4,367	(403,099)
NET ASSETS:				
Beginning of the year	35,069,939	45,153,208	19,001	20,327,751
End of the year	\$ 34,510,275	\$ 45,305,406	\$ 23,368	\$ 21,628,623
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				113,780
Change in net assets of business-type activities				\$ (289,319)

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, 2008

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Nonmajor - Public Transportation		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 6,565,812	\$ 5,505,922	\$ (21,209)	\$ 12,050,525	\$ -
Cash received from other funds	-	-	-	-	5,306,640
Cash payments to suppliers for goods and services	(5,064,743)	(4,067,998)	(150,761)	(9,283,502)	(2,348,082)
Cash payments to employees for services	(1,271,647)	(1,281,262)	77,673	(2,475,236)	(1,433,101)
Net cash provided (used) by operating activities	229,422	156,662	(94,297)	291,787	1,525,457
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers received	-	-	82,038	82,038	129,627
Transfer paid	-	-	-	-	(204,848)
Net cash provided (used) by noncapital financing activities	-	-	82,038	82,038	(75,221)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of capital assets	(17,198)	-	-	(17,198)	10,335
Capital contributions received	-	-	-	-	101,657
Acquisition and construction of capital assets	(871,840)	(2,247,616)	-	(3,119,456)	(680,829)
Acquisition of sewer capacity rights	-	(319,926)	-	(319,926)	-
Principal paid on bonds	-	(280,000)	-	(280,000)	-
Interest paid on bonds	-	(7,610)	-	(7,610)	-
Net cash provided (used) by capital and related financing activities	(889,038)	(2,855,152)	-	(3,744,190)	(568,837)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	315,251	494,415	-	809,666	627,783
Net cash provided (used) by investing activities	315,251	494,415	-	809,666	627,783
Net increase (decrease) in cash and cash equivalents	(344,365)	(2,204,075)	(12,259)	(2,560,699)	1,509,182
CASH AND CASH EQUIVALENTS:					
Beginning of year	7,190,259	12,791,906	12,259	19,994,424	16,344,358
End of year	\$ 6,845,894	\$ 10,587,831	\$ -	\$ 17,433,725	\$ 17,853,540

(Continued)

City of Foster City and Estero Municipal Improvement District
Statement of Cash Flows, Continued
Proprietary Funds
For the fiscal year ended June 30, 2008

	Enterprise Funds			Total	Internal Service Funds
	Water	Sewer	Nonmajor - Public Transportation		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (857,717)	\$ (342,217)	\$ (77,671)	\$ (1,277,605)	\$ 636,250
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,062,299	872,338	-	1,934,637	917,572
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Billed receivables	(89,329)	(71,932)	-	(161,261)	-
Unbilled receivables	(123,415)	-	-	(123,415)	-
Other receivables	5,060	-	(21,209)	(16,149)	(8,606)
Inventory	(5,417)	(30,710)	-	(36,127)	(1,205)
Increase (decrease) in:					
Accounts payable and claims liability	200,873	(313,725)	4,583	(108,269)	(103,532)
Accrued payroll	9,620	7,101	-	16,721	4,548
Claims liability	-	-	-	-	80,488
Compensated absences	29,248	35,807	-	65,055	(58)
Unearned revenue	-	-	-	-	-
Refundable deposits	(1,800)	-	-	(1,800)	-
Total adjustments	1,087,139	498,879	(16,626)	1,569,392	889,207
Net cash provided (used) by operating activities	\$ 229,422	\$ 156,662	\$ (94,297)	\$ 291,787	\$ 1,525,457

(Concluded)

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2008

1. DESCRIPTION OF REPORTING ENTITY

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

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

Blended Component Units

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

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency. The Authority functions as an independent entity and its policies are determined by the members of the City Council and District Board of Directors acting in a separate capacity as board members of the Authority pursuant to Section 6500 of the Government Code of the State of California. The Authority is a separate entity constituting a public instrumentality of the State, and was formed for the public purpose of assisting the City and the Agency in financing capital projects. The Authority did not have any financial balances or activity as of and for the fiscal year ended June 30, 2008.

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Accounting and Measurement Focus*

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities and Changes in Net Assets display information about the primary government (City/District) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the City/District. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each function of the City/District's governmental activities and for each segment of the business-type activities of the City/District. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City/District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements

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

The City/District reports the following major governmental funds:

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Basis of Accounting and Measurement Focus, Continued

Fund Financial Statements, Continued

The *Metro Center Special Assessment Bonds Fund* accounts for accumulation of special assessments for payment of principal and interest on special assessment bonds of 1986 for the development of the Metro Center.

The *Tax Allocation Refunding Bonds Fund* accounts for the payment of principal and interest on the 2001 tax allocation refunding bonds that refunded the 1993 and 1996 revenue bonds.

The *City Capital Projects Fund* accounts for development, construction or acquisition of approved capital projects funded by certain general obligation bonds and capital grants.

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

The City/District reports the following major enterprise funds:

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

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

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

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. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty to ninety days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Fund Financial Statements, Continued

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

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

B. *Cash and Cash Equivalents*

The City/District pools cash and investment resources from all funds to facilitate the management of cash. The cash and investment pool is invested in short-term money market securities or held by financial institutions for debt service payments. Amounts invested in the City/District's cash and investment pool are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the statement of cash flows. Amounts invested in money market securities and cash held by financial institutions are highly liquid (including those classified as restricted assets on the statement of fund net assets), generally with original maturities less than three months, and are, therefore, also considered cash equivalents.

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 cash balances and is performed on a quarterly basis.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Inventory

Inventory, consisting of expendable supplies, is stated at average cost which approximates market value. The cost of governmental funds inventory is recorded as expenditure when consumed.

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. Special Assessments Receivable

Special assessments receivable reported in the Metro Center Special Assessment Bonds debt service fund and the non-major governmental debt service funds represent future assessments to be received for the payment of Metro Center and Vintage Park improvement bonds which are considered to be a possible liability of the City/District in the case of default. Recognition of the revenues from these assessments has been deferred until they become both measurable and available in the governmental funds. In the Government-Wide Financial Statements, however, these amounts are reported as revenues in the period they are levied. Once received, the money will be used to meet the annual debt service requirements on the related bonds.

G. Restricted Assets

Certain proceeds of the City/District's governmental funds long term debt obligations and enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the government-wide statements of net assets because they are maintained in separate fiscal agent accounts and their use is limited by applicable bond covenants.

H. Sewer Capacity Rights

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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 one year will be capitalized. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide and proprietary funds statements.

The estimated useful lives are as follows:

Infrastructure:	
Roadway/street network (including levee)	10 to 100 years
Park systems	8 to 50 years
Storm drain, sanitary sewer, and water distribution systems	12 to 50 years
Buildings and improvements	45 to 50 years
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.

J. Compensated Absences (Vacation and Sick Pay)

The City/District reports compensated absences for accrued vacation and sick pay. In the event of termination, employees are paid for all allowed unused vacation at their current hourly rate in effect. For management employees, vacation pay may be accrued up to three years without forfeiture. For non-management 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.

K. Long-Term Obligations

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Long-Term Obligations, Continued

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Property Tax Levy, Collection and Maximum Rates

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

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

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

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

M. Revenue Recognition for Water and Sewer Enterprise Funds

Revenue is recorded as billed to customers on a cyclical basis. All customers are billed bi-monthly. Amounts unbilled at June 30 are accrued and recognized as revenue. At June 30, 2008, the billed and unbilled receivables are shown net of an allowance for uncollectibles for the Water and the Sewer Enterprise Funds in the amount of \$3,486 and \$2,387 respectively.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Interfund Transactions

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

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

O. Estimates

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

P. New Pronouncements

In 2008, the City/District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* – the Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues.
- GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27* – This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and in doing so, enhances information disclosed in the notes to financial statements or presented as Required Supplementary Information (RSI) by pension plans and by employers that provide pension benefits.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. CASH AND INVESTMENTS

The City/District's cash and investments at June 30, 2008 are presented as follows:

Cash and investments	\$ 85,480,010
Restricted cash and investments	<u>8,061,373</u>
Total	<u>\$ 93,541,383</u>

As of June 30, 2008, the City/District had the following cash, investments, maturities and credit risks:

Type	Fair Value	Investment Maturities (In Years)		Credit Ratings (Moody's)
		0 - 1	1 - 3	
In City/District Pool:				
United States Agency:				
Federal Home Loan Bank Bonds - Coupon	\$ 4,009,060	\$ -	\$ 4,009,060	Aaa
Federal Farm Credit Bank Bonds - Coupon	4,004,060		4,004,060	Aaa
Local Agency Investment Fund	<u>81,189,381</u>	<u>81,189,381</u>	<u>-</u>	Not Rated
Total investments in City/District Pool	<u>89,202,501</u>	<u>\$ 81,189,381</u>	<u>\$ 8,013,120</u>	
With bond trustees:				
United States Agency:				
Money Market Mutual Fund	<u>2,761,482</u>	<u>2,761,482</u>	<u>-</u>	Aaa
Total investments with bond trustees	<u>2,761,482</u>	<u>\$ 2,761,482</u>	<u>\$ -</u>	
Longevity Recognition Plan Investments:				
Equity Mutual Funds	<u>1,212,010</u>			
Total Longevity Recognition Plan Investments	<u>1,212,010</u>			
Cash and deposits:				
Nonnegotiable certificates of deposits	200,000			
Demand deposits	160,590			
Cash on hand	<u>4,800</u>			
Total cash and deposits	<u>365,390</u>			
Total	<u>\$ 93,541,383</u>			

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City/District's deposits may not be returned. The City/District does not have a policy for custodial credit risk on deposits except for certificates of deposits. As of June 30, 2008, the carrying amount of the City/District's deposits was \$365,390 and the bank balance was \$768,925. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$416,252 was covered by federal depository insurance and \$352,673 was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. CASH AND INVESTMENTS, Continued

Deposits – Custodial Credit Risk, Continued

Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 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 110% of the total amount deposited by the public agencies. At June 30, 2008, the collateral held by the City/District's banking institution only equaled 102% of the cash deposits. The shortfall was corrected on the next business day. California law also allows financial institutions to secure City/District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is considered to be held in the name of the City/District.

Investments Authorized by the City/District's Investment Policy

The City/District maintains a cash and investment pool that is available for use by all funds. The table below identifies the investment types that are authorized by the City/District's investment policy. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City/District, rather than the general provisions of the California Government Code or the City's/District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	270 days	25%	5%
Commercial Paper	180 days	5%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	5%	None
Shares of Beneficial Interest (Mutual Funds)	N/A	10%	10%
Certificates of Deposit	N/A	None	None
San Mateo County Pooled Investment Program	N/A	None	None
State Local Agency Investment Fund (LAIF)	N/A	None	None

* Excludes amounts held by bond trustees that are not subject to California Government Code restrictions.

Investments of debt proceeds held by bond trustees are governed by provisions of debt agreements. Included authorized investments are U.S. Agency Securities and money market mutual funds.

In connection with the California Code's Sections #56301 and #53635 mandates for safety, liquidity and yield with respect to the investments of public funds, as of June 30, 2008 the City/District's investment pool had a valuation of 99.9% (market value of securities as a percentage of amortized book cost), a weighted average maturity of 88 days, and a portfolio weighted average 365 day yield as of June 30, 2008 of 2.972%.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. CASH AND INVESTMENTS, Continued

Longevity Recognition Plan Investments Authorized by the City/District's Policy

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

Investment - Custodial Credit Risk

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 do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments with the exception of repurchase agreements for which the City/District requires a collateralization level of 102% of the market value of the investment.

Interest Rate Risk

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

Credit Risk

The City/District's investment policy limits its pooled investments to that of securities and obligations of the U.S. Government and mutual funds and to the highest ranking or the highest letter and numerical rating by not less than two of the three nationally recognized rating services.

External Investment Pool

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

The City/District valued its investments in LAIF as of June 30, 2008, by multiplying its account balance with LAIF (\$81,193,423) times a fair value factor (.999950219) 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, 2008, the City/District's investments in LAIF, stated at fair value, equaled \$81,189,381.

The District's investments with LAIF at June 30, 2008, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. CASH AND INVESTMENTS, Continued

External Investment Pool, Continued

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

As of June 30, 2008, the City/District had \$81,189,381 (stated at fair value) invested in LAIF, which had invested 14.72% of the pool investment fund in Structured Notes and Asset-Backed Securities as compared to the previous year's amount of 3.466%.

Concentration of Credit Risk

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, 2008, the City/District did not have more than 5 percent invested in any one issuer.

4. LOANS RECEIVABLE

At June 30, 2008, Loans Receivable amounted to:

	Amount	Allowance	Net Amount
Metro Center Senior Home Project	\$ 5,954,743	\$ (5,954,743)	\$ -
First Time Home Buyer Program	1,029,492	-	1,029,492
Total	<u>\$ 6,984,235</u>	<u>\$ (5,954,743)</u>	<u>\$ 1,029,492</u>

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, 2008, the Agency provided a 100% valuation allowance equal to the loan balance outstanding in the amount of \$5,954,743 which includes principal of \$5,527,283 and accumulated interest in the amount of \$427,460.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

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 \$1,029,490 at June 30, 2008.

5. INTERFUND TRANSACTIONS

Advances To and From Other Funds

At June 30, 2008, the outstanding balance of advances from the General Fund to the Community Development Agency Fund is \$11,811,904. The advances from the City/District to the Agency are for administrative support and capital improvements. The repayment of advances is limited to property tax increment revenues. The interest rate on the City/District's advances before and after the fiscal year ended June 30, 1997 was 8% and 10%, respectively. The Agency repaid \$2,942,845 of the advances during the current fiscal year. Annual repayments are scheduled to continue through fiscal year ending June 30, 2011.

Transfers

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

Transfer In	Transfer Out	Amount
Between Governmental and Business-Type Activities:		
General Fund	Non-Major Enterprise Fund	\$ 82,038
		<u>\$ 82,038</u>
Between Funds within the Governmental or Business-Type(1):		
General Fund	Metro Center Special Assessment	\$ 4,447
Tax Allocation Refunding Bonds	Community Development Agency	5,838,958
Total Governmental Funds		<u>5,843,405</u>
Information Technology Fund	Equipment Replacement	129,627
Total Business-type Funds		<u>129,627</u>
Total		<u>\$ 5,973,032</u>

(1) These transfers are eliminated as part of the consolidation of the Governmental and Business-Type Activities.

Transfers between funds were made during the fiscal year mainly to subsidize the engineering, construction and maintenance of City/District's streets, subsidize the shuttle operation in the general fund, transfer property tax revenue to the Community Development Agency and various operational purposes.

The internal service funds recorded a transfer out in the amount of \$75,221 to transfer capital assets to the governmental activities. The transfer in to the governmental activities is only recorded on the government-wide financial statements and therefore, transfers in and out do not balance on the fund financial statements.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008 follows:

	July 1, 2007	Additions	Retirements	Transfers	June 30, 2008
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 10,234,421	\$ -	\$ -	\$ -	\$ 10,234,421
Construction in progress	596,255	2,208,598	-	(986,307)	1,818,546
Total capital assets, not being depreciated	<u>10,830,676</u>	<u>2,208,598</u>	<u>-</u>	<u>(986,307)</u>	<u>12,052,967</u>
Capital assets, being depreciated:					
Infrastructure	94,022,507	29,277	(186,745)	894,920	94,759,959
Buildings	44,986,814	45,944	(3,500)	97,787	45,127,045
Improvements	6,060,916	-	-	-	6,060,916
Equipment	5,906,156	322,495	(421,212)	-	5,807,439
Vehicles	4,844,395	315,445	(238,232)	-	4,921,608
Total capital assets, being depreciated	<u>155,820,788</u>	<u>713,161</u>	<u>(849,689)</u>	<u>992,707</u>	<u>156,676,967</u>
Less accumulated depreciation for:					
Infrastructure	(41,757,200)	(2,460,130)	186,745	-	(44,030,585)
Buildings	(6,450,006)	(1,017,759)	752	-	(7,467,013)
Improvements	(728,969)	(200,644)	-	-	(929,613)
Equipment	(3,459,466)	(530,412)	366,281	-	(3,623,597)
Vehicles	(2,832,348)	(387,160)	237,818	-	(2,981,690)
Total accumulated depreciation	<u>(55,227,989)</u>	<u>(4,596,105)</u>	<u>791,596</u>	<u>-</u>	<u>(59,032,498)</u>
Total capital assets, being depreciated, net	<u>100,592,799</u>	<u>(3,882,944)</u>	<u>(58,093)</u>	<u>992,707</u>	<u>97,644,469</u>
Governmental activities capital assets, net	<u>\$ 111,423,475</u>	<u>\$ (1,674,346)</u>	<u>\$ (58,093)</u>	<u>\$ 6,400</u>	<u>\$ 109,697,436</u>

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

6. CAPITAL ASSETS, Continued

	July 1, 2007	Additions	Retirements	Transfers	June 30, 2008
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 3,553,474	\$ -	\$ -	\$ -	\$ 3,553,474
Construction in progress	394,424	2,382,257	-	(2,685,338)	91,343
Total capital assets, not being depreciated	3,947,898	2,382,257	-	(2,685,338)	3,644,817
Capital assets, being depreciated:					
Infrastructure	66,151,832	147,861	(65,609)	2,685,338	68,919,422
Building	-	-	-	-	-
Equipment	601,049	184,451	(16,314)	-	769,186
Total capital assets, being depreciated	66,752,881	332,312	(81,923)	2,685,338	69,688,608
Less accumulated depreciation for:					
Infrastructure	(31,483,923)	(1,582,055)	159,695	-	(32,906,283)
Buildings	-	-	-	-	-
Equipment	(389,985)	(41,779)	16,314	-	(415,450)
Total accumulated depreciation	(31,873,908)	(1,623,834)	176,009	-	(33,321,733)
Total capital assets, being depreciated, net	34,878,973	(1,291,522)	94,086	2,685,338	36,366,875
Business-type activities capital assets, net	\$ 38,826,871	\$ 1,090,735	\$ 94,086	\$ -	\$ 40,011,692

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 559,861
Public safety - Police	130,574
Public safety- Fire	10,108
Public works	2,247,768
Community development	12,964
Parks and recreation	717,258
Depreciation on capital assets held by the City/District's internal service funds is charged to the various functions based on their usage of the assets.	917,572
Total depreciation expense	\$ 4,596,105

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

Water	\$ 1,062,299
Sewer	561,535
Total depreciation expense	\$ 1,623,834

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

7. LONG TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2008:

	July 1, 2007	Additions	Retirements	June 30, 2008	Due Within One Year	Due in More Than One Year
Governmental activities:						
General Obligation Bonds	\$ 635,000	\$ -	\$ (635,000)	\$ -	\$ -	\$ -
Tax Allocation Refunding Bonds	10,250,000	-	(3,275,000)	6,975,000	3,415,000	3,560,000
Special Assessment Bonds	2,100,000	-	(1,300,000)	800,000	385,000	415,000
COSTCO Notes	1,001,667	-	(201,667)	800,000	-	800,000
Claim liability	25,799	80,488	-	106,287	106,287	-
Compensated absences	2,421,765	1,364,166	(1,175,340)	2,610,591	1,015,576	1,595,015
Total governmental activities	<u>\$ 16,434,231</u>	<u>\$ 1,444,654</u>	<u>\$ (6,587,007)</u>	<u>\$ 11,291,878</u>	<u>\$ 4,921,863</u>	<u>\$ 6,370,015</u>
Business-type activities:						
Revenue Bonds	\$ 280,000	\$ -	\$ (280,000)	\$ -	\$ -	\$ -
Compensated absences	245,969	185,435	(120,380)	311,024	130,471	180,553
Total business-type activities	<u>\$ 525,969</u>	<u>\$ 185,435</u>	<u>\$ (400,380)</u>	<u>\$ 311,024</u>	<u>\$ 130,471</u>	<u>\$ 180,553</u>

General obligation bonds, tax allocation refunding revenue bonds, special assessment bonds with governmental commitment and the Sewer revenue bonds at June 30, 2008 consisted of the following:

Type of Indebtedness	Maturity	Interest Rate	Amount Issued	Outstanding at June 30, 2008
Governmental activities:				
General obligation bonds (a):				
1967 Land Reclamation Bonds	2008	6.00%	\$ 2,741,000	\$ -
Total General Obligation Bonds			<u>2,741,000</u>	<u>-</u>
Tax Allocation Refunding Revenue Bonds (b):				
2001 Refunding Bonds	2010	4.10 - 4.40%	27,010,000	6,975,000
Special Assessment Bonds with governmental commitment:				
1986 Metro Center Improvement Bonds	2008	7.00%	19,310,000	-
1989 Vintage Park Improvement Bonds	2010	7.15 - 7.30%	11,462,073	800,000
Total special assessment bonds			<u>30,772,073</u>	<u>800,000</u>
COSTCO Development Agreement (d):				
Note 1	2015	8.00%	800,000	800,000
Note 2	2008	8.00%	1,939,342	-
Total COSTCO Notes			<u>2,739,342</u>	<u>800,000</u>
Total governmental activities long-term bonds and notes			<u>\$ 63,262,415</u>	<u>\$ 8,575,000</u>
Business-type activities:				
Sewer Revenues Bonds (e):				
1964 and 1993 Sewer Bonds	2007	2.10 - 7.10%	\$ 7,510,000	\$ -

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

7. LONG TERM OBLIGATIONS, Continued

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, \$172,645 of internal service funds compensated absences and \$106,287 of claims liability are included in the above amounts. Also, for governmental activities, claims liability and compensated absences are generally liquidated by the General Fund.

As of June 30, 2008, annual debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Activities					
	Tax Allocation					
	General Obligation Bonds ^(a)		Refunding Bonds ^(b)		Special Assessment Bonds ^(c)	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ -	\$ -	\$ 3,415,000	\$ 229,209	\$ 385,000	\$ 44,348
2010	-	-	3,560,000	78,320	415,000	15,148
Total	\$ -	\$ -	\$ 6,975,000	\$ 307,529	\$ 800,000	\$ 59,496

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	COSTCO Notes ^(d)		Sewer Revenue Bonds ^(e)	
	Principal	Interest	Principal	Interest
2009	\$ -	\$ 64,000	\$ -	\$ -
2010	-	64,000	-	-
2011	-	64,000	-	-
2012	-	64,000	-	-
2013-2015	800,000	192,000	-	-
Total	\$ 800,000	\$ 448,000	\$ -	\$ -

Debt service payments are generally made from the following sources:

- (a) Property taxes recorded in the Debt Service Funds
- (b) Property tax increment from the Community Development Agency
- (c) Special assessments of the related special assessment district or through foreclosure on the underlying property
- (d) Agency tax increment
- (e) Property taxes recorded in the Sewer Enterprise Fund

General Obligation Bond and Sewer Revenue Bonds

The General Obligation Bonds and Sewer Revenue Bonds are general obligations of the City/District. These bonds were issued in accordance with the provisions of the Estero Municipal Improvement District Act and Article 8 of the California Government Code. Proceeds from these bonds have been used for various projects including infrastructure improvements, acquisition and construction of parks and a fire station, and improvements to the Wastewater Treatment Facility.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

7. LONG TERM OBLIGATIONS, Continued

Tax Allocation Refunding Bonds

On July 1, 2001, the Agency issued \$27,010,000 of Series 2001 Tax Allocation Refunding Bonds (Refunding Bonds) to refund the Authority's 1993 and 1996 tax allocation revenue bonds (collectively, the Prior Bonds). As a result of the refunding, the Prior Bonds are considered defeased and have been removed from the Authority's basic financial statements. As of June 30, 2008, the 1996 tax allocation bonds are considered defeased, and were fully redeemed on September 1, 2006.

Annual principal and interest payments on the 2001 Refunding Bonds are expected to require 39% percent of net revenues. The total principal and interest remaining to be paid on the Refunding Bonds is \$7,282,529. For the current year, principal and interest paid on the 2001 Bonds was \$3,646,372 and property tax increment net revenues were \$9,441,712. The 2001 Refunding Bonds required 39% of net revenues.

Special Assessment Bonds with Governmental Commitment

In 1986 and 1989 the City/District issued special assessment bonds to construct various public improvements including street widening, traffic signals and drainage facilities in the Metro Center and Vintage Park Assessment Districts. The 1986 and 1989 bonds were issued in the amounts of \$19,310,000 and \$11,462,073, respectively. These bonds are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. However, the City/District believes that it may have some obligation for these bonds.

As of June 30, 2008, the City/District has recorded special assessment receivables in the following amounts:

Vintage Park Special Assessment District Bonds	\$ 190,395
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This balance consists of future special assessment payments to be collected by the City/District for special assessment debt service (See Note 13).

COSTCO Notes

On July 6, 1993, the Agency and COSTCO entered into an agreement whereby the Agency acquired a site (Lots 26 and 27) in Metro Center from the property owner, Transpacific Development Company, with funds borrowed from COSTCO. The purchase price for the land and additional amount borrowed was \$7,889,413. The Agency then conveyed the property to COSTCO in partial repayment of the \$7,889,413 loan.

In satisfaction of \$4,150,171 of that obligation, the site was conveyed to COSTCO free and clear with the exception of the Metro Center Assessment District No. 86-1 obligations. For the remaining \$3,739,242 of the obligation, three promissory notes were executed by the Agency to COSTCO. The payments are contingent upon certain levels of gross sales taxes being generated by the COSTCO store.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

7. LONG TERM OBLIGATIONS, Continued

COSTCO Notes, Continued

The first promissory note is in the amount of \$800,000 with an 8% per annum interest rate. The note is payable in twenty years. Interest payment is due only if the gross sales tax revenue threshold as defined in the note agreement for that year is met. Payments not made on this basis are forgiven. The Agency recorded the current year interest payment as COSTCO's gross sales tax revenue threshold of \$313,900 was met. The outstanding principal at June 30, 2008 is \$800,000.

The second promissory note is in the amount of \$1,939,242 with an 8% per annum interest rate. (This is the approximate amount of the Metro Center Assessment District obligations which currently encumber the property.) The note is payable in annual payments of \$217,800 for fourteen years. Payment is due only if the gross sales tax revenue threshold as defined in the note agreement for that year is met. Payments not made on this basis are forgiven. During the fiscal year June 30, 2008, COSTCO forgave the current year payment in the amount of \$201,667 because the gross sales tax revenue threshold of \$868,880 was not met. The outstanding principal at June 30, 2008 is \$0.

The third promissory note is in the amount of \$1,000,000 and bears no interest. The note is payable annually in an amount equal to the City's sales tax revenues derived from COSTCO's sales which are in excess of the threshold as defined in the note agreement for that year. The term of the note is five years. Any unpaid balance after the five-year term shall be forgiven. During December 1999, the note balance of \$589,433 was forgiven.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, the earnings from the investment of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City/District has evaluated each bond issued subject to the arbitrage rebate requirements and has determined that no arbitrage liability exists at June 30, 2008.

8. NET ASSETS/FUND BALANCES

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

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

Restricted Net Assets: This category 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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

8. NET ASSETS/FUND BALANCES, Continued

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

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

As of June 30, 2008, reservations of fund balance are described below:

Advances to other funds - to reflect the amount due from other funds that is long-term in nature and does not represent available spendable resources.

Debt service - to reflect the funds held by trustees, fiscal agents or the City/District for future payment of bond principal and interest that is not available for general operations.

Prepaid expenses - to reflect expenditures that are paid in the current fiscal year for services or products to be provided in the following fiscal year.

Inventory - to reflect the holding of food supplies in the case of a disaster for individuals who work in the Emergency Operating Center (EOC).

Housing Programs - to reflect the funds held by the Agency for future housing requirements.

Portions of unreserved fund balance may be designated by management to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and may not result in expenditures. Fund balance designations include:

Capital projects - to reflect management's intent to expend certain funds solely for planned capital projects.

Emergency - to provide for funds to be expended in the event of an emergency.

The City/District has established the following fund balance designations for its governmental funds at June 30, 2008:

	General Fund	City Capital Projects	Community Development Agency	Non-Major Governmental Funds	Total Governmental Funds
Designated for:					
Capital projects	\$ 526,960	\$ 1,619,416	\$ -	\$ -	\$ 2,146,376
Emergency	1,000,000	1,000,000	-	-	2,000,000
Undesignated	18,760,767	5,443,299	(5,873,799)	2,890,661	21,220,928
Total	\$ 20,287,727	\$ 8,062,715	\$ (5,873,799)	\$ 2,890,661	\$ 25,367,304

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

9. EMPLOYEES' RETIREMENT PLANS

Public Employees' Retirement Fund

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

Funding Policy: Public safety employees and all other employees have an obligation to contribute 9% and 7% of their salary to the Fund, respectively. The City/District makes the contributions required of City/District employees on their behalf and for their accounts. The City/District is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2008 were 14.371% for miscellaneous employees and 32.885% for safety employees of annual covered payroll which amounted to \$1,440,966 and \$2,546,975 respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost: For fiscal year 2008, 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, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included the following:

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

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

9. EMPLOYEES' RETIREMENT PLANS, Continued

Public Employees' Retirement Fund, Continued

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

Fiscal Year Ending	Miscellaneous Plan			Fiscal Year Ending	Safety Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 1,059,743	100%	\$ -	6/30/2006	\$ 2,182,014	100%	\$ -
6/30/2007	935,505	100%	-	6/30/2007	2,424,604	100%	-
6/30/2008	1,440,966	100%	-	6/30/2008	2,546,975	100%	-

Funded Status of Plan - Safety Employees

The City/District's retirement plan for safety employees is a part of the CalPERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City/District's safety employees is no longer available nor disclosed.

Funded Status of Plan - Miscellaneous Employees

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	UAAL as a % of Payroll
				Actuarial Value	Market Value		
6/30/2007	51,837,719	46,587,617	5,250,102	89.9%	103.3%	10,373,476	50.6%

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

Internal Revenue Code Section 401(a) Plan

Effective January 1, 1997, the City/District established the City of Foster City Section 401 (a) Plan (Plan), a defined contribution plan. The City/District designated a third party administrator to administer the Plan on behalf of the City/District. The Plan provides retirement benefits to all employees on the date of employment. The employees vest upon joining the Plan. The City/District has agreed to contribute to the employees' accounts based on the employees' hours of service and current rate of pay as defined in each bargaining unit's memorandum of understanding (MOU) with the City/District. The City/District could amend the Plan as agreed to by each bargaining unit. The City/District contributed \$193,989 in fiscal year 2008 as required under the City/District's MOUs. The Plan has \$54,757 loaned to 5 employees at June 30, 2008.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

9. EMPLOYEES' RETIREMENT PLANS, Continued

Other Post Employment Benefits

In addition to the benefits described in Note 9, all City/District employees, their surviving spouses, and eligible dependents can continue to participate in the health care program under the provisions of the formal City-sponsored plan at their own cost. The City/District will only contribute the minimum amount provided under Government Code Section 22825 of the Public Employee Medical and Hospital Care Act. By which, the City/District paid \$80.80 and \$97.00 per month per family for the period from July 1, 2007 to December 31, 2007 and January 1, 2008 to June 30, 2008 respectively. The City/District's contribution for fiscal year 2008 amounted to \$51,675.

The City/District offers a longevity recognition program under which, employees with a minimum of 10 years of services and retired from the City/District are entitled to a monthly benefit. The monthly benefit ranges from \$125 to \$350 based on the employee's number of years of service and bargaining group. The City/District's contribution for fiscal year 2008 amounted to \$95,460.

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 2008, the City/District received \$131,191 of In Lieu Rent and \$11,828 of In Kind Rent.

11. INVESTMENT IN JOINT VENTURE AND MEMBERSHIP IN INSURANCE POOLS

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

Wastewater Treatment Facility

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

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

Wastewater Treatment Facility, Continued

A new Joint Powers Agreement (JPA) dated July 17, 1989 and amended January 17, 1990, was executed by the City/District and 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 San Mateo, 65.6%. San Mateo is the lead agency and bills the City/District monthly for its share of the expansion project costs and quarterly for its operating and maintenance costs. Part of the City/District's share of costs has been financed through the sale of \$1,329,000 in Sewer Revenue Bonds in 1993. 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 these revenue bonds. For the year ended June 30, 2008, the City/District expended \$630,730 towards the wastewater treatment plant facility.

For the year ended June 30, 2008, the District's share of the operating and maintenance costs was \$2,016,418, which is included in the Sewer Enterprise Fund's contractual services in the accompanying basic financial statements.

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, 2008, the City/District paid premiums to The Cities Group of \$362,936, which are included in the General Fund insurance expenditures in the accompanying basic financial statements. Payments of City/District workers' compensation claims for the year ended June 30, 2008 were \$381,128.

Condensed financial information as of June 30, 2008 for The Cities Group (the latest information available) is presented below:

Total assets	\$	2,217,602
Total liabilities		1,040,326
Total equity/net assets		1,177,276
Total revenues		2,563,900
Total expenses/expenditures		2,603,240
Increase (decrease) in equity/net assets		(39,340)

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

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

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 paid 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, 2008, the City/District's paid premiums of \$239,252 to ABAG.

Condensed financial information as of June 30, 2007 (the latest information available) for the ABAG PLAN is presented below:

Total liabilities	\$ 17,879,751
Total equity/net assets	30,084,093
Total revenues	11,747,470
Total expenses/expenditures	(4,362,654)
Increase (decrease) in equity/net assets	30,084,093

12. RISK MANAGEMENT

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

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

12. RISK MANAGEMENT, Continued

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, 2008, the liability for general liability self-insurance claims was \$106,287. 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, 2006	\$ 37,663
Current year claim deductibles and changes in estimates	185,559
Net payments	<u>(197,423)</u>
Liability at June 30, 2007	25,799
Current year claim deductibles and changes in estimates	80,488
Net payments	<u>-</u>
Liability at June 30, 2008	<u><u>\$ 106,287</u></u>

13. COMMITMENTS AND CONTINGENCIES

The City/District is a defendant in lawsuits arising in the normal course of business. City/District management is of the opinion that the potential claims against the City/District resulting from such litigation, not covered by insurance, 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 Unified High School District (High School District). Based on the settlement, the Agency has 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 is 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 an amount equal to 10% of the projected 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. During fiscal year 2008 the Agency paid \$439,000 to the High School District.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

13. COMMITMENTS AND CONTINGENCIES, Continued

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, with interest at seven percent per annum, amortized over fifteen years and paid to the developer in equal annual installments of \$109,794. The annual payments will be paid on May 1 of each year commencing on May 1, 2000, provided the developer has provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site. During the fiscal year ended June 30, 2008, the Agency paid the developer its eighth installment of \$109,794.

(ii) *Utility Subsidy* – The Agency pledged to the developer a utility allowance subsidy in the amount of \$36,000 annually for the affordable units. The Utility Subsidy will be paid annually 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. For the fiscal year ended June 30, 2008, the Agency paid the developer the utility subsidy in the amount of \$40,541.

(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, 2008, the Agency paid the developer a tax increment subsidy in the amount of \$166,005.

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.

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.

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

13. COMMITMENTS AND CONTINGENCIES, Continued

Hillsdale/Gull Disposition and Development Agreement, Continued

During fiscal year 2001, the Agency paid the developer \$2,000,000. The balance of the Agency Grant will be due to the developer, with interest at eight percent per annum, amortized over fifteen years and paid to the developer in equal installments of \$233,659. The annual payments will be paid on July 1 of each year, provided (i) the developer has completed construction and installation of the work of improvements and the Agency has issued a Certificate of Completion, (ii) the developer provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site, and (iii) the developer delivered to the Agency the annual report required under the Affordable Housing Covenant. Construction was completed during fiscal year June 30, 2005. As a result, the Agency paid the developer its fifth installment in the amount of \$233,659 during the fiscal year ended June 30, 2008.

Special Assessment Debt

The City/District is considered to be "obligated in some manner," as defined by GASB No. 6, Accounting and Financial Reporting for Special Assessments, for its special assessment debt. The City/District is obligated to foreclose on properties for which owners have failed to pay installments of assessments as they become due and the City/District may honor deficiencies to the extent that lien foreclosure proceeds are insufficient. The City/District's obligation to advance monies to pay debt service in the event of delinquent assessment installments is limited to the amount of remaining original bond proceeds and installments received. Special assessment debt and related transactions are included in the City/District's basic financial statements. Debt service payments are made from special assessments of the related special assessment district.

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, 2008	Committed
WWTP Expansion Phase II	\$ 9,381,000	\$ 8,023,025	\$ 1,357,975
Foster City Teen Center and Recreation Facilities	6,146,500	1,796,633	4,349,867
Water Main Condition Survey	650,000	212,925	437,075
Sea Cloud Park Synthetic Turf	2,700,000	106,511	2,593,489
Arterial & Collector Overlay Project	1,125,000	87,043	1,037,957
Sewer Main Rehabilitation	630,000	13,500	616,500
Other Projects	1,313,500	241,084	1,072,416
Total	\$ 21,946,000	\$ 10,480,721	\$ 11,465,279

City of Foster City and Estero Municipal Improvement District
Notes to the Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

13. COMMITMENTS AND CONTINGENCIES, Continued

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.

14. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures for the year ended June 30, 2008 exceeded the appropriations in the following funds:

	Final Budget	Actual	Variance
Nonmajor Governmental Funds:			
Special Revenue:			
Prop 1B Fund	\$ 475,000	\$ 486,856	\$ (11,856)
SLESF/COPS Grant Fund	100,000	100,879	(879)

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City of Foster City and Estero Municipal Improvement District
Required Supplementary Information
For the fiscal year ended June 30, 2008

BUDGET AND BUDGETARY ACCOUNTING

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

- The City Manager submits to the City Council and the District's Board members a proposed budget for the coming fiscal year. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayers' comments.
- The budget is legally adopted through passage of a resolution.
- The transfer of budget amounts between funds or departments must be approved by the City Council and the District's Board. Transfer of budget amounts within one fund or one department must be approved by the City Manager.
- Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund, Special Revenue Funds and Debt Service Funds.
- Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) using the modified accrual basis of accounting.
- Total expenditures of each governmental fund may not legally exceed fund appropriations at the department level.
- Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the budgetary process.
- Fund appropriations lapse at the end of each year. The City/District closes out all purchase orders, contracts and other commitments at year-end. As such, no encumbrances were outstanding at June 30, 2008. Encumbrances are expected to be reappropriated in the following fiscal year.

City of Foster City and Estero Municipal Improvement District
Required Supplementary Information, Continued
For the fiscal year ended June 30, 2008

Budgetary Comparison Schedule – General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, June 30, 2007	\$ 32,636,714	\$ 32,636,714	\$ 32,636,714	\$ -
Resources (inflows):				
Property taxes:				
Secured	10,615,000	10,615,000	11,131,536	516,536
Unsecured	230,000	230,000	246,564	16,564
Motor vehicle in lieu	2,250,733	2,250,733	2,250,733	-
Total	13,095,733	13,095,733	13,628,833	533,100
Other taxes:				
Sales and use and sales tax in lieu	4,781,000	4,781,000	4,583,632	(197,368)
Transient occupancy	1,496,000	1,496,000	1,415,371	(80,629)
Franchise	991,000	991,000	1,029,576	38,576
Real property transfer	272,000	272,000	248,602	(23,398)
Total	7,540,000	7,540,000	7,277,181	(262,819)
Licenses and permits:				
Business licenses	520,000	520,000	681,695	161,695
Permits	606,000	606,000	484,855	(121,145)
Total	1,126,000	1,126,000	1,166,550	40,550
Intergovernmental:				
Motor vehicle in lieu	103,267	103,267	134,167	30,900
Homeowner property tax relief	114,000	114,000	107,013	(6,987)
Reimbursements and grants	-	-	57,738	57,738
Total	217,267	217,267	298,918	81,651
Charges for current services:				
Service fees	454,000	454,000	325,050	(128,950)
Recreation and leisure	1,102,000	1,102,000	1,022,229	(79,771)
Total	1,556,000	1,556,000	1,347,279	(208,721)
Fines and forfeitures:				
Traffic fines and court fees	50,000	50,000	35,057	(14,943)
False alarm fines	16,000	16,000	12,600	(3,400)
Total	66,000	66,000	47,657	(18,343)
Investment income and rentals:				
Investment income	2,046,000	2,046,000	2,109,888	63,888
Rent	775,000	775,000	816,129	41,129
Total	2,821,000	2,821,000	2,926,017	105,017
Other revenues	689,000	689,000	797,711	108,711
Transfers in	588,456	588,456	4,447	(584,009)
Amounts available for appropriation	60,336,170	60,336,170	60,131,307	(204,863)

City of Foster City and Estero Municipal Improvement District
Required Supplementary Information, Continued
For the fiscal year ended June 30, 2008

Budgetary Comparison Schedule – General Fund, Continued

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to appropriations (outflows):				
General government:				
Council/Board	\$ 314,850	\$ 314,850	\$ 267,802	\$ 47,048
City/District Manager	662,915	662,915	661,439	1,476
City Clerk	261,544	261,544	218,600	42,944
City/District Attorney	214,004	214,004	209,667	4,337
Administrative Services	541,696	541,696	497,224	44,472
Human Resources	410,726	410,726	366,856	43,870
Financial Services	598,658	598,658	577,241	21,417
Total	<u>3,004,393</u>	<u>3,004,393</u>	<u>2,798,829</u>	<u>205,564</u>
Public safety - Police	9,184,762	9,184,762	8,548,958	635,804
Public safety - Fire	7,806,195	7,806,195	7,366,699	439,496
Public works	2,189,809	2,189,809	1,718,867	470,942
Community development	1,634,171	1,634,171	1,222,061	412,110
Parks and recreation	6,550,280	6,550,280	6,277,145	273,135
Transfers out	604,823	604,823	82,039	522,784
Total charges to appropriations	<u>30,974,433</u>	<u>30,974,433</u>	<u>28,014,598</u>	<u>2,959,835</u>
Fund balance, June 30, 2008	<u>\$ 29,361,737</u>	<u>\$ 29,361,737</u>	<u>\$ 32,116,709</u>	<u>\$ 2,754,972</u>

City of Foster City and Estero Municipal Improvement District
Required Supplementary Information, Continued
For the fiscal year ended June 30, 2008

Schedule of Funding Progress (Unaudited)

Funded Status of Plan - Safety Employees

In fiscal year ended June 30, 2004, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City/District's safety employees is no longer available nor disclosed.

Funded Status of Plan - Miscellaneous Employees

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	UAAL as a % of Payroll
				Actuarial Value	Market Value		
6/30/2005	\$ 41,626,914	\$ 38,278,835	\$ 3,348,079	92.0%	94.4%	\$ 10,557,482	31.7%
6/30/2006	48,925,129	42,162,830	6,762,299	86.2%	90.9%	10,471,332	64.6%
6/30/2007	51,837,719	46,587,617	5,250,102	89.9%	103.3%	10,373,476	50.6%

City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Total
ASSETS			
Cash and investments	\$ 2,642,799	\$ 268,234	\$ 2,911,033
Receivables, net of allowance:			
Intergovernmental	195,984	-	195,984
Taxes	43,271	2,290	45,561
Other	18,000	-	18,000
Restricted cash and investments	-	414,200	414,200
Special assessment receivable	-	190,395	190,395
Total assets	\$ 2,900,054	\$ 875,119	\$ 3,775,173
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,748	\$ 70	\$ 5,818
Accrued payroll	3,645	-	3,645
Deferred revenue	-	190,395	190,395
Total liabilities	9,393	190,465	199,858
Fund balances:			
Reserved for:			
Debt service	-	684,654	684,654
Unreserved, reported in:			
Special revenue funds	2,890,661	-	2,890,661
Total fund balances	2,890,661	684,654	3,575,315
Total liabilities and fund balances	\$ 2,900,054	\$ 875,119	\$ 3,775,173

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, 2008

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Total
REVENUES:			
Sales and use taxes	\$ 475,750	\$ -	\$ 475,750
Intergovernmental	1,144,475	-	1,144,475
Fines and forfeitures	117,004	-	117,004
Special assessment	-	352,443	352,443
Investment income	96,637	24,287	120,924
Other	175,397	-	175,397
Total revenues	2,009,263	376,730	2,385,993
EXPENDITURES:			
Current:			
General government	180,963	-	180,963
Public safety - Police	101,273	-	101,273
Public safety - Fire	6,632	-	6,632
Public works	716,535	-	716,535
Capital outlay	654,798	-	654,798
Debt service:			
Principal repayment	-	995,000	995,000
Interest and fiscal charges	-	96,368	96,368
Total expenditures	1,660,201	1,091,368	2,751,569
REVENUES OVER (UNDER) EXPENDITURES	349,062	(714,638)	(365,576)
NET CHANGE IN FUND BALANCES	349,062	(714,638)	(365,576)
FUND BALANCES:			
Beginning of year	2,541,599	1,399,292	3,940,891
End of year	\$ 2,890,661	\$ 684,654	\$ 3,575,315

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City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2008

	Traffic Safety	Measure A	Gas Tax	SLESF/ COPS Grant
ASSETS				
Cash and investments	\$ 7,626	\$ 1,709,217	\$ 564,622	\$ -
Receivables, net of allowance:				
Intergovernmental	9,254	-	186,730	-
Taxes	-	43,271	-	-
Other	-	-	-	-
Total assets	\$ 16,880	\$ 1,752,488	\$ 751,352	\$ -
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances:				
Unreserved, reported in:				
Special revenue funds	16,880	1,752,488	751,352	-
Total fund balances	16,880	1,752,488	751,352	-
Total liabilities and fund balances	\$ 16,880	\$ 1,752,488	\$ 751,352	\$ -



<u>California Law Enforcement Equipment</u>	<u>California Opportunities</u>	<u>Proposition 1B</u>	<u>Foster City Foundation</u>	<u>Total</u>
\$ 26,867	\$ 228,879	\$ -	\$ 105,588	\$ 2,642,799
-	-	-	-	195,984
-	-	-	-	43,271
-	18,000	-	-	18,000
<u>\$ 26,867</u>	<u>\$ 246,879</u>	<u>\$ -</u>	<u>\$ 105,588</u>	<u>\$ 2,900,054</u>

\$ -	\$ 3,800	\$ -	\$ 1,948	\$ 5,748
-	3,645	-	-	3,645
<u>-</u>	<u>7,445</u>	<u>-</u>	<u>1,948</u>	<u>9,393</u>

<u>26,867</u>	<u>239,434</u>	<u>-</u>	<u>103,640</u>	<u>2,890,661</u>
<u>26,867</u>	<u>239,434</u>	<u>-</u>	<u>103,640</u>	<u>2,890,661</u>
<u>\$ 26,867</u>	<u>\$ 246,879</u>	<u>\$ -</u>	<u>\$ 105,588</u>	<u>\$ 2,900,054</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, 2008

	Traffic Safety	Measure A	Gas Tax	SLESF/ COPS Grant
REVENUES:				
Sales and use tax	\$ -	\$ 475,750	\$ -	\$ -
Intergovernmental	-	-	557,619	100,000
Fines and forfeitures	117,004	-	-	-
Investment income	632	53,573	32,154	879
Other	-	-	-	-
Total revenues	117,636	529,323	589,773	100,879
EXPENDITURES:				
Current:				
General government	-	-	106,820	-
Public safety - police	-	-	-	100,879
Public safety - fire	-	-	-	-
Public works	112,000	71,742	507,180	-
Capital outlay	-	87,043	-	-
Total expenditures	112,000	158,785	614,000	100,879
REVENUES OVER (UNDER) EXPENDITURES	5,636	370,538	(24,227)	-
NET CHANGES IN FUND BALANCES	5,636	370,538	(24,227)	-
FUND BALANCES:				
Beginning of year	11,244	1,381,950	775,579	-
End of year	\$ 16,880	\$ 1,752,488	\$ 751,352	\$ -

California Law Enforcement Equipment	California Opportunities	Proposition 1B	Foster City Foundation	Total
\$ -	\$ -	\$ -	\$ -	\$ 475,750
-	-	486,856	-	1,144,475
-	-	-	-	117,004
-	9,399	-	-	96,637
-	117,500	-	57,897	175,397
-	126,899	486,856	57,897	2,009,263
-	74,143	-	-	180,963
-	-	-	394	101,273
-	-	-	6,632	6,632
-	-	25,613	-	716,535
-	-	461,243	106,512	654,798
-	74,143	486,856	113,538	1,660,201
-	52,756	-	(55,641)	349,062
-	52,756	-	(55,641)	349,062
26,867	186,678	-	159,281	2,541,599
\$ 26,867	\$ 239,434	\$ -	\$ 103,640	\$ 2,890,661

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Fines and forfeitures	\$ 110,000	\$ 110,000	\$ 117,004	\$ 7,004
Investment income	2,000	2,000	632	(1,368)
Total revenues	112,000	112,000	117,636	5,636
EXPENDITURES:				
Public works	112,000	112,000	112,000	-
Total expenditures	112,000	112,000	112,000	-
NET CHANGE IN FUND BALANCE	-	-	5,636	5,636
FUND BALANCE:				
Beginning of year	11,244	11,244	11,244	-
End of year	\$ 11,244	\$ 11,244	\$ 16,880	\$ 5,636

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sales and use taxes	\$ 485,000	\$ 485,000	\$ 475,750	\$ (9,250)
Investment income	42,000	42,000	53,573	11,573
Total revenues	527,000	527,000	529,323	2,323
EXPENDITURES:				
Public works	71,742	71,742	71,742	-
Capital outlay	680,939	680,939	87,043	593,896
Total expenditures	752,681	752,681	158,785	593,896
NET CHANGE IN FUND BALANCE	(225,681)	(225,681)	370,538	596,219
FUND BALANCE:				
Beginning of year	1,381,950	1,381,950	1,381,950	-
End of year	\$ 1,156,269	\$ 1,156,269	\$ 1,752,488	\$ 596,219

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 579,000	\$ 579,000	\$ 557,619	\$ (21,381)
Investment income	35,000	35,000	32,154	(2,846)
Total revenues	614,000	614,000	589,773	(24,227)
EXPENDITURES:				
General government	106,820	106,820	106,820	-
Public works	507,180	507,180	507,180	-
Total expenditures	614,000	614,000	614,000	-
NET CHANGE IN FUND BALANCE	-	-	(24,227)	(24,227)
FUND BALANCE:				
Beginning of year	775,579	775,579	775,579	-
End of year	\$ 775,579	\$ 775,579	\$ 751,352	\$ (24,227)

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
SLESE/COPS Grant Special Revenue Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Investment income	-	-	879	879
Total revenues	100,000	100,000	100,879	879
EXPENDITURES:				
Public safety - police	100,000	100,000	100,879	(879)
Total expenditures	100,000	100,000	100,879	(879)
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, 2008

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

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 1,000	\$ 1,000	\$ 9,399	\$ 8,399
Other	75,000	75,000	117,500	42,500
Total revenues	76,000	76,000	126,899	50,899
EXPENDITURES:				
General government	103,775	103,775	74,143	29,632
Total expenditures	103,775	103,775	74,143	29,632
NET CHANGE IN FUND BALANCE	(27,775)	(27,775)	52,756	80,531
FUND BALANCE:				
Beginning of year	186,678	186,678	186,678	-
End of year	\$ 158,903	\$ 158,903	\$ 239,434	\$ 80,531

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 475,000	\$ 475,000	\$ 486,856	\$ 11,856
Total revenues	475,000	475,000	486,856	11,856
EXPENDITURES:				
Public works	25,750	25,750	25,613	137
Capital outlay	449,250	449,250	461,243	(11,993)
Total expenditures	475,000	475,000	486,856	(11,856)
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 Foundation Special Revenue Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other	\$ 300,000	\$ 300,000	\$ 57,897	\$ (242,103)
Total revenues	300,000	300,000	57,897	(242,103)
EXPENDITURES:				
Public Safety- Police	2,665	2,665	394	2,271
Public Safety- Fire	3,165	3,165	6,632	(3,467)
Capital outlay	490,000	490,000	106,512	383,488
Total Expenditures	495,830	495,830	113,538	382,292
OTHER FINANCING SOURCES:				
Transfer in	190,000	190,000	-	(190,000)
NET CHANGE IN FUND BALANCE	(5,830)	(5,830)	(55,641)	(49,811)
FUND BALANCE:				
Beginning of year	159,281	159,281	159,281	-
End of year	\$ 153,451	\$ 153,451	\$ 103,640	\$ (49,811)

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City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Debt Service Funds
June 30, 2008

	Land Reclamation Bonds 1967	Vintage Park Special Assessment Bonds	Total
ASSETS			
Cash and investments	\$ -	\$ 268,234	\$ 268,234
Receivables, net of allowance:			
Taxes	-	2,290	2,290
Restricted cash and investments	-	414,200	414,200
Special assessments receivables	-	190,395	190,395
Total assets	\$ -	\$ 875,119	\$ 875,119
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	70	70
Deferred revenue	-	190,395	190,395
Total liabilities	-	190,465	190,465
Fund Balances:			
Reserved for:			
Debt service	-	684,654	684,654
Total fund balances	-	684,654	684,654
Total liabilities and fund balances	\$ -	\$ 875,119	\$ 875,119

City of Foster City and Estero Municipal Improvement District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Debt Service Funds
For the fiscal year ended June 30, 2008

	Land Reclamation Bonds 1967	Vintage Park Special Assessment Bonds	Total
REVENUES:			
Special assessments	\$ -	\$ 352,443	\$ 352,443
Investment income	-	24,287	24,287
Total revenues	-	376,730	376,730
EXPENDITURES:			
Debt service:			
Principal repayment	635,000	360,000	995,000
Interest and fiscal charges	19,050	77,318	96,368
Total expenditures	654,050	437,318	1,091,368
REVENUES OVER (UNDER) EXPENDITURES	(654,050)	(60,588)	(714,638)
NET CHANGES IN FUND BALANCES	(654,050)	(60,588)	(714,638)
FUND BALANCES:			
Beginning of year	654,050	745,242	1,399,292
End of year	\$ -	\$ 684,654	\$ 684,654

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Metro Center Special Assessment Bonds Debt Service Fund - Major Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 3,697	\$ 3,697
Total revenues	-	-	3,697	3,697
EXPENDITURES:				
Debt service:				
Principal repayment	940,000	940,000	940,000	-
Interest and fiscal charges	64,900	64,900	64,150	750
Total expenditures	1,004,900	1,004,900	1,004,150	750
REVENUES OVER (UNDER) EXPENDITURES	(1,004,900)	(1,004,900)	(1,000,453)	4,447
OTHER FINANCING USES:				
Transfer out	(4,500)	(4,500)	(4,447)	53
Total other financing uses	(4,500)	(4,500)	(4,447)	53
NET CHANGE IN FUND BALANCE	(1,009,400)	(1,009,400)	(1,004,900)	4,500
FUND BALANCE:				
Beginning of year	1,004,900	1,004,900	1,004,900	-
End of year	\$ (4,500)	\$ (4,500)	\$ -	\$ 4,500

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Tax Allocation Refunding Bonds Debt Service Fund - Major Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 9,289,000	\$ 9,289,000	\$ 9,441,712	\$ 152,712
Investment income	108,000	108,000	153,537	45,537
Total revenues	9,397,000	9,397,000	9,595,249	198,249
EXPENDITURES:				
Debt service:				
Principal repayment	3,275,000	3,275,000	3,275,000	-
Interest and fiscal charges	392,872	392,872	373,673	19,199
Total expenditures	3,667,872	3,667,872	3,648,673	19,199
REVENUES OVER (UNDER) EXPENDITURES	5,729,128	5,729,128	5,946,576	217,448
OTHER FINANCING USES:				
Transfer out	(5,656,128)	(5,656,128)	(5,838,957)	(182,829)
Total other financing uses	(5,656,128)	(5,656,128)	(5,838,957)	(182,829)
NET CHANGE IN FUND BALANCE	73,000	73,000	107,619	34,619
FUND BALANCE:				
Beginning of year	6,219,752	6,219,752	6,219,752	-
End of year	\$ 6,292,752	\$ 6,292,752	\$ 6,327,371	\$ 34,619

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
1967 Land Reclamation Bonds Debt Service Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal repayment	\$ 635,000	\$ 635,000	\$ 635,000	\$ -
Interest and fiscal charges	27,050	27,050	19,050	8,000
Total expenditures	<u>662,050</u>	<u>662,050</u>	<u>654,050</u>	<u>8,000</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(662,050)</u>	<u>(662,050)</u>	<u>(654,050)</u>	<u>8,000</u>
NET CHANGE IN FUND BALANCE	<u>(662,050)</u>	<u>(662,050)</u>	<u>(654,050)</u>	<u>8,000</u>
FUND BALANCE:				
Beginning of year	<u>654,050</u>	<u>654,050</u>	<u>654,050</u>	<u>-</u>
End of year	<u>\$ (8,000)</u>	<u>\$ (8,000)</u>	<u>\$ -</u>	<u>\$ 8,000</u>

City of Foster City and Estero Municipal Improvement District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Vintage Park Special Assessment Bonds Debt Service Fund
For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessment	\$ 275,000	\$ 275,000	352,443	\$ 77,443
Investment income	17,000	17,000	24,287	7,287
Total revenues	292,000	292,000	376,730	84,730
EXPENDITURES:				
Debt service:				
Principal repayment	360,000	360,000	360,000	-
Interest and fiscal charges	78,700	78,700	77,318	1,382
Total expenditures	438,700	438,700	437,318	1,382
NET CHANGE IN FUND BALANCE	(146,700)	(146,700)	(60,588)	86,112
FUND BALANCE:				
Beginning of year	745,242	745,242	745,242	-
End of year	\$ 598,542	\$ 598,542	\$ 684,654	\$ 86,112

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City of Foster City and Estero Municipal Improvement District
Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2008

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
ASSETS				
Current assets:				
Cash and investments	\$ 3,444,271	\$ 7,588,956	\$ 1,088,828	\$ 2,641,036
Accounts receivable	-	8,606	-	-
Inventory	30,091	-	-	-
Restricted cash and investments	-	-	-	-
Total current assets	<u>3,474,362</u>	<u>7,597,562</u>	<u>1,088,828</u>	<u>2,641,036</u>
Noncurrent assets:				
Capital assets:				
Nondepreciable	-	42,163	-	98,302
Depreciable	1,939,918	2,183,839	-	-
Total noncurrent assets	<u>1,939,918</u>	<u>2,226,002</u>	<u>-</u>	<u>98,302</u>
Total assets	<u><u>5,414,280</u></u>	<u><u>9,823,564</u></u>	<u><u>1,088,828</u></u>	<u><u>2,739,338</u></u>
LIABILITIES				
Current liabilities:				
Accounts payable	56,570	12,998	-	63,817
Accrued payroll	10,895	-	-	26,100
Claims liability	-	-	106,287	-
Compensated absences - current portion	9,313	-	-	25,325
Total current liabilities	<u>76,778</u>	<u>12,998</u>	<u>106,287</u>	<u>115,242</u>
Noncurrent liabilities:				
Compensated absences	12,483	-	-	69,220
Total noncurrent liabilities	<u>12,483</u>	<u>-</u>	<u>-</u>	<u>69,220</u>
Total liabilities	<u><u>89,261</u></u>	<u><u>12,998</u></u>	<u><u>106,287</u></u>	<u><u>184,462</u></u>
NET ASSETS				
Invested in capital assets	1,939,918	2,226,002	-	98,302
Restricted	-	-	-	-
Unrestricted	3,385,101	7,584,564	982,541	2,456,574
Total net assets	<u><u>\$ 5,325,019</u></u>	<u><u>\$ 9,810,566</u></u>	<u><u>\$ 982,541</u></u>	<u><u>\$ 2,554,876</u></u>

Building Maintenance	Longevity Recognition Benefits	Total
\$ 1,872,568	\$ 5,871	\$ 16,641,530
-	-	8,606
-	-	30,091
-	1,212,010	1,212,010
<u>1,872,568</u>	<u>1,217,881</u>	<u>17,892,237</u>
-	-	140,465
-	-	4,123,757
-	-	4,264,222
<u>1,872,568</u>	<u>1,217,881</u>	<u>22,156,459</u>
58,794	-	192,179
15,770	3,960	56,725
-	-	106,287
23,889	-	58,527
<u>98,453</u>	<u>3,960</u>	<u>413,718</u>
<u>32,415</u>	-	<u>114,118</u>
<u>32,415</u>	-	<u>114,118</u>
<u>130,868</u>	<u>3,960</u>	<u>527,836</u>
-	-	4,264,222
-	1,212,010	1,212,010
1,741,700	1,911	16,152,391
<u>\$ 1,741,700</u>	<u>\$ 1,213,921</u>	<u>\$ 21,628,623</u>

City of Foster City and Estero Municipal Improvement District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the fiscal year ended June 30, 2008

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
OPERATING REVENUES:				
Charges for services	\$ 1,176,900	\$ 493,419	\$ 188,000	\$ 1,585,247
Total operating revenues	1,176,900	493,419	188,000	1,585,247
OPERATING EXPENSES:				
Personnel	319,530	-	-	638,824
Repairs and maintenance	357,882	135,462	-	405,091
General and administration	13,886	-	-	136,559
Depreciation	387,160	530,412	-	-
Contractual services	5,701	-	93,413	32,480
Insurance	28,000	-	239,252	-
Total operating expenses	1,112,159	665,874	332,665	1,212,954
OPERATING INCOME (LOSS)	64,741	(172,455)	(144,665)	372,293
NONOPERATING REVENUES (EXPENSES):				
Gain (loss) on sale of capital assets	40,717	(30,382)	-	68
Investment income (expense)	149,367	331,064	46,848	111,211
Total nonoperating revenues (expenses)	190,084	300,682	46,848	111,279
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	254,825	128,227	(97,817)	483,572
CONTRIBUTIONS AND TRANSFERS:				
Capital contribution	-	101,657	-	-
Transfers in	-	129,627	-	-
Transfers out	-	(29,277)	-	(129,627)
Total transfers	-	202,007	-	(129,627)
Changes in Net Assets	254,825	330,234	(97,817)	353,945
NET ASSETS:				
Beginning of the year	5,070,194	9,480,332	1,080,358	2,200,931
End of the year	<u>\$ 5,325,019</u>	<u>\$ 9,810,566</u>	<u>\$ 982,541</u>	<u>\$ 2,554,876</u>

Building Maintenance	Longevity Recognition Benefits	Total
\$ 1,435,238	\$ 427,836	\$ 5,306,640
<u>1,435,238</u>	<u>427,836</u>	<u>5,306,640</u>
387,292	91,945	1,437,591
266,177	-	1,164,612
420,361	-	570,806
-	-	917,572
180,963	-	312,557
-	-	267,252
<u>1,254,793</u>	<u>91,945</u>	<u>4,670,390</u>
<u>180,445</u>	<u>335,891</u>	<u>636,250</u>
-	-	10,403
79,524	(90,231)	627,783
<u>79,524</u>	<u>(90,231)</u>	<u>638,186</u>
<u>259,969</u>	<u>245,660</u>	<u>1,274,436</u>
-	-	101,657
-	-	129,627
(45,944)	-	(204,848)
<u>(45,944)</u>	<u>-</u>	<u>26,436</u>
214,025	245,660	1,300,872
<u>1,527,675</u>	<u>968,261</u>	<u>20,327,751</u>
<u>\$ 1,741,700</u>	<u>\$ 1,213,921</u>	<u>\$ 21,628,623</u>

City of Foster City and Estero Municipal Improvement District
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2008

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from other funds	\$ 1,176,900	\$ 493,419	\$ 188,000	\$ 1,585,247
Cash payments to suppliers for goods and services	(381,421)	(194,969)	(259,025)	(547,832)
Cash payments to employees for services	(345,270)	-	-	(627,461)
Net cash provided (used) by operating activities	450,209	298,450	(71,025)	409,954
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers received	-	129,627	-	-
Transfer paid	-	(29,277)	-	(129,627)
Interfund loans payments	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	100,350	-	(129,627)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets	40,717	(30,382)	-	-
Capital contributions received	-	101,657	-	-
Acquisition and construction of capital assets	(315,031)	(267,564)	-	(98,234)
Net cash provided (used) by capital and related financing activities	(274,314)	(196,289)	-	(98,234)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	149,367	331,064	46,848	111,211
Net cash provided (used) by investing activities	149,367	331,064	46,848	111,211
Net increase (decrease) in cash and cash equivalents	325,262	533,575	(24,177)	293,304
CASH AND CASH EQUIVALENTS:				
Beginning of year	3,119,009	7,055,381	1,113,005	2,347,732
End of year	<u>\$ 3,444,271</u>	<u>\$ 7,588,956</u>	<u>\$ 1,088,828</u>	<u>\$ 2,641,036</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 64,741	\$ (172,455)	\$ (144,665)	\$ 372,293
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	387,160	530,412	-	-
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivables	-	(8,606)	-	-
Inventory	(1,205)	-	-	-
Increase (decrease) in:				
Accounts payable	25,253	(50,901)	(6,848)	26,298
Accrued payroll	(2,665)	-	-	2,513
Claims liability	-	-	80,488	-
Compensated absences	(23,075)	-	-	8,850
Total adjustments	385,468	470,905	73,640	37,661
Net cash provided (used) by operating activities	\$ 450,209	\$ 298,450	\$ (71,025)	\$ 409,954

Building Maintenance	Longevity Recognition Benefits	Total
\$ 1,435,238	\$ 427,836	\$ 5,306,640
(964,835)	-	(2,348,082)
(368,735)	(91,635)	(1,433,101)
101,668	336,201	1,525,457
-	-	129,627
(45,944)	-	(204,848)
-	-	-
(45,944)	-	(75,221)
-	-	10,335
-	-	101,657
-	-	(680,829)
-	-	(568,837)
79,524	(90,231)	627,783
79,524	(90,231)	627,783
135,248	245,970	1,509,182
1,737,320	971,911	16,344,358
<u>\$ 1,872,568</u>	<u>\$ 1,217,881</u>	<u>\$ 17,853,540</u>
\$ 180,445	\$ 335,891	\$ 636,250
-	-	917,572
-	-	(8,606)
-	-	(1,205)
(97,334)	-	(103,532)
4,390	310	4,548
-	-	80,488
14,167	-	(58)
(78,777)	310	889,207
<u>\$ 101,668</u>	<u>\$ 336,201</u>	<u>\$ 1,525,457</u>

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CITY OF FOSTER CITY AND ESTERO MUNICIPAL IMPROVEMENT DISTRICT

STATISTICAL SECTION

The City/District adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Conditions Reporting: The Statistical Section - an amendment of NCGA Statement 1*. The statement is intended to improve consistency and comparability in reporting and to provide clearer guidance regarding the applicability of the standards for the statistical section to all types of governmental entities.

This part of the City/District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the Basic Financial Statements, Notes, and Required Supplementary Information says about the City/District's overall financial health.

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

City of Foster City and Estero Municipal Improvement District
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 77,132,726	\$ 89,440,178	\$ 92,896,656	\$ 95,785,241	\$ 97,403,808	\$ 101,122,436
Restricted	32,763,978	21,720,965	22,592,125	23,209,747	23,657,789	23,606,731
Unrestricted	<u>39,219,884</u>	<u>35,928,134</u>	<u>36,848,780</u>	<u>39,557,946</u>	<u>44,825,904</u>	<u>49,475,890</u>
Total governmental activities net assets	<u>\$ 149,116,588</u>	<u>\$ 147,089,277</u>	<u>\$ 152,337,561</u>	<u>\$ 158,552,934</u>	<u>\$ 165,887,501</u>	<u>\$ 174,205,057</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 32,172,097	\$ 31,588,358	\$ 38,216,716	\$ 39,528,336	\$ 59,649,262	\$ 61,434,009
Restricted	941,091	954,328	622,786	644,200	301,692	-
Unrestricted	<u>46,337,397</u>	<u>47,355,944</u>	<u>41,640,689</u>	<u>39,908,805</u>	<u>20,548,181</u>	<u>18,775,807</u>
Total business-type activities net assets	<u>\$ 79,450,585</u>	<u>\$ 79,898,630</u>	<u>\$ 80,480,191</u>	<u>\$ 80,081,341</u>	<u>\$ 80,499,135</u>	<u>\$ 80,209,816</u>
Primary government						
Invested in capital assets, net of related debt	\$ 109,304,823	\$ 121,028,536	\$ 131,113,372	\$ 135,313,577	\$ 157,086,070	\$ 162,556,445
Restricted	33,705,069	22,675,293	23,214,911	23,853,947	23,959,481	23,606,731
Unrestricted	<u>85,557,281</u>	<u>83,284,078</u>	<u>78,489,469</u>	<u>79,466,751</u>	<u>65,374,085</u>	<u>68,251,697</u>
Total primary government net assets	<u>\$ 228,567,173</u>	<u>\$ 226,987,907</u>	<u>\$ 232,817,752</u>	<u>\$ 238,634,275</u>	<u>\$ 246,419,636</u>	<u>\$ 254,414,873</u>

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	\$ 3,959,964	\$ 2,705,217	\$ 2,848,557	\$ 3,401,929	\$ 3,172,917	\$ 3,384,497
Police	6,972,046	7,458,401	7,672,926	7,874,658	8,414,456	8,598,000
Fire	6,152,976	6,558,290	6,456,232	7,707,520	7,129,555	7,277,640
Public works	3,951,120	6,192,009	4,272,573	4,938,721	5,832,257	4,795,377
Community development	6,445,306	6,734,993	4,330,177	3,939,444	4,517,721	4,399,597
Parks and recreation	5,867,155	5,967,687	6,201,991	6,112,184	6,274,796	6,969,205
Interest on long-term debt	2,496,351	2,003,449	1,394,022	1,149,134	714,924	527,048
Total governmental activities expenses	<u>35,844,918</u>	<u>37,620,046</u>	<u>33,176,478</u>	<u>35,123,590</u>	<u>36,056,626</u>	<u>35,951,364</u>
Business-type activities:						
Water	5,469,601	6,484,751	6,342,028	6,713,789	6,868,450	7,575,909
Wastewater	4,119,833	4,640,074	4,739,273	5,276,815	5,099,038	5,861,595
Public transportation	303,992	211,109	103,281	119,496	131,378	155,344
Total business-type activities expenses	<u>9,893,426</u>	<u>11,335,934</u>	<u>11,184,582</u>	<u>12,110,100</u>	<u>12,098,866</u>	<u>13,592,848</u>
Total primary government expenses	<u>\$ 45,738,344</u>	<u>\$ 48,955,980</u>	<u>\$ 44,361,060</u>	<u>\$ 47,233,690</u>	<u>\$ 48,155,492</u>	<u>\$ 49,544,212</u>
Program Revenues						
Governmental activities:						
Charges for services:						
Public works	\$ 789,631	\$ 398,625	\$ 430,209	\$ 556,598	\$ 76,488	\$ 160,062
Parks and recreation	1,031,043	1,043,428	1,092,235	1,103,417	1,017,538	1,032,979
Other activities	1,553,066	1,848,369	1,563,775	1,570,945	1,638,345	1,679,892
Operating grants and contributions	1,254,714	1,191,358	1,181,974	1,642,813	996,947	854,272
Capital grants and contributions	1,203,787	746,541	1,076,241	1,771,121	128,000	-
Total governmental activities program revenues	<u>5,832,241</u>	<u>5,228,321</u>	<u>5,344,434</u>	<u>6,644,894</u>	<u>3,857,318</u>	<u>3,727,205</u>
Business-type activities:						
Charges for services:						
Water	5,997,758	6,095,677	5,800,508	5,782,979	6,027,769	6,769,890
Sewer	4,808,073	5,036,794	5,141,871	5,155,092	5,170,037	5,570,010
Other activities	393,324	206,231	79,590	55,479	69,955	-
Capital grants and contributions	23,409	11,522	-	1,762	-	-
Total business-type activities program revenues	<u>11,222,564</u>	<u>11,350,224</u>	<u>11,021,969</u>	<u>10,995,312</u>	<u>11,267,761</u>	<u>12,339,900</u>
Total primary government program revenues	<u>\$ 17,054,805</u>	<u>\$ 16,578,545</u>	<u>\$ 16,366,403</u>	<u>\$ 17,640,206</u>	<u>\$ 15,125,079</u>	<u>\$ 16,067,105</u>
Net (Expense)/Revenue						
Governmental activities	\$ (30,012,677)	\$ (32,391,725)	\$ (27,832,044)	\$ (28,478,696)	\$ (32,199,308)	\$ (32,224,159)
Business-type activities	1,329,138	14,290	(162,613)	(1,114,788)	(831,105)	(1,252,948)
Total primary government net expense	<u>\$ (28,683,539)</u>	<u>\$ (32,377,435)</u>	<u>\$ (27,994,657)</u>	<u>\$ (29,593,484)</u>	<u>\$ (33,030,413)</u>	<u>\$ (33,477,107)</u>

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Revenues and						
Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 24,296,055	\$ 21,258,698	\$ 22,067,892	\$ 22,656,311	\$ 23,946,796	\$ 25,326,023
Franchise taxes	777,956	838,572	875,033	909,123	981,494	1,029,576
Sales taxes	3,667,546	3,527,247	3,670,336	4,136,136	4,485,030	5,059,382
Other taxes	1,805,428	1,873,576	1,980,139	2,202,260	2,396,793	2,552,680
Payments in lieu of taxes	1,726,710	1,607,385	2,405,400	2,190,769	2,605,998	2,250,733
Investment earnings	1,944,840	603,723	1,701,412	1,652,286	4,463,127	3,933,537
Miscellaneous	131,321	477,594	378,185	991,956	768,061	438,822
Transfers	726,307	177,619	1,931	(44,772)	(80,424)	(82,038)
Total governmental activities	<u>35,076,163</u>	<u>30,364,414</u>	<u>33,080,328</u>	<u>34,694,069</u>	<u>39,566,875</u>	<u>40,508,715</u>
Business-type activities:						
Property Tax	12,016	1,942	-	-	-	-
Investment earnings	1,670,467	609,432	746,105	671,166	1,145,239	809,666
Loss on sales of capital assets	-	-	-	-	-	(17,198)
Miscellaneous	-	-	-	-	28,262	89,123
Transfers	(726,307)	(177,619)	(1,931)	44,772	80,424	82,038
Total business-type activities	<u>956,176</u>	<u>433,755</u>	<u>744,174</u>	<u>715,938</u>	<u>1,253,925</u>	<u>963,629</u>
Total primary government	<u>\$ 36,032,339</u>	<u>\$ 30,798,169</u>	<u>\$ 33,824,502</u>	<u>\$ 35,410,007</u>	<u>\$ 40,820,800</u>	<u>\$ 41,472,344</u>
Change in Net Assets						
Governmental activities	\$ 5,063,486	\$ (2,027,311)	\$ 5,248,284	\$ 6,215,373	\$ 7,367,567	\$ 8,284,556
Business-type activities	2,285,314	448,045	581,561	(398,850)	422,820	(289,319)
Total primary government	<u>\$ 7,348,800</u>	<u>\$ (1,579,266)</u>	<u>\$ 5,829,845</u>	<u>\$ 5,816,523</u>	<u>\$ 7,790,387</u>	<u>\$ 7,995,237</u>

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Revenues						
Taxes	\$ 30,188,837	\$ 28,482,468	\$ 30,773,530	\$ 31,881,063	\$ 33,523,781	\$ 35,329,687
Licenses, fees and permits	881,315	845,900	925,063	1,145,886	1,156,192	1,166,550
Fines and penalties	185,977	238,786	231,281	190,439	194,613	164,661
Charges for services	1,202,629	1,164,994	1,218,808	1,334,881	1,383,692	1,347,279
Special assessments	1,882,383	1,229,743	1,466,046	1,316,143	799,236	352,443
Intergovernmental	4,101,504	1,375,769	1,709,815	1,716,468	1,183,015	1,443,393
Investment earnings	3,157,650	2,942,074	3,554,502	3,800,211	5,127,172	4,706,132
Other revenues	<u>1,415,975</u>	<u>1,347,151</u>	<u>578,459</u>	<u>1,032,866</u>	<u>1,024,736</u>	<u>1,012,569</u>
Total revenues	<u>43,016,270</u>	<u>37,626,885</u>	<u>40,457,504</u>	<u>42,417,957</u>	<u>44,392,437</u>	<u>45,522,714</u>
Expenditures						
General government	2,386,220	2,011,884	2,173,641	2,371,339	2,471,650	2,979,792
Police	6,972,046	7,458,401	7,629,412	7,886,775	8,470,914	8,650,231
Fire	6,006,387	6,449,536	6,412,718	6,831,111	7,213,382	7,373,331
Public works	2,163,972	2,699,440	2,254,732	2,571,047	2,428,438	2,435,402
Community development	6,336,193	6,463,105	4,099,415	4,191,028	4,550,667	4,429,165
Parks and recreation	5,380,143	5,330,070	5,199,602	5,500,330	5,704,605	6,361,683
Capital outlay	12,898,471	5,131,537	1,885,475	2,276,329	1,186,620	2,110,297
Debt service						
Interest	4,448,977	3,989,991	2,971,975	2,921,459	2,387,604	1,998,571
Principal	<u>8,062,251</u>	<u>13,355,000</u>	<u>5,540,000</u>	<u>9,656,000</u>	<u>5,695,000</u>	<u>5,210,000</u>
Total expenditures	<u>54,654,660</u>	<u>52,888,964</u>	<u>38,166,970</u>	<u>44,205,418</u>	<u>40,108,880</u>	<u>41,548,472</u>
Excess of revenues over (under) expenditures	(11,638,390)	(15,262,079)	2,290,534	(1,787,461)	4,283,557	3,974,242
Other Financing Sources (uses)						
Proceeds from sale of capital assets	-	-	-	130,000	500	-
Transfers in	5,845,116	4,950,870	4,940,702	8,863,966	5,895,607	5,843,405
Transfers out	<u>(5,983,116)</u>	<u>(4,773,251)</u>	<u>(4,938,771)</u>	<u>(8,918,100)</u>	<u>(6,255,434)</u>	<u>(5,925,443)</u>
Total other financing sources (uses)	<u>(138,000)</u>	<u>177,619</u>	<u>1,931</u>	<u>75,866</u>	<u>(359,327)</u>	<u>(82,038)</u>
Net change in fund balances	<u>\$ (11,776,390)</u>	<u>\$ (15,084,460)</u>	<u>\$ 2,292,465</u>	<u>\$ (1,711,595)</u>	<u>\$ 3,924,230</u>	<u>\$ 3,892,204</u>
Debt service as a percentage of noncapital expenditures	30.0%	36.3%	23.5%	30.0%	20.8%	18.3%

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

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

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	Other Property	Less: Tax-Exempt Property	Total Taxable Assessed Value
2005	\$ 3,543,421	\$ 837,154	\$ 268,701	\$ 497,151	\$ 36,914	\$ 5,109,513
2006	3,927,763	857,293	274,483	479,612	45,780	5,493,371
2007	4,219,991	946,856	357,821	499,279	86,616	5,937,331
2008	4,442,719	1,026,283	375,300	447,472	87,915	6,203,859

Source: San Mateo County Assessor 2007/08 - Combined Tax Rolls

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

Thereafter, full cash value can be increased:

- 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.

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

Fiscal Year	Countywide Tax (1)	Estero Improvement Bonds	San Mateo Elementary Bonds	San Mateo School Bonds	San Mateo Jr College Bonds	Total
1997/98	1.0000	0.0032	0.0296	-	-	1.0328
1998/99	1.0000	0.0043	0.0329	-	-	1.0372
1999/00	1.0000	0.0046	0.0399	-	-	1.0445
2000/01	1.0000	0.0095	0.0367	-	-	1.0462
2001/02	1.0000	0.0079	0.0410	0.0153	-	1.0642
2002/03	1.0000	0.0112	0.0428	0.0165	0.0079	1.0784
2003/04	1.0000	-	0.0428	0.0161	0.0065	1.0654
2004/05	1.0000	-	0.0384	0.0174	0.0065	1.0623
2005/06	1.0000	-	0.0382	0.0174	0.0065	1.0621
2006/07	1.0000	-	0.0332	0.0156	0.0184	1.0672
2007/08	1.0000	-	0.0333	0.0150	0.0171	1.0654

Source: Tax Rolls Code 020-003, County of San Mateo

Note: (1) Proposition 13 allows each county to levy a maximum tax of \$1 per \$100 of full cash value.
Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.

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

<u>Taxpayer</u>	FY 2004/2005			FY 2007/2008		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Visa International Services	\$ 251,197,402	1	4.88%	\$ 228,753,288	2	3.69%
Gilead Vintage Park Limited Partnership	179,510,476	2	3.49%	241,325,257	1	3.89%
Applera Corporation	150,713,264	3	2.93%	144,300,273	4	2.33%
SPK Metro Center LLC Lessee	143,311,752	4	2.78%	208,288,871	3	3.36%
Electronic For Imaging Inc.	131,407,416	5	2.55%	139,145,847	5	2.24%
Grupe Real Estate Investment 15	80,387,396	6	1.56%			
PWM Commercial Venture LLC	72,262,382	7	1.40%			
Gateway Phoenix & 5990 Sepulveda Associates	69,700,000	8	1.35%			
BRE Properties Inc.	67,190,046	9	1.31%	70,587,261	7	1.14%
Walton Bayside Investors IV LLC	52,563,370	10	1.02%			
Hines VAF No. California Properties LP				71,900,000	6	
Bayside Towers Inc.				67,064,998	8	1.08%
PWM Residential Venture LLC				59,220,304	9	
Sony Computer Entertainment				47,620,532	10	0.77%
Total	\$ 5,146,426,934		23.28%	\$ 6,203,858,727		18.49%

Source: San Mateo County Assessor 2006/07 - Combined Tax Rolls

Note: As some information required by GASB 44 is not readily available, data from 1998 is not shown above.

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
1999	\$ 6,199,781	\$ 5,811,880	93.74%	\$ 85,503	\$ 5,897,383	95.12%
2000	6,654,797	6,342,908	95.31%	5,466	6,348,374	95.40%
2001	7,330,999	7,138,149	97.37%	19,818	7,157,967	97.64%
2002	8,097,970	8,019,105	99.03%	39,986	8,059,091	99.52%
2003	8,549,219	8,044,620	94.10%	227,329	8,271,949	96.76%
2004	8,965,140	8,470,809	94.49%	79,905	8,550,714	95.38%
2005	9,440,814	8,861,531	93.86%	282,509	9,144,040	96.86%
2006	10,204,649	9,347,350	91.60%	(5,553)	9,341,797	91.54%
2007	10,989,391	10,632,880	96.76%	84,287	10,717,167	97.52%
2008	11,514,681	10,821,776	93.98%	-	10,821,776	93.98%

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 Four Fiscal Years
(in millions of gallons)

Type of Customer	Fiscal Year			
	2005	2006	2007	2008
Residential	1,483.5	1,444.8	1,543.1	1,551.5
Industrial	22.8	22.9	23.9	24.1
Commercial	277.5	263.4	259.2	259.4
Government	15.8	15.1	15.9	16.0
Total	1,799.6	1,746.2	1,842.1	1,851.0
Total direct rate per 1,000 gallons	\$ 1.68	\$ 1.68	\$ 1.72	\$ 1.99

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 three years of data.

City of Foster City and Estero Municipal Improvement District

Water and Sewer Rates

Last Ten Fiscal Years

Water	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Availability / Meter Charge (per Month)										
5/8 inch	\$ 9.50	\$ 9.50	\$ 9.50	\$ 9.50	\$ 9.50	\$ 12.50	\$ 12.50	\$ 12.90	\$ 13.90	\$ 15.60
3/4 inch	9.50	9.50	9.50	9.50	9.50	12.50	12.50	12.90	13.90	15.60
1 inch	23.75	23.75	23.75	23.75	23.75	31.25	31.25	32.25	34.75	39.00
1&1/2 inch	47.50	47.50	47.50	47.50	47.50	62.50	62.50	64.40	69.50	78.00
2 inch	76.00	76.00	76.00	76.00	76.00	100.00	100.00	103.00	111.20	124.80
3 inch	133.00	133.00	133.00	133.00	133.00	175.00	175.00	180.00	194.60	218.40
4 inch	209.00	209.00	209.00	209.00	209.00	275.00	275.00	280.00	305.80	343.20
6 inch	399.00	399.00	399.00	399.00	399.00	525.00	525.00	540.00	583.80	655.20
8 inch	627.00	627.00	627.00	627.00	627.00	825.00	825.00	850.00	917.40	1,029.60
Consumption Charge (per Unit*)										
All Classes	0.98	0.98	0.98	1.41	1.57	1.26	1.26	1.29	1.49	1.60
Private Fire Protection Service										
Availability / Meter Charge (per Month)										
1&1/2 inch	15.07	15.07	15.07	15.07	15.07	21.88	21.88	22.50	24.33	27.30
2 inch	24.10	24.10	24.10	24.10	24.10	35.00	35.00	36.25	38.92	43.68
3 inch	42.18	42.18	42.18	42.18	42.18	61.25	61.25	63.25	68.11	76.44
4 inch	66.29	66.29	66.29	66.29	66.29	96.25	96.25	99.25	107.03	120.12
6 inch	126.55	126.55	126.55	126.55	126.55	183.75	183.75	189.25	204.33	229.32
8 inch	198.86	198.86	198.86	198.86	198.86	288.75	288.75	297.50	321.09	360.36
Sewer										
Residential (per Month)										
Single Family	27.69	27.69	27.69	31.09	34.11	35.13	35.13	35.13	37.94	40.98
Townhouse	23.28	23.28	23.28	26.07	28.68	29.54	29.54	29.54	31.90	34.45
Duplex	23.28	23.28	23.28	26.07	28.68	29.54	29.54	29.54	31.90	34.45
Apartment / Condominium	22.02	22.02	22.02	24.66	27.13	27.94	27.94	27.94	30.18	34.45
Commercial (per Unit* of Water Billed)										
Restaurant	5.04	5.04	5.04	5.64	6.20	6.39	6.39	6.39	6.90	7.45
Miscellaneous	1.64	1.64	1.64	1.84	2.02	2.08	2.08	2.08	2.25	2.62
Institutional (per Unit* of Water Billed)										
School	1.00	1.00	1.00	1.12	1.23	1.27	1.27	1.27	1.37	1.48
Church	1.00	1.00	1.00	1.12	1.23	1.27	1.27	1.27	1.37	1.48
Public Facility	1.00	1.00	1.00	1.12	1.23	1.27	1.27	1.27	1.37	1.48

Unit* = 748 Gallons

Source: City of Foster City Financial Services Department

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

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Redevelopment Bonds	Special Assessment Bonds	Sewer Bonds				
1999	\$ 24,382	\$ 32,255	\$ 18,975	\$ 3,373	\$ 78,985	5.11	\$ 2,573	
2000	21,412	31,010	16,885	3,034	72,341	3.97	2,341	
2001	18,211	29,675	15,355	2,729	65,970	4.07	2,265	
2002	14,926	29,135	11,095	2,399	57,555	3.80	1,990	
2003	11,501	26,340	9,390	1,859	49,090	3.16	1,646	
2004	4,941	23,430	5,505	1,582	35,458	2.17	1,188	
2005	3,491	20,400	4,445	1,242	29,578	1.67	990	
2006	1,985	13,385	3,310	785	19,465	0.97	651	
2007	635	10,250	2,100	280	13,265	n/a	438	
2008	-	6,975	800	-	7,775	n/a	257	

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

City of Foster City and Estero Municipal Improvement District

Direct and Overlapping Governmental Activities Debt

As of June 30, 2008

2007-08 Assessed Valuation: \$6,191,645,042
 Redevelopment Incremental Valuation: 1,799,682,357
 Adjusted Assessed Valuation: \$4,391,962,685

	Total Debt Outstanding 6/30/2008	Percentage Applicable ⁽¹⁾	City's Share of Overlapping Debt 6/30/08
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Mateo Community College	\$650,619,994	3.660%	\$23,812,692
San Mateo Union High School District	184,949,950	10.442%	19,312,474
Sequoia Union High School District	268,995,000	0.073%	196,366
San Mateo-Foster City School District	95,287,885	22.870%	21,792,339
Belmont School District	10,715,000	0.423%	45,324
Estero Municipal Improvement District	0	100.000%	0
City of Foster City 1915 Act Bonds	800,000	100.000%	800,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$65,959,196
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$390,994,816	3.660%	\$14,310,410
San Mateo County Board of Education Certificates of Participation	13,345,000	3.660%	488,427
Belmont School District Certificates of Participation	5,760,000	0.423%	24,365
San Mateo Union High School District Certificates of Participation	74,516,236	10.442%	7,780,985
Midpeninsula Regional Park District General Fund Obligations	104,840,193	0.007%	7,339
San Mateo County Mosquito Abatement District Certificates of Participation	795,000	5.095%	40,505
TOTAL OVERLAPPING GENERAL FUND DEBT			\$22,652,031
COMBINED TOTAL DEBT			\$88,611,227 ⁽²⁾

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

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

Ratios to 2007-08 Assessed Valuation:

Direct Debt0.02%
 Total Direct and Overlapping Tax and Assessment Debt.....1.07%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt2.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

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

Legal Debt Margin Calculation for Fiscal Year 2008

Assessed value	\$ 6,147,087
Debt limit (15% of assessed value)	922,063
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to li	-
Legal debt margin	<u>\$ 922,063</u>

	<u>Fiscal Year</u>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt limit	\$ 488,480	\$ 534,538	\$ 599,593	\$ 656,328	\$ 703,260	\$ 731,087	\$ 759,294	\$ 815,558	\$ 882,082	\$ 922,063
Total net debt applicable to limit	<u>18,056</u>	<u>14,873</u>	<u>11,654</u>	<u>8,364</u>	<u>4,536</u>	<u>3,059</u>	<u>1,469</u>	-	-	-
Legal debt margin	<u>\$ 470,424</u>	<u>\$ 519,665</u>	<u>\$ 587,939</u>	<u>\$ 647,964</u>	<u>\$ 698,724</u>	<u>\$ 728,028</u>	<u>\$ 757,825</u>	<u>\$ 815,558</u>	<u>\$ 882,082</u>	<u>\$ 922,063</u>
Total net debt applicable to the limit as a percentage of debt limit	3.70%	2.78%	1.94%	1.27%	0.64%	0.42%	0.19%	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 <i>(thousands of dollars)</i>	Per Capita Personal Income	Unemployment Rate
1999	30,692	\$ 1,545,895	\$ 50,368	1.7%
2000	30,908	1,820,605	58,904	2.3%
2001	29,132	1,622,652	55,700	2.8%
2002	28,923	1,515,305	52,391	4.3%
2003	29,828	1,554,128	52,103	4.7%
2004	29,850	1,635,989	54,807	3.7%
2005	29,876	1,769,048	59,213	3.3%
2006	29,900	1,998,486	66,839	2.8%
2007	30,269	n/a	n/a	2.9%
2008	30,308	n/a	n/a	3.5%

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

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

Employer	2002			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
VISA International & VISA USA	3,200	1	20.25%	1,287	3	7.92%
Applied Biosystems	1,800	2	11.39%	1,499	1	9.22%
Gilead Sciences	1,200	3	7.59%	1,073	4	6.60%
Electronics for Imaging	700	4	4.43%	1,394	2	8.57%
Sony Computer Entertainment	550	5	3.48%	674	6	4.15%
SAP America	400	6	2.53%			
Crowne Plaza Hotel	300	7	1.90%			
Lincoln Property Company	250	8	1.58%			
Legacy Partners Inc.	250	9	1.58%			
City of Foster City	237	10	1.50%			
QuinStreet, Inc.				450	7	2.77%
Inovant LLC				1,020	5	6.27%
Rearden Commerce, Inc.				300	8	1.85%
IBM Corporation				295	9	1.81%
Mid-Peninsula Housing				264	10	1.62%
Total	<u>15,800</u>		<u>56.25%</u>	<u>16,257</u>		<u>50.78%</u>

Source: 2002 City of Foster City Community Development Department
2008 Business License of Financial Services Department

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

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

Function/Program	Full-time Equivalent Employees as of June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Management services	14.0	16.0	16.0	18.0	18.0	18.0	19.0	19.0	19.0	20.0
Finance	9.0	9.0	9.0	10.0	10.0	10.0	9.0	9.0	9.0	8.0
Planning	10.0	9.5	9.5	9.0	7.0	7.0	5.0	5.0	5.5	5.5
Building	5.0	5.5	6.5	7.0	7.0	6.5	6.0	6.0	6.5	6.5
Police										
Officers	44.0	44.0	44.0	45.0	45.0	45.0	39.0	37.0	37.0	39.0
Civilians	18.0	18.0	18.0	18.0	18.0	18.0	17.0	17.0	17.0	17.0
Fire										
Firefighters and officers	37.0	40.0	40.0	40.0	40.0	40.0	36.0	36.0	36.0	36.0
Civilians	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0
Other public works										
Engineering	12.0	11.0	11.0	11.0	12.0	12.0	10.0	9.0	8.0	7.0
Other	12.0	13.0	13.0	13.0	12.0	12.0	10.0	10.0	10.0	10.0
Parks and recreation	42.0	40.0	40.0	43.0	43.0	43.0	42.0	41.0	41.0	41.0
Water	9.0	9.0	9.0	9.0	9.0	9.0	11.0	11.0	11.0	11.0
Wastewater	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Total	226.0	229.0	230.0	237.0	235.0	234.5	217.0	213.0	213.0	214.0

Source: City Budget

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

Function/Program	Fiscal Year			
	2005	2006	2007	2008
Police				
Physical arrests	797	727	762	769
Parking violations	1,065	956	863	891
Traffic violations	2,472	1,772	2,396	1,870
Fire				
Emergency responses	1,882	1,981	1,940	2,095
Fires extinguished	116	116	105	107
Inspections	1,779	1,813	1,102	1,128
Other public works				
Street resurfacing (miles)	-	3	1	1.8
Potholes repaired	30	27	30	25
Parks and recreation				
Athletic field permits issued	37	48	49	52
Community center admissions	8,279	8,481	8,804	9,144
Water				
New connections	-	6	4	2
Water mains breaks	19	17	-	14
Average daily consumption (thousands of gallons)	5,174	5,257	5,574	5,520
Peak daily consumption (thousands of gallons)	10,202	11,146	10,634	10,450
Wastewater				
Average daily sewage treatment (thousands of gallons)	3,103	3,185	3,074	2,980

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 three years of data.

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

Function/Program	Fiscal Year			
	2005	2006	2007	2008
Police				
Stations	1	1	1	1
Zone offices	1	1	1	1
Patrol units	1	1	1	1
Fire stations	1	1	1	1
Other public works				
Streets (miles)	46.1	46.1	46.1	54.3
Streetlights	1,918	1,918	1,918	1,918
Traffic signals	20	23	25	25
Parks and recreation				
Acreage	103.77	167.77	171.00	210.00
Playgrounds	21	21	21	21
Baseball/softball diamonds	8/3	8/3	8/3	8/3
Soccer/football fields	10/0	10/0	10/0	10/0
Community centers	1	1	1	1
Water				
Water mains (miles)	110	110	110	110
Fire hydrants	1,149	1,149	1,149	1,149
Storage capacity (thousands of gallons)	12,000	20,000	20,000	20,000
Wastewater				
Sanitary sewers (miles)	66	66	66	66
Storm sewers (miles)	83	83	83	83
Treatment capacity (thousands of gallons)	52,130	52,130	52,130	52,130
Transit-minibuses	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 three years of data.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of The City of Foster City and the Estero Municipal Improvement District (City/District) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City/District's financial statements that is more than inconsequential will not be prevented or detected by the City/District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City/District's internal control.

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

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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
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Compliance and Other Matters

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

This report is intended solely for the information and use of management, the City Council and District Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
December 2, 2008