City of Foster City and Estero Municipal Improvement District

California

Comprehensive Annual Financial Report
Prepared by the Department of Financial Services
Fiscal Year Ended June 30, 2010

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, 2010

Rick Wykoff, Mayor

Linda Koelling, Vice Mayor

Art Kiesel, Councilmember

Pam Frisella, Councilmember

Charlie Bronitsky, Councilmember

James C. Hardy, City Manager/City Treasurer

Kristi A. Chappelle, Assistant City Manager

Jean B. Savaree, City Attorney

Steve Toler, Finance Director

Ray Towne, Public Works Director

Rebecca Burnside, Human Resources Director

Craig Courtin, Police Chief

Kevin Miller, Parks & Recreation Director

Tom Reaves, Fire Chief

Richard Marks, Community Development Director

Doris Palmer, City Clerk

City of Foster City and Estero Municipal Improvement District
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2010

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City of Foster City

ESTERO MUNICIPAL IMPROVEMENT DISTRICT

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January 27, 2011

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report (CAFR) of the City of Foster City (City) and the Estero Municipal Improvement District (District) for the fiscal year ended June 30, 2010 is hereby submitted. This report was prepared by the Financial Services Department, which is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation of this report, including all disclosures. We believe the data, as presented, are accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and results of operations of the City / District as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain the maximum understanding of the City / District's financial affairs have been included.

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

The CAFR is organized into three sections:

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

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

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

INDEPENDENT AUDIT

The City / District requires that its financial statements be audited annually by an independent certified public accountant selected by the City Council / District Board. The City / District has contracted with Caporicci and Larson Inc., a subsidiary of Marcum LLP Certified Public Accountants, to conduct the audit for FY 2009-2010 and the independent auditor's opinion is included in this report.

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

PROFILE OF THE GOVERNMENT

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

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

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

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

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

- Upgrading and maintaining the street system, resurfacing, and modifying of traffic signals at various locations;
- Providing police services at a low per capita cost while maintaining a very low crime rate within the community through neighborhood watch programs and community-oriented policing;

Providing fire suppression, prevention and advanced life support programs designed to protect the lives and property of the citizens of Foster City;

- Providing quality and innovative leisure and recreational programs to meet the community's needs and making the City a more enjoyable place to live through high quality parks and recreational amenities, entertaining and educational programs, provided in a safe atmosphere;
- Guiding City / District development while maintaining and protecting its physical environment; overseeing the proposed development and construction of properties, structures and facilities; and,
- Assessing the cost effective delivery of services provided by all City / District departments.

LOCAL ECONOMY

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

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

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

- Property taxes continue to be the primary source of revenues for the City / District, contributing nearly 56% of General Fund revenues. Growth in assessed valuation of taxable property increased by 2.9% from the prior year, while property tax collections increased 3.8% from the prior year.
- General Fund sales tax revenues declined 12.8% from the prior year as a result of the economic downturn.
- Other key revenue sources such as transient occupancy tax, franchise taxes, licenses and permits, and changes for current services also declined a combined 3.4% from the prior year.
- Investment and rental income declined 20.3% from FY 2008-2009, primarily due to the decline in interest yields associated with fixed-income securities from government agencies in which the City / District primarily invests.

LONG-TERM FINANCIAL PLAN

The City / District's reserve policy for its General Fund is 33-1/3% of the following year's annual operating expenditures, per the adopted budget, and for its Water and Wastewater Funds the policy is 25% of annual operating expenses. In addition, a $2 million emergency reserve is established for each of the three Capital Projects Funds programs – City, Water and Sewer. The total combined unreserved fund balances representing the emergency reserve ($10.3 million)and undesignated reserves ($12.2 million)for the General Fund are $22.5 million, or 75% of annual operating expenditures. The City Capital Projects fund balance ended the year with an unreserved balance of $5.4 million. The Water and Wastewater net assets stand at $6.9 million and $12.8 million, respectively, which are well above the minimum reserve levels.

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

The City / District's long-term financial forecast indicates that General Fund revenues will fall short of expenditures by approximately $2.9 million, or approximately 10% of annual operating expenditures. The City Council / District Board instructed the City Manager to provide a financial plan to balance the budget by FY 2013-2014 and maintaining the minimum reserve of 33-1/3% of annual operating expenditures. The plan shall include recommendations as to a combination of expenditure reductions and revenue enhancements in order to balance the budget. This plan will be prepared as part of the FY 2011-2012 budget process.

The City's long-term financial forecast as of June 30, 2010 incorporates several key assumptions to maintain the health, safety and welfare of the community. The City / District will set aside $1.4 million in General Fund resources for long-term capital improvement projects to maintain or replace aging infrastructure. Development is expected to be slower over the next several years, however redevelopment plans for the Pilgrim-Triton and Gilead Sciences Campus development projects are already moving forward with developers who have demonstrated financial ability to proceed. These projects will generate property tax, sales tax, and Park-in-Lieu fees. Water and wastewater operations will continue to be self-funded while water supply availability will be a key issue in the community, requiring stronger water conservation programs and implementation of a tiered-rate structure to incent customers to conserve water. Finally, the City / District has paid off all of its bonded indebtedness obligations as of June 30, 2010, and its long-term financial plan calls for the City / District to remain debt free to achieve its goals and objectives.

Land development decisions will play a key role in the City / District's long-term financial plans. The 15-acre vacant site between the Government Center and the North Peninsula Jewish Campus remains as the most significant undeveloped parcel of publicly owned land in the City and represents a very valuable public asset. The previous proposal by Pacific Retirement Services, Inc. and Sares Regis of Northern California, L.P. called for a mixed use development incorporating a continuing care retirement community, assisted living apartments, retail, and a public plaza. Although the economy prevented the developers from financing the project, the proposed land use remains the preferred highest and best use of that parcel, and its lease or sale will provide significant economic resources in the City / District's long-term financial horizon. In addition, mixed use developments like Metro Center, Marlin Cove, and the planned redevelopment of the Pilgrim-Triton area, will serve to promote the retention of existing businesses, encourage new business development, and help the City meet its state-mandated fair share housing requirements.

MAJOR INITIATIVES

The following major initiatives were completed or in progress as of June 30, 2010:

- Synthetic Turf and Park Improvements – The capital projects related to the installation of synthetic turf fields and other park improvements at Sea Cloud Park (S-3) and Catamaran Park were completed, including a two (2) acre soccer field installed at each park providing greater water conservation and reduced maintenance costs, and a 2-lane synthetic walking track and lighting of the basketball court at Catamaran Park.
- Skate Park – The skate park located adjacent to the Vibe (the Teen Center) was completed that provides youth with a challenging facility for skateboarder and skaters.

Other Capital Improvement Projects – Several public works construction projects were completed, including residential street resurfacing and repairs, arterial and collector overlay projects (which was entirely funded through American Reinvestment and Recovery Act funds), water valve replacements, the Catamaran Park Bulkhead improvement, a water main condition survey, and the Lagoon Pump Station improvements. In addition, several capital improvement projects are underway, including sanitary sewer lift station improvements, Levee Pedway improvements and repair, bridge inspections, and the Wastewater Treatment Plant Expansion related to the Solids Handling Facility (part of the joint powers agreement with the City of San Mateo).

- New Solid Waste Franchise Agreement – A new solid waste / recycling collection franchise agreement was developed in conjunction with the South Bayside Waste Management Authority between the City and Recology, to be effective January 1, 2011. This agreement will provide continued waste management services to the community and generate continued garbage franchise fees for the General Fund.
- Development Plans – Plans for various land use development were approved or well under way, including Pilgrim-Triton, Gilead Sciences, Chess Drive Offices, and Visa Incorporated, which stand to generate significant long-term revenues to the City / District.

ACCOUNTING AND BUDGETING SYSTEMS

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

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

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

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

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

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

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City / District for the year ended June 30, 2009. In order to be awarded a Certificate of Achievement, the City / District published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

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

Respectfully submitted,

Steve Toler
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Foster City and Estero Municipal Improvement District California

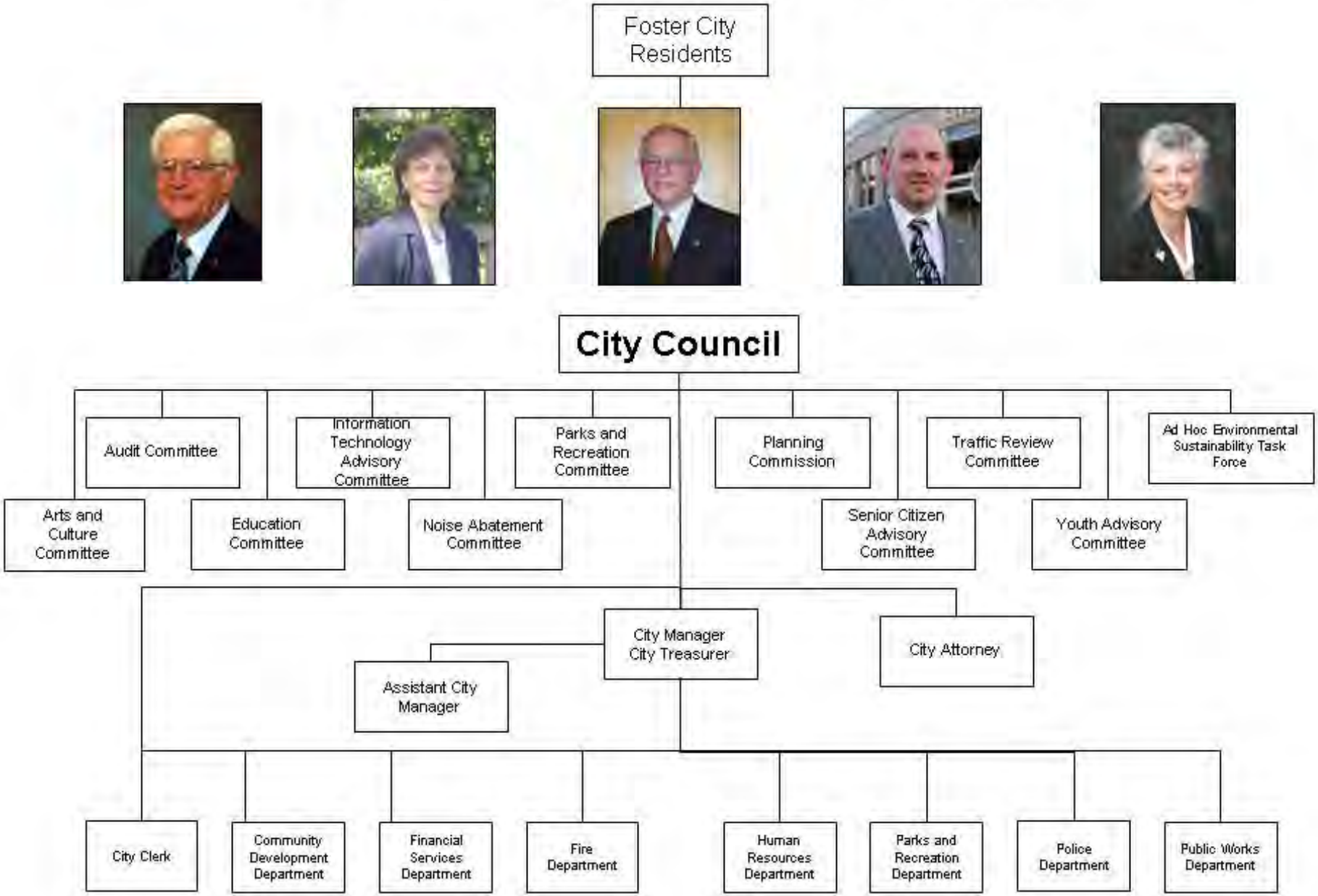
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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

President

Executive Director

Foster City Organization Chart



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

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, 2010, 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City/District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City/District's as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, on our consideration of the City/District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion and Analysis and the Required Supplementary Information on pages 3 to 13 and pages 57 to 60, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and 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 Introductory Section, Supplementary Information and Statistical Section are presented for purposes of additional analysis and are 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 and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
January 27, 2011

CITY OF FOSTER CITY AND
ESTERO MUNICIPAL IMPROVEMENT DISTRICT
Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

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, 2010. 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 2009-2010 by $261.6 million *(net assets)*. Of this amount, $67.1 million may be used to meet the City / District's ongoing obligations to citizens and creditors *(unrestricted net assets)*, $22.0 million is restricted for specific purposes *(restricted net assets)*, and $172.5 million is invested in capital assets.
- The government's total net assets decreased by approximately $54,000 during the fiscal year. Governmental activities account for a decrease in net assets in the amount of approximately $123,000, and business-type activities account for an increase in net assets by nearly $69,000.
- As of June 30, 2010, the City / District's governmental funds reported combined ending fund balances of $50.5 million.
- The City / District changed its reserve policy for the General Fund as of June 30, 2010 to designate 33-1/3% of annual operating expenditures as an emergency reserve. Total emergency reserves as of June 30, 2010 equal $10.3 million. When combined with unreserved, undesignated fund balance of $12.2 million, the total amount of General Funds available as of June 30, 2010 to meet the General Fund's current and future needs totals nearly $22.5 million, or 75% of annual operating expenditures.
- The economic recession impacted General Fund revenues, which fell by $1.4 million, or 5%, from the prior year, while General Fund expenditures increased by $639,000 due to rising personnel costs.
- The General Fund reported expenditures and transfers out exceeding revenues and transfers in by $5.1 million, or 17%, during the 2009-2010 fiscal year, of which $3.8 million was due to expenditures exceeding revenues, and $1.3 million was due to transfers to Public Transportation Enterprise activities of approximately $157,000 and Internal Service Funds of $1.1 million. Nevertheless, General Fund reserves available for appropriation were $2.5 million higher than was anticipated in the original budget projections for fiscal year 2009-2010.
- For the first time in its history, the City / District is free of all bonded indebtedness, paying off the last of its bonds payable as of June 30, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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, Tax Allocation Refunding Bonds, City Capital Project, and Community Development Agency, all of which are considered to be *major funds*. Data from the remaining governmental funds are combined into a single, aggregated column entitled "other funds." Individual and combining fund data for each of these non-major governmental funds is provided as *other supplementary information* in this report.

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

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City / District uses enterprise funds to account for the water, wastewater and public transportation operations.
- *Internal service funds* are used to report activities that provide supplies and services for certain City / District programs and activities. The City / District uses internal service funds to account for the City / District's vehicle rental , equipment replacement, self-insurance, information technology, building maintenance, longevity recognition benefits, and the Public Employees Medical and Hospital Care Act (PEMHCA) benefits services. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-side 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*** the City / District's General Fund budgetary comparison schedule, and the Schedule of Funding Progress for the City / District's pension plan obligations. The City / District adopts an annual appropriated budget for its General Fund, and a budgetary comparison schedule is provided to demonstrate compliance with this budget.

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets - The City / District's combined net assets declined by less than $1.5 million, or 0.6%, from the prior year, of which most of this decrease was attributable to governmental activities as depicted in the following table.

Condensed Statement of Net Assets
June 30, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total		Percent
	2010	2009	2010	2009	2010	2009	Change
Assets:							
Current and other assets	$ 75,758,536	$ 80,783,385	$ 22,611,968	$ 21,677,125	$ 98,370,504	$ 102,460,510	-3.99%
Capital assets	111,894,545	114,162,638	60,575,907	60,853,224	172,470,452	175,015,862	-1.45%
Total assets	187,653,081	194,946,023	83,187,875	82,530,349	270,840,956	277,476,372	-2.39%
Liabilities:							
Current and other liabilities	3,336,826	5,161,010	1,823,993	1,353,720	5,160,819	6,514,730	-20.78%
Long-term liabilities	3,678,171	7,605,561	431,684	312,974	4,109,855	7,918,535	-48.10%
Total Liabilities	7,014,997	12,766,571	2,255,677	1,666,694	9,270,674	14,433,265	-35.77%
Net assets:							
Invested in capital assets	111,894,545	109,387,638	60,575,907	60,853,224	172,470,452	170,240,862	1.31%
Restricted	23,462,827	24,293,134	-	-	23,462,827	24,293,134	-3.42%
Unrestricted	45,280,712	48,498,680	20,356,291	20,010,431	65,637,003	68,509,111	-4.19%
Total net assets	$ 180,638,084	$ 182,179,452	$ 80,932,198	$ 80,863,655	$ 261,570,282	$ 263,043,107	-0.56%

The net assets of the City / District's government activities declined by approximately $54,000, yet the nature of the decline tells an important story. Amounts invested in capital assets increased by $2,230,000, primarily due to investment in new or improved infrastructure and facilities, and the payoff of bonded indebtedness of the Community Development Agency's Tax Allocation Refunding Revenue Bonds, the Costco Development Agreement Promissory Note, and the City / District's Vintage Park Special Assessment District Bonds. However, unrestricted net assets declined by approximately $1,453,000. The largest portion of this decline came from monies taken from the Community Development Agency by the State of California under a statewide takeaway of redevelopment funds for the Supplemental Educational Relief Augmentation Fund (SERAF) in order to help the State balance its budget deficit. The remaining piece of the decline is a result of the operating deficit in the City / District General Fund due to declining revenues and increasing personnel costs in the midst of the current economic recession.

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

	Governmental Activities		Business-Type Activities		Total		Percent
	2010	2009	2010	2009	2010	2009	Change
Program Revenues							
Charges for services	$ 2,406,176	$ 2,873,367	$ 14,074,895	$ 13,357,280	$ 16,481,071	$ 16,230,647	1.54%
Operating grants and contributions	813,296	1,000,607	-	-	813,296	1,000,607	-18.72%
Capital grants and contributions	680,355	733,684	-	-	680,355	733,684	-7.27%
General Revenues							
Taxes	32,863,516	32,236,658	-	-	32,863,516	32,236,658	1.94%
Contributions not restricted to specific purposes	4,365,018	4,950,468	-	-	4,365,018	4,950,468	-11.83%
Unrestricted investment and rental income	2,193,541	2,449,586	296,930	451,762	2,490,471	2,901,348	-14.16%
Other	253,121	847,954	132,999	135,957	386,120	983,911	-60.76%
Total Revenues	**43,575,023**	**45,092,324**	**14,504,824**	**13,944,999**	**58,079,847**	**59,037,323**	**-1.62%**
Expenses							
General government	3,715,494	3,673,100	-	-	3,715,494	3,673,100	1.15%
Public safety	17,561,979	17,014,110	-	-	17,561,979	17,014,110	3.22%
Public works	4,792,866	4,746,696	-	-	4,792,866	4,746,696	0.97%
Community development	10,058,917	5,165,200	-	-	10,058,917	5,165,200	94.74%
Parks and recreation	7,486,684	7,540,180	-	-	7,486,684	7,540,180	-0.71%
Interest on long-term debt	71,079	286,765	-	-	71,079	286,765	-75.21%
Water operations	-	-	8,272,135	7,804,377	8,272,135	7,804,377	5.99%
Wastewater operations	-	-	5,875,701	5,351,927	5,875,701	5,351,927	9.79%
Public transportation	-	-	298,964	245,589	298,964	245,589	21.73%
Total Expenses	**43,687,019**	**38,426,051**	**14,446,800**	**13,401,893**	**58,133,819**	**51,827,944**	**12.17%**
Excess (deficiency) of revenues over (under) expenses before transfers	**(111,996)**	**6,666,273**	**58,024**	**543,106**	**(53,972)**	**7,209,379**	**100.75%**
Transfers in (out)	(10,519)	(110,733)	10,519	110,733	-	-	0.00%
Change in net assets	**(122,515)**	**6,555,540**	**68,543**	**653,839**	**(53,972)**	**7,209,379**	**100.75%**
Net assets, beginning of year	180,760,599	174,205,059	80,863,655	80,209,816	261,624,254	254,414,875	2.83%
Net assets, end of year	$ 180,638,084	$ 180,760,599	$ 80,932,198	$ 80,863,655	$ 261,570,282	$ 261,624,254	-0.02%

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

- Charges for Services – Decrease in Governmental Activities is primarily attributed to $487,500 received in 2009 as refunds from the solid waste franchisee, Allied Waste, that were reserves for the rate stabilization program. The amount received in 2010 was $162,500. Increases in Business-Type Activities were due to rate increases of 9% for water services and 7% increases for wastewater services.
- Operating Grants and Contributions – The decrease was due primarily to the receipt of donations received for the construction of the Foster City Teen Center and the Parks Synthetic Turf project in 2009. Otherwise, revenues are consistent with prior years.

- Capital Grants and Contributions – Grants in 2009 included a $477,000 federal grant under the Surface Transportation Program. Grants in 2010 included a grant of approximately $378,000 under the American Reinvestment and Recovery Act of 2009. Both grants were used to fund roadway improvement projects.
- Taxes – The largest portion of these taxes is property taxes ($29.7 million), which increased by 3% from the prior year due to assessed valuation increases and property turnover. Although the economy has taken a toll on housing prices, Foster City's median home prices increased slightly from 2009 to 2010, and home sales generated increased assessed valuation on homes that were purchased with assessed value which were at historical purchase prices under Proposition 13. All other tax revenues (transient occupancy, franchise, and other taxes) decreased by 10% due primarily to the effects the economy has had on hotel occupancy and garbage franchise revenues.
- Contributions not restricted to specific purposes – Sales and use taxes comprise the entirety of this line-item, which fell by 12% due to the effects the economy has had on retail sales and lower gas prices.
- Unrestricted investment and rental income – The decrease in this line item is primarily due to the fact that yields on fixed-income securities fell by approximately 150 basis points from the prior year, thereby reducing investment income. In addition, the draw down of reserves has reduced the total investment pool.
- Other revenues – The decrease in this line-item was primarily due to the fact that the Foster City Fire Department was called to provide mutual aid for several wildland fires in 2008 and 2009 for which the department was reimbursed approximately $500,000 for its expenses from the State and Federal government. In 2010, the number of wildland fires to which the Fire Department responded and was reimbursed was significant reduced (approximately $120,000).

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

- General government, Public safety and Public works – slight increases in each category were due to personnel increases either as part of negotiated labor contracts with represented employees or increases in pension costs through CalPERS. These increases were partially offset through vacancies and reorganization of support departments included in the General government category.
- Community development – the increase in this category is primarily due to the State's takeaway of $5.6 million in Community Development Agency funds as part of the SERAF program to balance the state budget.
- Parks and recreation – decreases in parks and recreation expenses are due primarily to decreases in two (2) parks maintenance personnel as part of conscious cost-cutting measures, which were partially offset by costs associated with an outside contractor handling a portion of the duties.
- Interest on long-term debt – the City / District paid off the last of its bonded indebtedness in September 2009.
- Water operations – the increase in water operations expenses were due primarily to the 15% increase in the cost of water purchased from the City and County of San Francisco due to the costs of a $4.6 billion seismic retrofit project on the Hetch Hetchy water system.
- Wastewater operations – increases in expenditures were due primarily to increased costs associated with the San Mateo WWTP operations costs billed to the District, and a modest increase in personnel costs associated with having full staffing in 2010 (in 2009, there were staff vacancies throughout the year).

- Public transportation – larger buses were employed in December 2008 to accommodate greater ridership and better assure on-time scheduling. As such, expenses in 2009 were increased mid-year, whereas the costs associated with the larger buses were included for the full year in 2010.

FINANCIAL ANALYSIS OF THE CITY / DISTRICT'S FUNDS

Governmental funds. As of June 30, 2010, the City / District's governmental funds reported combined fund balances of $50.5 million. Of this total, $31.7 million constitutes *unreserved fund balance*, which is available for spending at the City / District's discretion. The remaining $18.8 million is considered *reserved fund balance*, which is externally restricted as to its use or is not otherwise available to be spent. Of the reserved fund balance, $17.6 million is reserved for Housing programs associated with the Community Development Agency, and $1.1 million is reserved in the form of a loan from the City / District General Fund to the Community Development Agency which is expected to be repaid in FY 2010-2011.

Total revenues, expenditures and changes in fund balances for the fiscal year ended June 30, 2010 are shown below in comparison to the year ended June 30, 2009.

	2010		2009		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Revenues by Source						
Taxes	$ 36,445,627	82.78%	$ 36,322,157	79.22%	$ 123,470	0.34%
Licenses and permits	1,050,758	2.39%	1,085,643	2.37%	(34,885)	-3.21%
Intergovernmental	1,546,873	3.51%	1,601,956	3.49%	(55,083)	-3.44%
Charges for current services	1,392,205	3.16%	1,403,448	3.06%	(11,243)	-0.80%
Fines and forfeitures	158,199	0.36%	142,887	0.31%	15,312	10.72%
Investment and rental income	2,608,180	5.92%	3,444,940	7.51%	(836,760)	-24.29%
Other	827,083	1.88%	1,851,536	4.04%	(1,024,453)	-55.33%
Total revenues	**44,028,925**	100.00%	**45,852,567**	100.00%	**(1,823,642)**	-3.98%
Expenditures by Function						
General Government	3,271,525	6.87%	3,150,439	6.59%	121,086	3.84%
Public safety	17,412,155	36.56%	16,657,070	34.84%	755,085	4.53%
Public works	2,426,798	5.09%	2,700,326	5.65%	(273,528)	-10.13%
Community development	10,017,098	21.03%	7,194,733	15.05%	2,822,365	39.23%
Parks and recreation	6,340,330	13.31%	6,543,724	13.69%	(203,394)	-3.11%
Capital outlay	2,391,675	5.02%	6,255,420	13.08%	(3,863,745)	-61.77%
Debt service	4,956,391	10.41%	4,144,513	8.67%	811,878	19.59%
Interest on interfund loans	815,021	1.71%	1,164,952	2.44%	(349,931)	-30.04%
Total expenditures	**47,630,993**	100.00%	**47,811,177**	100.00%	**(180,184)**	-0.38%
Revenues over (under) expenditures	**(3,602,068)**		**(1,958,610)**		**(1,643,458)**	
Other financing sources (uses)	(1,311,500)		(110,733)		(1,200,767)	
Net change in fund balances	**(4,913,568)**		**(2,069,343)**		**$ (2,844,225)**	
Fund balances, beginning of year	55,405,765		57,475,108			
Fund balances, end of year	$ 50,492,197		$ 55,405,765			

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

- Taxes – as previously discussed, the total increase in taxes was a combination of a 3% increase in property tax collections from higher assessed values, and a decrease of nearly 11% of all other tax sources due to the impacts of the economy on transient occupancy, franchise, and sales and use tax revenue sources.
- Licenses and permits – Business license revenue fell by $83,000 (12%) due to reduced corporate revenues, which reduces the business license tax, and the number of businesses conducting business in Foster City. Building permit revenues (including electrical, mechanical, and plumbing permits) increased by $49,000 (13%) primarily due to the construction occurring at the Gilead Sciences Campus project.
- Intergovernmental – the decrease in this category is due primarily to a lower amount of grant revenues received from the State and Federal governments associated with roadway capital improvements projects (see "Capital grants and contributions" under the Financial Analysis of the City as a Whole above).
- Charges for current services – Plan checking fees increased by $21,000 (10%) due to the activity associated with the Gilead Sciences Campus redevelopment project. Recreation program revenues increased by $20,000 (2%) from the prior year due to enhanced enrollment and increase fees in the youth camps programs. Yet most other revenue types in this category fell from the prior year, the largest of which was construction and demolition charges of $20,000 (45%) due to a reduction in home repair projects to which this revenue category is primarily reliant.
- Fines and forfeitures – increases in vehicle code fines of $15,000 (15%) due to a greater number of infractions cited was primarily responsible for the increase in this revenue category.
- Investment and rental income – as previously discussed, falling interest rates on fixed-income securities was predominantly responsible for the decrease in the revenues associated with this category.
- Other revenues – the decrease in this category was primarily due to two factors as previously discussed: 1) wildland fire reimbursements were lower due to fewer wildland fires statewide to which the Fire Department responded; and, 2) refunds received from Allied Waste in 2009 associated with the rate stabilization program expectedly decreased in 2010.

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

- General government and Public safety – slight increases in each category were due to personnel increases either as part of negotiated labor contracts with represented employees or increases in pension costs through CalPERS. These increases were partially offset through vacancies and reorganization of support departments included in the General government category.
- Public works – The decrease in public works related expenditures was due to several factors: 1) the Sr. Engineering Technician position was eliminated in 2010; 2) consultant charges of $45,000 was incurred in 2009 that installed the video detection system at the City's various traffic intersections; and 3) fewer costs associated with specific maintenance projects were incurred than in the previous year.

- Community development – the State's takeaway of $5.6 million from the Community Development Agency to balance their budget, as previously discussed, led to the significant increase. Offsetting this takeaway were decreases in the following expenditures: 1) the Agency's support in 2009 for the affordable housing program purchased three homes for the affordable housing program in 2009, funded loans for first-time home buyers, and incurred significant costs associated with maintenance of Agency-owned properties leased to tenants under the affordable housing program, for which the nature of similar expenditures in 2010 was lower by nearly $2.5 million; and, 2) the payment due to the developer on the Hillsdale / Gull project was lower by $148,000 as the developer appealed their assessed value on the property and, therefore, were owed a lower amount.
- Parks and recreation – as previously discussed, decreases in two (2) parks maintenance personnel as part of conscious cost-cutting measures, partially offset by costs associated with an outside contractor handling a portion of the duties, was responsible for most of the decrease in parks and recreation expenditures.
- Capital outlay – two significant capital improvement projects in 2009, the Foster City Teen Center, and the construction of the Sea Cloud Park S-3 and Catamaran Park Synthetic Turf Fields, were the reason that capital outlay costs were higher in the prior year. Most of the current year projects related to roadway improvements and the completion of the Catamaran Park Bulkhead improvement project.
- Debt service – the final payment of the coupons associated with the Community Development Agency's Tax Allocation Refunding Bonds and the City / District's Vintage Park Special Assessment Bonds were made in 2010. However, the increase is primarily due to the payoff of the Costco Developer's Agreement Note of $800,000.
- Interest on interfund loans – the interest expense associated with the loan between the Community Development Agency and the City / District General Fund is lower due to the lower principal balance as the debt is paid off.

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

General Fund – The General Fund represents the single most important operating fund of the City / District. The legislative body and executive staff spend a significant amount of time during the year in closely monitoring the financial health and operations of this fund, which provides core municipal services to the public. Total fund balance at June 30, 2010 was $25.10 million, which declined $5.15 million in fiscal year 2009-2010. However unreserved fund balances finished the year at a balance of $23.94 million, increasing $1.86 million from the prior year. The overall decline in fund balance was due to the overall deterioration of revenues as a result of the economic recession being experienced locally, statewide and nationally, transfers to the Proprietary Internal Service Funds to fully fund post-retirement benefit obligations related to the City / District's longevity recognition plan and the post-retirement medical obligations under the State's PEMHCA programs, as well as conscious decisions by the City Council that overall fund balances would be drawn down by nearly $6.3 million. Unreserved fund balances, however, is the key financial indicator of the overall health of the General Fund, which finished the year nearly $1.2 million higher than originally anticipated in the budget. General Fund unreserved and total fund balance represent 80.2% and 84.0%, respectively, of annual operating expenditures.

Tax Allocation Refunding Bonds Fund – The City paid off the final coupons owed on its bonded indebtedness during the year, and released any restricted funds required by the bond covenants back to the Community Development Agency Fund, so the year end balance in this fund is now zero.

City Capital Projects Fund – The City Capital Projects fund is the second-most important fund of the City / District, which pays for infrastructure improvement and significant maintenance projects for which other resources (e.g., Gas Tax, Measure A, or Proposition 42 funds) do not pay. The primary source of funding of these projects are the General Fund, short of any funds received from federal, state or local grants. The City Capital Projects Fund ended the year with an unreserved fund balance of $5.41 million, which declined by $1.25 million from the prior year due to funded capital improvement projects.

Community Development Agency Funds – the Agency accounts for revenues from property tax increments derived from the Agency's investment in upgrading properties for development. Overall fund balance for the Agency totals $16.68 million as of June 30, 2010, which increased by $5.02 million during the fiscal year due primarily to the release of restricted funds held in the Tax Allocation Refunding Bonds Fund. The Agency reduced its affordable housing purchase program during the fiscal year in order to pay $5.6 million to the State of California as part of the State's takeaway of redevelopment agency funds to help balance its budgetary deficit. The Agency did have the financial resources, however, to complete funding of its portion of the Foster City Teen Center. The Agency's Project One Area is poised to reach its tax increment cap in FY 2010-2011, and has the necessary resources to pay off all of its obligations.

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

Water – Estero Municipal Improvement District provides water services to customers located within the District's area, primarily the "94404" zip code which encompasses all of Foster City and a portion of San Mateo. Unrestricted net assets for the water fund total $6.87 million as of June 30, 2010, which decreased by approximately $144,000 from the prior year. The decline was determined to be caused by a technical error in the water rate model which underbilled certain water customers with large and multiple meters, which was corrected in the FY 2010-2011 water rate model. Nevertheless, the fund has sufficient reserves to fund future capital improvement projects and to offset large increases anticipated from the City and County of San Francisco to fund its $4.6 billion Hetch Hetchy System improvement program.

Sewer – The District provides wastewater collection services to customers in Foster City, and participates in a joint powers authority with the City of San Mateo, which operates the Wastewater Treatment Plant (WWTP). Unrestricted net assets as of June 30, 2010 totaled $12.76 million, which increased by approximately $294,000 from the prior year. Operational costs associated with the WWTP have declined due to a reassessment of the flow volume generated by Foster City in comparison to total flows being treated at the WWTP. This cost reduction is what led to the surplus in the current fiscal year, which will help offset and reduce the magnitude of future rate increases to customers. The Fund invested an additional $586,000 in capital assets during the year, including $430,000 in acquisition of sewer capacity rights.

Non-major Public Transportation Fund – the City / District operates a shuttle service with two routes that connect Foster City residents and businesses with facilities and shopping centers in Foster City, as well as two shopping centers located in San Mateo. These services are provided through a contract with the Peninsula Traffic Congestion Relief Alliance, and through 50% funding from the City / County Association of Governments. The fund ended the year in a deficit position of approximately $21,000 as the City /

District overfunded a portion of the program. The City / District will be seeking reimbursement from C/CAG for the overfunded portion, and expects the deficit in net assets to be eliminated in FY 2010-2011.

Internal Service Funds – these funds provide services and funding mechanisms to allow the operating departments within the City to provide services to the community. Services included vehicle / fleet rental, equipment replacement, self-insurance risk management, information technology, building maintenance, and funding for the Longevity Recognition and PEMHCA post-retirement medical programs. Total unrestricted net assets as of June 30, 2010 were $21.23 million, which was a $3.75 million increase from the prior year. The General Fund transferred $1.16 million to the Internal Service Funds to pre-fund the benefit obligations for the Longevity Recognition and PEMCHA benefits programs. The remainder of the increase was due to internal service charges in excess of expenditures in order to set aside funds for the replacement of capital assets in the future.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original General Fund budget for fiscal year 2009-2010 included $32.39 million in appropriations and transfers out to other funds. The final budget increased by $1.14 million, to $33.53 million in appropriations, primarily as a result of a transfer of $1.15 million to the Internal Services funds to pre-fund the benefit obligations for the Longevity Recognition and PEMHCA benefits programs, and appropriations carryovers from the prior year (primarily in the Public Works and Community Development department budgets).

Total estimated revenues for 2010 were $527,000, or 2.1% above budgeted projections. Unsecured property taxes, sales and use taxes, and intergovernmental revenues were the largest categories with positive variances, due primarily to budget estimates that assumed a greater loss of revenues in these areas as a result of economic projections. Secured property taxes, transient occupancy taxes, and investment income were the largest categories with negative variances. Secured property tax collections fell below estimates due to last-minute assessment appeals granted by the County Assessor's Office that reduced the final property tax amounts. Hotel occupancy fell below even our original conservative economic projections. Finally, investment income fell due to some of the lowest fixed income security rates in recent history.

Total actual expenditures for 2010 were $2.35 million, or 7.0% below final budgeted appropriations. This was the result primarily of salary savings in the largest operating departments, reorganization of the support departments, and the conservative financial management of department managers in light of the projected ongoing structural deficit.

CAPITAL ASSETS

The City / District's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounted to nearly $172.5 million (net of accumulated depreciation). This investment in capital assets includes land, building, infrastructure, structures and improvements, equipment, vehicles, and construction in progress.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	11,680,881	11,680,881	3,553,474	3,553,474	15,234,355	15,234,355
Infrastructure, structures and improvements	95,915,572	96,151,571	34,214,451	34,864,081	130,130,023	131,015,652
Equipment and vehicles	3,738,699	4,228,951	371,358	409,588	4,110,057	4,638,539
Sewer Capacity Rights	-	-	22,027,078	13,088,487	22,027,078	13,088,487
Construction in progress	559,393	2,101,235	419,546	8,937,594	978,939	11,038,829
Total	111,894,545	114,162,638	60,585,907	60,853,224	172,480,452	175,015,862

The most significant changes in capital assets during the current fiscal year related to: 1) the completion of the Foster City Teen Center, which was transferred from Construction in Progress to Infrastructure, Structures and Improvements; and, 2) further investment in the Wastewater Treatment Plant and wastewater infrastructure, which increased the Construction in progress category. Otherwise, decreases in capital assets was a result of annual depreciation charges.

DEBT ADMINISTRATION

As of June 30, 2010, the City / District had total long-term obligations outstanding of $4.1 million, which was comprised of compensated absences of $2.9 million, OPEB liability of $1.1 million, and claims liability of approximately $65,000. The City / District has paid in full all of its bonded indebtedness as of June 30, 2010, with principal and interest payments totaling $4.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City / District is beginning to feel the impacts of the economic recession that is affecting the local, state and national economy. The adopted General Fund budget for FY 2010-2011 includes a $3.5 million drawdown of unreserved fund balances. In addition, the City / District's five-year forecast projects a structural deficit of $2.9 million per year that, if not corrected, would drawdown the City's General Fund unreserved fund balances to nearly $4 million by FY 2014-2015. The forecast calls for a combination of on-going expenditure reductions and / or revenue enhancements of $900,000 per year in FY 2011-2012 and 2012-2013, and $1.1 million in FY 2013-2014 in order to achieve a balanced budget. The City Council has charged the City Manager with the responsibility of developing a long-term financial plan that will eliminate the structural deficit by FY 2013-2014, and maintain General Fund reserve levels above 33-1/3%of annual operating expenditures. The plan is to be developed by the end of December 2010 for City Council consideration as it approaches the FY 2011-2012 budget year.

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

- Property Taxes – while housing prices have for the most part held their own in Foster City, the commercial property market has seen significant declines in values. As more and more property owners file for assessment appeals to reduce the assessed value of their commercial property, tax collections are at risk. Assessed valuation in FY 2010-2011 declined by 1.08%, the first time total assessed valuation has declined in the history of the organization.
- Interest rates – Yields on 2- and 5-year Treasury securities, the benchmark securities for fixed-income investments, have fallen to all-time lows. This could potentially have a negative impact on investment income generated on the City / District's investment portfolio.
- CalPERS Pension Rates – while the stock market has seen a recent recovery, the CalPERS investment portfolio is still reeling from the 25% decline in FY 2008-2009. CalPERS is projecting employer rate increases of 1-4% per year over the next three years.
- State Budget Woes – the State of California continues to face multi-billion dollar deficits. Continued concerns are raised as to whether or not the State will seek additional sources of revenues from local government, or push services to the local level, in order to balance their budget. The State will take another $1.2 million from the Community Development Agency in FY 2010-2011 as the second and final round of the SERAF takeaways approved in FY 2009-2010.
- Unemployment – Unemployment in California is in the low 12% range, which is mirrored in the Bay Area and on the San Francisco Peninsula. Until the workforce is once again employed by the business community, retail sales and housing prices will likely not rebound, thereby keeping sales tax and property tax revenues at no- or low-growth patterns for the coming years.
- Water Supply Assurance / Water Costs – the City / District entered into a successor Water Supply Assurance agreement with the City and County of San Francisco that guarantees the District with water supplies totaling 5.9 million gallons per day on an average annual basis. Nevertheless, the District will need to implement water conservation measures to stay within its guaranteed supply levels. A tiered water rate structure was implemented as part of the FY 2010-2011 water rates in order to strive for conservation. In addition, the cost of water will increase by 15% in the coming year, and will increase by 200% by FY 2015-2016 as a result of the Hetch Hetchy System upgrades. These costs will need to be passed along to customers using the rate smoothing policies adopted by the District Board in previous years.

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

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City of Foster City and Estero Municipal Improvement District
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 72,412,567	$ 18,673,363	$ 91,085,930
Receivable, net	2,663,549	2,910,651	5,574,200
Internal balances	(715,946)	715,946	-
Inventory	94,031	308,941	402,972
Prepaids and deposits	30,162	3,067	33,229
Restricted cash and investments	145,822	-	145,822
Loans receivable (net)	1,128,351	-	1,128,351
Capital assets:			
Nondepreciable	12,240,274	13,222,415	25,462,689
Depreciable, net of accumulated depreciation	99,654,271	47,353,492	147,007,763
Total assets	187,653,081	83,187,875	270,840,956
LIABILITIES			
Accounts payable	1,607,073	1,700,674	3,307,747
Accrued payroll	966,046	106,751	1,072,797
Refundable deposits	546,627	16,568	563,195
Unearned revenue	217,080	-	217,080
Long-term liabilities:			
Due within one year	1,125,596	140,138	1,265,734
Due in more than one year	2,552,575	291,546	2,844,121
Total liabilities	7,014,997	2,255,677	9,270,674
NET ASSETS			
Invested in capital assets	111,894,545	60,575,907	172,470,452
Restricted for:			
Housing	18,716,826	-	18,716,826
Public safety	26,867	-	26,867
Roads	3,096,051	-	3,096,051
Other purposes	204,230	-	204,230
Unrestricted	46,699,565	20,356,291	67,055,856
Total net assets	$ 180,638,084	$ 80,932,198	$ 261,570,282

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, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 3,715,494	$ 166,780	$ 103,565	$ -
Public safety - Police	9,601,374	219,695	117,221	-
Public safety - Fire	7,960,605	104,189	12,301	26,000
Public works	4,792,866	146,430	516,589	654,355
Community development	10,058,917	713,782	-	-
Parks and recreation	7,486,684	1,055,300	63,620	-
Interest on long-term debt	71,079	-	-	-
Total governmental activities	43,687,019	2,406,176	813,296	680,355
Business-type activities:				
Water	8,272,135	7,531,859	-	-
Sewer	5,875,701	6,543,036	-	-
Public transportation	298,964	-	-	-
Total business-type activities	14,446,800	14,074,895	-	-
Total primary government	$ 58,133,819	$ 16,481,071	$ 813,296	$ 680,355

General revenues and transfers:

Taxes:

Property taxes

Transient occupancy tax

Franchise tax

Other taxes

Contributions not restricted to specific programs:

Sales and use tax and sales tax in lieu

Unrestricted investment income

Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year, as restated

Net assets - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (3,445,149)	$ -	$ (3,445,149)
(9,264,458)	-	(9,264,458)
(7,818,115)	-	(7,818,115)
(3,475,492)	-	(3,475,492)
(9,345,135)	-	(9,345,135)
(6,367,764)	-	(6,367,764)
(71,079)	-	(71,079)
(39,787,192)	-	(39,787,192)
-	(740,276)	(740,276)
-	667,335	667,335
-	(298,964)	(298,964)
-	(371,905)	(371,905)
(39,787,192)	(371,905)	(40,159,097)
29,746,228	-	29,746,228
1,175,466	-	1,175,466
1,017,749	-	1,017,749
924,073	-	924,073
4,365,018	-	4,365,018
2,193,541	296,930	2,490,471
253,121	132,999	386,120
(10,519)	10,519	-
39,664,677	440,448	40,105,125
(122,515)	68,543	(53,972)
180,760,599	80,863,655	261,624,254
$ 180,638,084	$ 80,932,198	$ 261,570,282

City of Foster City and Estero Municipal Improvement District
Balance Sheet
Governmental Funds
June 30, 2010

	Major Funds					
	General Fund	Tax Allocation Refunding Bonds	City Capital Projects	Community Development Agency	Non-Major Governmental Funds	Total
ASSETS						
Cash and investments	$ 23,117,376	$ -	$ 5,684,495	$ 18,760,211	$ 3,172,262	$ 50,734,344
Receivables, net of allowance:						
Accrued interest	314,174	-	-	-	-	314,174
Intergovernmental	37,598	-	-	-	157,271	194,869
Taxes	1,813,222	-	-	-	42,805	1,856,027
Other	253,092	-	-	-	14,017	267,109
Due from other funds	41,321	-	73,500	-	-	114,821
Prepaids and deposits	26,693	-	-	-	-	26,693
Inventory	16,900	-	-	-	-	16,900
Restricted cash and investments	145,822	-	-	-	-	145,822
Loans receivables, net of allowance	-	-	-	1,128,351	-	1,128,351
Advances to other funds	1,115,697	-	-	-	-	1,115,697
Total assets	$ 26,881,895	$ -	$ 5,757,995	$ 19,888,562	$ 3,386,355	$ 55,914,807
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 372,578	$ -	$ 89,166	$ 960,779	$ 655	$ 1,423,178
Accrued payroll	911,415	-	-	150	1,807	913,372
Refundable deposits	275,610	-	257,570	7,147	-	540,327
Due to other funds	-	-	-	-	83,438	83,438
Deferred revenue	218,247	-	-	1,128,351	-	1,346,598
Advances from other funds	-	-	-	1,115,697	-	1,115,697
Total liabilities	1,777,850	-	346,736	3,212,124	85,900	5,422,610
Fund Balances:						
Reserved:						
Advances to other funds	1,115,697	-	-	-	-	1,115,697
Prepaids	26,693	-	-	-	-	26,693
Inventory	16,900	-	-	-	-	16,900
Housing programs	-	-	-	17,587,790	-	17,587,790
Unreserved, designated:						
Capital projects	749,610	-	1,144,089	-	-	1,893,699
Emergency	10,279,183	-	2,000,000	-	-	12,279,183
Environmental sustainability	95,467	-	-	-	-	95,467
Waste disposal rate stabilization	650,000	-	-	-	-	650,000
Unreserved, undesignated:						
General fund	12,170,495	-	-	-	-	12,170,495
Special revenue funds	-	-	-	-	3,300,455	3,300,455
Capital project funds	-	-	2,267,170	(911,352)	-	1,355,818
Total fund balances	25,104,045	-	5,411,259	16,676,438	3,300,455	50,492,197
Total liabilities and fund balances	$ 26,881,895	$ -	$ 5,757,995	$ 19,888,562	$ 3,386,355	$ 55,914,807

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds			$ 50,492,197
Amounts reported for governmental activities in the Statement of Net Assets were reported differently because:			
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:	Government-Wide Statement of Net Assets	Internal Service Funds	
Non-depreciable	$ 12,240,274	$ -	12,240,274
Depreciable, net	99,654,271	(3,738,695)	95,915,576
Total capital assets	$ 111,894,545	$ (3,738,695)	108,155,850
	Governmental Funds Balance Sheets	Government-Wide Statement of Net Assets	
Loans receivable and other long-term receivables are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.	$ 1,346,598	$ (217,080)	$ 1,129,518
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.			24,225,675
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.	Government-Wide Statement of Net Assets	Internal Service Funds	
Long term liabilities - due within one year	(1,125,596)	133,552	(992,044)
Long term liabilities - due more than one year	(2,552,575)	179,463	(2,373,112)
Net Assets of Governmental Activities			$ 180,638,084

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2010

	Major Funds					
	General Fund	Tax Allocation Refunding Bonds	City Capital Projects	Community Development Agency	Non-Major Governmental Funds	Total
REVENUES:						
Property taxes	$ 14,520,657	$ 10,550,804	$ -	$ 4,674,774	$ -	$ 29,746,235
Sales and use and sales tax in lieu	3,936,796	-	-	-	428,222	4,365,018
Transient occupancy tax	1,175,466	-	-	-	-	1,175,466
Franchise tax	1,017,749	-	-	-	-	1,017,749
Other taxes	141,159	-	-	-	-	141,159
Licenses and permits	1,050,758	-	-	-	-	1,050,758
Intergovernmental	274,968	-	-	-	1,271,905	1,546,873
Charges for current services	1,392,205	-	-	-	-	1,392,205
Fines and forfeitures	43,813	-	-	-	114,386	158,199
Investment and rental income	1,939,726	-	88,237	537,378	42,839	2,608,180
Other	541,853	-	59,693	41,347	184,190	827,083
Total revenues	26,035,150	10,550,804	147,930	5,253,499	2,041,542	44,028,925
EXPENDITURES:						
Current:						
General government	3,090,139	-	-	-	181,386	3,271,525
Public safety - Police	9,434,901	-	-	-	101,082	9,535,983
Public safety - Fire	7,854,678	-	-	-	21,494	7,876,172
Public works	1,831,699	-	-	-	595,099	2,426,798
Community development	1,325,300	-	-	8,691,798	-	10,017,098
Parks and recreation	6,307,016	-	27,466	2,779	3,069	6,340,330
Capital outlay	25,319	-	1,372,380	406,476	587,500	2,391,675
Debt service:						
Principal retirement	-	3,560,000	-	800,000	415,000	4,775,000
Interest and fiscal charges	-	80,320	-	64,000	37,071	181,391
Interest on interfund loans from other funds	-	-	-	815,021	-	815,021
Total expenditures	29,869,052	3,640,320	1,399,846	10,780,074	1,941,701	47,630,993
REVENUES OVER (UNDER) EXPENDITURES	(3,833,902)	6,910,484	(1,251,916)	(5,526,575)	99,841	(3,602,068)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	10,548,804	-	10,548,804
Transfers out	(1,311,500)	(10,548,804)	-	-	-	(11,860,304)
Total other financing sources (uses)	(1,311,500)	(10,548,804)	-	10,548,804	-	(1,311,500)
NET CHANGE IN FUND BALANCES	(5,145,402)	(3,638,320)	(1,251,916)	5,022,229	99,841	(4,913,568)
FUND BALANCES:						
Beginning of year	30,249,447	3,638,320	6,663,175	11,654,209	3,200,614	55,405,765
End of year	$ 25,104,045	$ -	$ 5,411,259	$ 16,676,438	$ 3,300,455	$ 50,492,197

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the fiscal year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds		$ (4,913,568)
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	$ 2,616,036	
Less capital asset disposals	(233,316)	
Less current year depreciation. This amount is net of depreciation expense of the internal service funds in the amount of $530,178	(4,118,397)	(1,735,677)
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.		(40,662)
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.		
Tax allocation refunding bonds	3,560,000	
Special assessment bonds	415,000	
COSTCO notes	800,000	4,775,000
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	110,312	
OPEB liabilities	(447,336)	
Change in long-term compensated absences. This amount is net of changes in compensated absences of the internal service funds in the amount of $5,115	65,998	(271,026)
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		2,063,418
Change in Net Assets of Governmental Activities		$ (122,515)

See accompanying Notes to Basic Financial Statements.

City of Foster City and Estero Municipal Improvement District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds				
	Water	Sewer	Non-Major - Public Transportation	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	$ 6,201,578	$ 12,471,785	$ -	$ 18,673,363	$ 21,678,223
Receivables, net of allowance:					
Billed utility, net of allowance for uncollectibles	461,717	456,113	-	917,830	-
Unbilled utility	1,096,142	858,468	-	1,954,610	-
Other	-	310	37,901	38,211	31,370
Deposits and prepaid items	924	2,143	-	3,067	3,469
Inventory	78,398	230,543	-	308,941	77,131
Total current assets	7,838,759	14,019,362	37,901	21,896,022	21,790,193
Noncurrent assets:					
Capital assets:					
Nondepreciable	3,553,474	9,668,941	-	13,222,415	-
Depreciable, net of accumulated depreciation	22,836,258	24,517,234	-	47,353,492	3,738,695
Total noncurrent assets	26,389,732	34,186,175	-	60,575,907	3,738,695
Total assets	34,228,491	48,205,537	37,901	82,471,929	25,528,888
LIABILITIES					
Current liabilities:					
Accounts payable	673,445	999,972	27,257	1,700,674	183,895
Accrued payroll	56,342	50,409	-	106,751	52,674
Refundable deposits	16,568	-	-	16,568	6,300
Due to other funds	-	-	31,383	31,383	-
Claims liability	-	-	-	-	65,262
Compensated absences - current portion	70,895	69,243	-	140,138	68,290
Total current liabilities	817,250	1,119,624	58,640	1,995,514	376,421
Noncurrent liabilities:					
Compensated absences - noncurrent portion	90,867	83,761	-	174,628	119,901
OPEB liability	59,562	57,356	-	116,918	59,562
Total noncurrent liabilities	150,429	141,117	-	291,546	179,463
Total liabilities	967,679	1,260,741	58,640	2,287,060	555,884
NET ASSETS					
Invested in capital assets	26,389,732	34,186,175	-	60,575,907	3,738,695
Unrestricted	6,871,080	12,758,621	(20,739)	19,608,962	21,234,309
Total net assets	$ 33,260,812	$ 46,944,796	$ (20,739)	80,184,869	$ 24,973,004
	Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			747,329	
	Net assets of business-type activities			$ 80,932,198	

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, 2010

	Enterprise Funds				
	Water	Sewer	Non-Major - Public Transportation	Total	Internal Service Funds
OPERATING REVENUES:					
Sales and service charges	$ 7,531,859	$ 6,543,036	$ -	$ 14,074,895	$ -
Charges for service - internal	-	-	-	-	5,396,982
Other	11,654	10,871	110,474	132,999	20,255
Total operating revenues	7,543,513	6,553,907	110,474	14,207,894	5,417,237
OPERATING EXPENSES:					
Personnel	1,448,067	1,402,103	-	2,850,170	1,498,852
Utilities	4,111,841	199,025	-	4,310,866	-
Program supplies	232,033	163,299	-	395,332	-
Repairs and maintenance	20,714	75,767	-	96,481	841,122
General and administration	1,277,127	1,234,976	1,011	2,513,114	724,063
Depreciation and amortization	1,086,526	895,633	-	1,982,159	1,056,343
Contractual service	133,606	1,964,181	297,953	2,395,740	321,271
Insurance	65,000	65,000	-	130,000	172,416
Total operating expenses	8,374,914	5,999,984	298,964	14,673,862	4,614,067
OPERATING INCOME (LOSS)	(831,401)	553,923	(188,490)	(465,968)	803,170
NONOPERATING REVENUES (EXPENSES):					
Gains (loss) on sales of capital assets	(1,251)	-	-	(1,251)	11,560
Investment income	101,942	194,988	-	296,930	400,381
Total nonoperating revenues (expenses)	100,691	194,988	-	295,679	411,941
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(730,710)	748,911	(188,490)	(170,289)	1,215,111
CONTRIBUTIONS AND TRANSFERS:					
Capital contributions	-	-	-	-	25,319
Transfers in	-	-	156,500	156,500	6,449,209
Transfers out	-	(145,981)	-	(145,981)	(5,397,908)
Total contributions and transfers	-	(145,981)	156,500	10,519	1,076,620
Change in net assets	(730,710)	602,930	(31,990)	(159,770)	2,291,731
NET ASSETS:					
Beginning of the year	33,991,522	46,341,866	11,251		22,681,273
End of the year	$ 33,260,812	$ 46,944,796	$ (20,739)		$ 24,973,004

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	228,313
Change in net assets of business-type activities	$ 68,543

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, 2010

	Enterprise Funds				
	Water	Sewer	Nonmajor - Public Transportation	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 7,592,927	$ 6,576,557	$ (1,896)	$ 14,167,588	$ -
Cash received from other funds	-	-	31,383	31,383	5,397,353
Cash payments to suppliers for goods and services	(6,122,696)	(2,970,459)	(296,461)	(9,389,616)	(2,192,211)
Cash payments to employees for services	(1,419,185)	(1,377,186)	110,474	(2,685,897)	(1,432,980)
Net cash provided (used) by operating activities	51,046	2,228,912	(156,500)	2,123,458	1,772,162
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers received	-	-	156,500	156,500	6,449,209
Transfer paid	-	(145,981)	-	(145,981)	(5,397,908)
Net cash provided (used) by noncapital financing activities	-	(145,981)	156,500	10,519	1,051,301
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of capital assets	(1,251)	-	-	(1,251)	11,560
Capital contributions received	-	-	-	-	25,319
Acquisition and construction of capital assets	(500,481)	(1,204,360)	-	(1,704,841)	(523,927)
Acquisition of sewer capacity rights	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	(501,732)	(1,204,360)	-	(1,706,092)	(487,048)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	101,942	194,988	-	296,930	400,381
Net cash provided (used) by investing activities	101,942	194,988	-	296,930	400,381
Net increase (decrease) in cash and cash equivalents	(348,744)	1,073,559	-	724,815	2,736,796
CASH AND CASH EQUIVALENTS:					
Beginning of year	6,550,322	11,398,226	-	17,948,548	18,941,427
End of year	$ 6,201,578	$ 12,471,785	$ -	$ 18,673,363	$ 21,678,223

(Continued)

City of Foster City and Estero Municipal Improvement District
Statement of Cash Flows, Continued
Proprietary Funds
For the fiscal year ended June 30, 2010

	Enterprise Funds				
	Water	Sewer	NonMajor - Public Transportation	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	$ (831,401)	$ 553,923	$ (188,490)	$ (465,968)	$ 803,170
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,086,526	895,633	-	1,982,159	1,056,343
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Billed receivables	109,847	73,454	-	183,301	-
Unbilled receivables	(65,614)	(48,501)	-	(114,115)	-
Other receivables	-	(160)	(1,896)	(2,056)	(19,884)
Deposit and prepaid items	(821)	(2,143)	-	(2,964)	(1,590)
Inventory	(4,526)	(72,738)	-	(77,264)	(37,364)
Increase (decrease) in:					
Accounts payable and claims liability	(277,028)	804,527	2,503	530,002	(27,026)
Accrued payroll	(3,459)	(4,636)	-	(8,095)	11,425
Refundable deposits	5,181	-	-	5,181	-
Due to other funds	-	-	31,383	31,383	-
Claims liability	-	-	-	-	(67,359)
Compensated absences	1,723	69	-	1,792	(5,115)
OPEB liability	30,618	29,484	-	60,102	59,562
Total adjustments	882,447	1,674,989	31,990	2,589,426	968,992
Net cash provided (used) by operating activities	$ 51,046	$ 2,228,912	$ (156,500)	$ 2,123,458	$ 1,772,162

(Concluded)

See accompanying Notes to Basic Financial Statements.

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1. DESCRIPTION OF REPORTING ENTITY

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

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, 2010.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Basis of Accounting and Measurement Focus, Continued

Fund Financial Statements, Continued

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Inventory

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

E. Loans Receivable

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

F. Capital Assets

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

The estimated useful lives are as follows:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

Intangible Assets – Sewer Capacity Rights

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

G. Compensated Absences (Vacation and Sick Pay)

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

H. 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.

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.

I. Property Tax Levy, Collection and Maximum Rates

State of California (State) Constitution Article XIIIA 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 XIIIA 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Property Tax Levy, Collection and Maximum Rates, Continued

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.

J. 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, 2010, 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 $1,557,859 and $1,314,581 respectively.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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.

3. CASH AND INVESTMENTS

The City/District's cash and investments at June 30, 2010 are presented as follows:

Cash and investments	$ 91,085,930
Restricted cash and investments	145,822
Total	$ 91,231,752

As of June 30, 2010, the City/District had the following cash, investments, and maturities:

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**1 year or Less**	**2 years**	**3 years**	**4 years**	**5 years**
Deposits	$ 825,983	$ 825,983	$ -	$ -	$ -	$ -
Securities of U.S. Government						
Treasury and Agencies:						
Fannie Mae	12,110,310	-	-	-	2,009,380	10,100,930
Federal Farm Credit Bank Bonds-Coupon	13,169,126	-	-	-	6,040,696	7,128,430
Federal Home Loan Bank Bonds-Coupon	18,093,769	-	-	6,022,200	8,039,070	4,032,500
Freddie mac	8,041,710	-	-	-	-	8,041,710
Equity Mutual Funds-open end funds	1,078,966	1,078,966	-	-	-	-
Local Agency Investment Funds	37,711,888	37,711,888	-	-	-	-
Nonnegoitable certificates of deposits	200,000	200,000	-	-	-	-
Total	$ 91,231,752	$ 39,816,837	$ -	$ 6,022,200	$ 16,089,146	$ 29,303,570

3. CASH AND INVESTMENTS, Continued

At June 30, 2010, the City's deposits and investments were rated as follows:

	Credit Quality Ratings	
	Moody's	S&P
Deposits	P-1	A1
Investments:		
Time Deposit of Certificates	B or better	
Securities of U.S. Government Agencies:		
Federal Farm Credit Bank Bonds (FFCB)	Aaa	AAA
Federal Home Loan Bank Bonds (FHLB)	Aaa	AAA
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AAA
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AAA
Local Agency Investment Funds	Not Rated	
Money Market Funds	Aaa	AAA

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, 2010, the carrying amount of the City/District's deposits was $1,025,983 and the bank balance was $1,703,113. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, $595,822 was covered by federal depository insurance and $1,107,291 was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code.

Under the California Government Code, a financial institution is required to secure deposits in excess of $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.

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.

3. CASH AND INVESTMENTS, Continued

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

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

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, 2010 the City/District's investment pool had a valuation of 99.42% (market value of securities as a percentage of amortized book cost), a weighted average maturity of 171 days, and a portfolio weighted average 365 day yield of 1.74%.

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.

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

3. CASH AND INVESTMENTS, Continued

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, 2010, by multiplying its account balance with LAIF ($37,650,000) times a fair value factor (1.001643776) 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, 2010, the City/District's investments in LAIF, stated at fair value, equaled $37,711,888.

The District's investments with LAIF at June 30, 2010, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities.

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

As of June 30, 2010, the City/District had $37,711,888 (stated at fair value) invested in LAIF, which had invested 5.42% of the pool investment fund in Structured Notes and Asset-Backed Securities.

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, 2010, the City/District did not have more than 5 percent invested in any one issuer.

4. LOANS RECEIVABLE

At June 30, 2010, Loans Receivable amounted to:

	Amount	Allowance	Net Amount
Metro Center Senior Homes Project	$ 6,396,099	$ (6,396,099)	$ -
First Time Home Buyer Program	1,128,351	-	1,128,351
Total	$ 7,524,450	$ (6,396,099)	$ 1,128,351

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, 2010, the Agency provided a 100% valuation allowance equal to the loan balance outstanding in the amount of $6,396,099 which includes principal of $5,917,695 and accumulated interest in the amount of $478,404 because there remains significant doubt as to the ability of the Project to generate sufficient and recurring annual residual cash flows from which to repay its obligation to the Agency.

First Time Homebuyer Program

The Agency started the First Time Homebuyer Program to provide low interest second mortgages for people who live and/or work in the City/District who can afford moderate monthly mortgage payments and require assistance with the down payment in order to purchase their first home. These loans have an interest rate of 3% and a term of 30 years. However, there are no payments and no accrued interest for the first five years. Beginning in year six, equal monthly payments of principal and interest will commence and continue for the remaining 25 years. The outstanding balance of these loans is $1,128,351 at June 30, 2010.

5. INTERFUND TRANSACTIONS

Due To and From Other Funds

Due from other funds	Due to other funds: Non-Major Governmental Funds	Due to other funds: Non-Major Public Transportation	Total
General Fund	$ 9,938	$ 31,383	$ 41,321
City Capital Projects	73,500	-	73,500
Total	$ 83,438	$ 31,383	$ 114,821

Advances To and From Other Funds

At June 30, 2010, the outstanding balance of advances from the General Fund to the Community Development Agency Fund is $1,115,697. 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 $7,034,517 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:

Transfers out	Transfers in: Community Development Agency	Transfers in: Non-Major Public Transportation	Transfers in: Internal Service Fund	Total
General Fund	$ -	$ 156,500	$ 1,155,000	$ 1,311,500
Tax Allocation Refunding Bond	10,548,804	-	-	10,548,804
Sewer Fund	-	-	145,981	145,981
Total	$ 10,548,804	$ 156,500	$ 1,300,981	$ 12,006,285

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 for various operational purposes.

5. INTERFUND TRANSACTIONS, Continued

Transfers, Continued

Transfers between general and other funds were mainly to fund self insurance and OPEB programs and subsidize the connection shuttle operations.

The internal service funds recorded a transfer out in the amount of $249,680 to transfer capital assets to the governmental activities. The transfer in to the governmental activities is only recorded in the government-wide financial statements and therefore, transfers in and out do not balance on the fund statements.

6. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 follows:

	July 1, 2009	Additions	Retirements	Transfers	June 30, 2010
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 11,680,881	$ -	$ -	$ -	$ 11,680,881
Construction in progress	2,101,235	2,366,356	(42,163)	(3,866,035)	559,393
Total capital assets, not being depreciated	13,782,116	2,366,356	(42,163)	(3,866,035)	12,240,274
Capital assets, being depreciated:					
Infrastructure	95,341,111	85,159	(987,414)	3,764,971	98,203,827
Buildings	50,374,902	164,521	(109,548)	101,064	50,530,939
Improvements	6,139,556	-	-	-	6,139,556
Equipment	5,349,046	258,809	(276,084)	-	5,331,771
Vehicles	4,906,539	346,913	(293,727)	-	4,959,725
Software	792,016	-	-	-	792,016
Total capital assets, being depreciated	162,903,170	855,402	(1,666,773)	3,866,035	165,957,834
Less accumulated depreciation for:					
Infrastructure	(46,057,434)	(2,755,439)	831,240	-	(47,981,633)
Buildings	(8,516,139)	(1,160,353)	32,406	-	(9,644,086)
Improvements	(1,130,425)	(202,606)	-	-	(1,333,031)
Equipment	(3,478,057)	(510,402)	236,451	-	(3,752,008)
Vehicles	(2,963,381)	(421,746)	293,727	-	(3,091,400)
Software	(377,212)	(124,193)	-	-	(501,405)
Total accumulated depreciation	(62,522,648)	(5,174,739)	1,393,824	-	(66,303,563)
Total capital assets, being depreciated, net	100,380,522	(4,319,337)	(272,949)	3,866,035	99,654,271
Governmental activities capital assets, net	$ 114,162,638	$ (1,952,981)	$ (315,112)	$ -	$ 111,894,545

6. CAPITAL ASSETS, Continued

	July 1, 2009	Additions	Retirements	Transfers	June 30, 2010
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 3,553,474	$ -	$ -	$ -	$ 3,553,474
Construction in progress	484,279	536,948	-	(601,681)	419,546
Sewer capacity rights	8,453,315	796,080	-	-	9,249,395
Total capital assets, not being depreciated	12,491,068	1,333,028	-	(601,681)	13,222,415
Capital assets, being depreciated:					
Infrastructure	69,300,416	396,251	(320,611)	601,681	69,977,737
Sewer capacity rights	15,540,222	-	-	-	15,540,222
Equipment	873,537	6,940	(8,412)	-	872,065
Total capital assets, being depreciated	85,714,175	403,191	(329,023)	601,681	86,390,024
Less accumulated depreciation for:					
Infrastructure	(34,436,335)	(1,626,185)	299,234	-	(35,763,286)
Sewer capacity rights	(2,451,735)	(310,804)	-	-	(2,762,539)
Equipment	(463,949)	(45,170)	8,412	-	(500,707)
Total accumulated depreciation	(37,352,019)	(1,982,159)	307,646	-	(39,026,532)
Total capital assets, being depreciated, net	48,362,156	(1,578,968)	(21,377)	601,681	47,363,492
Business-type activities capital assets, net	$ 60,853,224	$ (245,940)	$ (21,377)	$ -	$ 60,585,907

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	$ 571,123
Public safety - Police	130,574
Public safety- Fire	7,940
Public works	2,307,146
Community development	50,519
Parks and recreation	1,051,091
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.	1,056,343
Total depreciation expense	$ 5,174,736

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

Water	$ 1,086,526
Sewer	895,633
Total depreciation expense	$ 1,982,159

7. LONG TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2010:

	July 1, 2009	Additions	Retirements	June 30, 2010	Due Within One Year	Due in More Than One Year
Governmental activities:						
Tax Allocation Refunding Bonds	$ 3,560,000	$ -	$ (3,560,000)	$ -	$ -	$ -
Special Assessment Bonds	415,000	-	(415,000)	-	-	-
COSTCO Notes	800,000	-	(800,000)	-	-	-
Claim liability	132,621	21,772	(89,131)	65,262	65,262	-
Compensated absences	2,697,940	1,211,162	(1,282,275)	2,626,827	1,060,334	1,566,493
OPEB obligation	479,184	575,298	(68,400)	986,082	-	986,082
Total governmental activities	$ 8,084,745	$ 1,808,232	$ (6,214,806)	$ 3,678,171	$ 1,125,596	$ 2,552,575
Business-type activities:						
Compensated absences	$ 312,974	$ 136,749	$ (134,957)	$ 314,766	$ 140,138	$ 174,628
OPEB obligation	56,816	67,702	(7,600)	116,918	-	116,918
Total business-type activities	$ 369,790	$ 204,451	$ (142,557)	$ 431,684	$ 140,138	$ 291,546

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, $188,191 of internal service funds compensated absences and $65,262 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.

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.

The 2001 Tax Allocation Refunding Bonds were fully redeemed on September 1, 2009. For the current year, principal and interest paid on the 2001 Bonds was $3,638,320 and property tax increment net revenues were $10,550,804.

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 were fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The bonds were paid off during the year.

7. LONG TERM OBLIGATIONS, Continued

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 commercial development 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 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 were contingent upon certain levels of gross sales taxes being generated by the COSTCO store. For the current year principal and interest paid on the COSTCO notes was $864,000. During the fiscal year, the COSTCO notes were paid in full. As of June 30, 2010, the outstanding balance of the COSTCO notes was zero.

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, 2010.

8. NET ASSETS/FUND BALANCES

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

Invested In Capital Assets: This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. At June 30, 2010, there was no outstanding debt related to the City / District's capital assets

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

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.

8. NET ASSETS/FUND BALANCES, Continued

As of June 30, 2010, 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.

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 in accordance with minimum reserve policies.

Environmental Sustainability – to promote the development and expansion of recycling and waste reduction programs.

Waste Disposal Rate stabilization – to help reduce the impact of future garbage rate increases on the ratepayers.

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 CaIPERS' Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy: Public safety employees and all other employees have an obligation to contribute 9% and 8% of their salary to the Fund, respectively. The City/District makes the contributions required of City/District employees on their behalf and for their accounts. The City/District is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2010 were 13.541% for miscellaneous employees and 34.059% for safety employees of annual covered payroll which amounted to $1,375,239 and $2,764,553, 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 2010, 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, 2007 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.

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.

Miscellaneous Plan				Safety Plan			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 1,440,966	100%	$ -	6/30/2008	$ 2,546,975	100%	$ -
6/30/2009	1,623,794	100%	-	6/30/2009	2,694,003	100%	-
6/30/2010	1,375,239	100%	-	6/30/2010	2,764,553	100%	-

Funded Status of Plan – Safety Employees

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

Funded Status of Plan – Miscellaneous Employees

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio		Annual Covered Payroll	UAAL as a % of Payroll
				Actuarial Value	Market Value		
6/30/2009	$ 67,440,426	$ 55,542,565	$ 11,897,861	82.4%	60.1%	$ 11,752,805	101.2%

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

Internal Revenue Code Section 401(a) Plan

Effective January 1, 1997, the City/District established the City of Foster City Section 401 (a) Plan (Plan), a defined contribution plan. The City/District designated a third party administrator to administer the Plan on behalf of the City/District. The Plan provides retirement benefits to all employees on the date of employment. The employees vest upon joining the Plan. The City/District has agreed to contribute to the employees' accounts based on the employees' hours of service and current rate of pay as defined in each bargaining unit's memorandum of understanding (MOU) with the City/District. The City/District could amend the Plan as agreed to by each bargaining unit. The City/District contributed $196,185 in fiscal year 2010 as required under the City/District's MOUs. The Plan has $45,138 loaned to 3 employees at June 30, 2010.

9. EMPLOYEES' RETIREMENT PLANS, Continued

Longevity Recognition Benefits

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

Other Post Employment Benefits

All City/District employees, their surviving spouses, and eligible dependents can continue to participate in the health care program under the provisions of the formal City-sponsored plan at their own cost. The City/District will only contribute the minimum amount provided under Government Code Section 22825 of the Public Employee Medical and Hospital Care Act. By which, the City/District paid $97 and $101 per month per family for the period from July 1, 2008 to December 31, 2008 and January 1, 2009 to June 30, 2009 respectively. The City/District's contribution for fiscal year 2010 amounted to $76,000.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 637,000
Interest on net OPEB obligation	28,000
Amortization of net OPEB obligation	(22,000)
Annual OPEB cost	643,000
Payments made	(76,000)
Increase (decrease) in net OPEB obligation	567,000
Net OPEB obligation - beginning of the year	536,000
Net OPEB obligation - ending of year	$ 1,103,000

The City/District Retiree Health annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2010 and the preceding fiscal year were as follows:

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

9. EMPLOYEES' RETIREMENT PLANS, Continued

Funded Status and Funding Progress. The funded status of the Plan as of January 1, 2009, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 4,116,000
Actuarial value of Plan assets	0
Unfunded actuarial accrued liability (UAAL)	4,116,,000
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	18,241,000
UAAL as a percentage of covered payroll	22.56%

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

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

For the January 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The PEMHCA minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payrolls over 30 years on a closed basis commencing in 2009.

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 2010, the City/District received $136,491 of In Lieu Rent and $8,850 of In-Kind Rent.

11. INVESTMENT IN JOINT VENTURE AND MEMBERSHIP IN INSURANCE POOLS

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

Wastewater Treatment Facility

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

A new Joint Powers Agreement (JPA) dated July 17, 1989 and amended January 17, 1990, was executed by the City/District and City of San Mateo to rescind the agreement of June 1974 (amended February 1976). The new JPA provides for the expansion of the wastewater treatment facility with all costs shared between the parties as follows: the City/District, 34.4% and the city of San Mateo, 65.6%. The city of San Mateo is the lead agency and bills the City/District monthly for its share of the expansion project costs and quarterly for its operating and maintenance costs. Part of the City/District's share of costs has been financed through the sale of $1,329,000 in Sewer Revenue Bonds in 1993. The city of San Mateo issued $23.5 million in long-term revenue bonds to finance its share of expansion costs. The City/District is not obligated in any manner to repay the San Mateo revenue bonds. For the year ended June 30, 2010, the City/District expended $796,079 towards the wastewater treatment plant facility.

For the year ended June 30, 2010, the District's share of the operating and maintenance costs was $1,944,416 which is included in the Sewer Enterprise Fund's accompanying financial statements as contractual services.

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

The Cities Group

The City/District, along with five other governments located within San Mateo County, is a member of The Cities Group, a public entity risk pool and a provider of workers' compensation insurance coverage, claims management, risk management services and legal defense to each participating member. The Cities Group is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to the Cities Group may be modified by Board decision according to the loss experience of each member. This loss experience mechanism will operate to ensure that each member returns over a period of time to the Cities Group the funds paid out on its behalf as paid losses. In the opinion of City/District management, premiums paid represent the best available estimate of the ultimate cost of the City/District's participation in The Cities Group and, accordingly, the accompanying basic financial statements of the City/District includes no provisions for possible refunds or additional assessments. For the year ended June 30, 2010, the City/District paid premiums to The Cities Group of $779,944, which are included in the General Fund's as insurance expenditures. Payments of City/District workers' compensation claims for the year ended June 30, 2010 were $847,072.

Condensed financial information as of June 30, 2009 (the latest information available) for The Cities Group is presented below:

Total assets	$	2,376,746
Total liabilities		1,253,979
Total equity/net assets		1,122,767
Total revenues		2,780,308
Total expenses/expenditures		2,611,462
Increase (decrease) in equity/net assets		168,846

ABAG PLAN

The City/District, along with 31 other Bay Area governments, is a member of the ABAG PLAN Corporation (ABAG), a public-entity risk pool. ABAG provides liability insurance coverage, claims management, risk management services and legal defense to its participating members. ABAG is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to ABAG are subject to possible refund based on the results of actuarial studies and approval by ABAG's Board of Directors. In the opinion of the City/District management, premiums made represent the best available estimate of the ultimate cost of the City/District's participation in ABAG and, accordingly, the accompanying basic financial statements of the City/District include no provisions for possible refunds or additional assessments. Actual refunds and assessments arising from retrospective premium adjustments relating to prior loss years will be recorded in the City/District's basic financial statements in the year they become known. For the year ended June 30, 2010, the City/District's paid premiums of $197,775 to ABAG.

Condensed financial information as of June 30, 2009 (the latest information available) for the ABAG PLAN is presented below:

Total assets	$	48,715,107
Total liabilities		17,360,134
Total equity/net assets		31,354,973
Total revenues		11,211,127
Total expenses/expenditures		7,218,603
Increase (decrease) in equity/net assets		3,992,524

12. RISK MANAGEMENT

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

Settled claims have not exceeded the City/District's excess coverage in any of the past three fiscal years. Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, the amount of that loss can be reasonably estimated and includes incremental claim expenses. Allocated and unallocated claims adjustment expenses are included in the claims liability balance. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2010, the liability for general liability self-insurance claims was $65,262. 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, 2008	$	106,287
Current year claim deductibles and changes in estimates		26,334
Net payments		-
Liability at June 30, 2009		132,621
Current year claim deductibles and changes in estimates		21,772
Net payments		(89,131)
Liability at June 30, 2010	$	65,262

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.

13. COMMITMENTS AND CONTINGENCIES, Continued

Settlement with San Mateo Union High School District

In 1991, the Agency settled a lawsuit involving the allocation of property tax increment revenue to the San Mateo Unified High School District (High School District). Based on the settlement, the Agency had agreed to pay the High School District a fixed amount of $300,000 of tax increment annually through fiscal year 1996. For each fiscal year from 1997 to 2006, the Agency was obligated to pay the High School District an amount equal to 7.5% of the projected net tax increment received by the Agency in each fiscal year. For each fiscal year from 2007 to 2016, the Agency is obligated to pay the High School District in accordance with an agreed-upon payment schedule based on 10% of the original estimated net tax increment received in each fiscal year. Total payments to the High School District are not to exceed $9,636,000 and are to be made only from the tax revenues of the year payments are made. Accordingly, no liability for the future settlement payments has been recorded as it was contingent on receipt of sufficient Tax Increment revenues to require payment. During fiscal year 2010, the Agency paid $456,000 to the High School District.

Marlin Cove Disposition and Development Agreement

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

(i) *Agency Grant* — The Agency agreed to grant to the developer $5,900,000 for off-site public improvements, hazardous materials remediation, fees due the City/District in connection with the development of the site, relocation expenses, and other demolition and improvement expenses. During fiscal year 2000, the Agency paid the developer $4,900,000. The balance of the Agency Grant will be due to the developer, provided the developer has provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site. During the fiscal year ended June 30, 2010, the Agency paid the developer the required installment of $109,794.

(ii) *Utility Subsidy* — The Agency pledged to the developer a utility allowance subsidy in the amount of $36,000 annually for affordable housing units. The Utility Subsidy will be paid annually through the life of the Marlin Cove project (estimated to be 2029) following the issuance of the Final Certificate of Completion for the residential portion of the site and will be increased annually by 2% to adjust for inflation. The balance of the amount will be due to the developer, provided the developer has provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site. For the fiscal year ended June 30, 2010, the Agency paid the developer the Utility Subsidy in the amount of $42,179.

(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, 2010, the Agency paid the developer a tax increment subsidy in the amount of $160,820.

13. COMMITMENTS AND CONTINGENCIES, Continued

Marlin Cove Disposition and Development Agreement, Continued

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.

During fiscal year 2001, the Agency paid the developer $2,000,000. The balance of the Agency Grant will be due to the developer, with interest at eight percent per annum, amortized over fifteen years and paid to the developer in equal installments of $233,659. The annual payments will be paid on July 1 of each year, provided (i) the developer has completed construction and installation of the work of improvements and the Agency has issued a Certificate of Completion, (ii) the developer provided the Agency by April 15 of each year written evidence documenting payment of all property taxes and assessments due on the site, and (iii) the developer delivered to the Agency the annual report required under the Affordable Housing Covenant. Construction was completed during fiscal year June 30, 2005. As a result, the Agency paid the developer the required installment in the amount of $142,867 during the fiscal year ended June 30, 2010.

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, 2010	Committed
WWTP Expansion Phase II	$ 9,631,000	$ 9,249,394	$ 381,606
Sewer Main Rehabilitation	630,000	58,354	571,646
Sanitary Sewer Lift Station Improvements	4,298,500	331,614	3,966,886
Park Infrastructure Improvements	395,270	313,550	81,720
Levee/Pedway Improvements and Repairs	950,000	165,262	784,738
Park Infrastructure Improvements	210,000	153,530	56,470
Follow-up Bi-annual Caltrans Bridge Inspection	765,000	41,514	723,486
Total	$ 16,879,770	$ 10,313,218	$ 6,566,552

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. DEFICIT FUND BALANCE

At June 30, 2010, the Non-Major Public Transportation Fund had a deficit fund balance of $20,739. The City/District plans to reduce the deficit with future revenues.

15. TAKE AWAY BY STATE

The State of California passed legislation as part of the passage of its 2009-10 budget to take away a total of $1.7 billion from redevelopment agencies statewide in 2009-10, and an additional $350 million in 2010-11 as a Supplemental Education Revenue Augmentation Fund (SERAF). This decision was litigated by the California Redevelopment Association and other parties with the hope that this would be considered unconstitutional. The court ruled in favor of the State. The decision is currently being appealed and the results have not yet been determined. The 2009-10 SERAF payment was $5,639,604 and it is anticipated another $1,275,000 will need to be paid for 2010-11 if the ruling is not overturned.

16. RESTATEMENT OF OPENING NET ASSETS

Net assets at July 1, 2009 were restated to correct the recognition of sales taxes advanced during FY2009.

The effects of the restatement were as follows:

A. Government-Wide Financial Statements:

	Net Assets, as Previously Reported	Prior Period Adjustment	Net Assets, as Restated
Governmental Activities	$ 182,179,452	$ (1,418,853)	$ 180,760,599

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, 2010. Encumbrances are expected to be reappropriated in the following fiscal year.

Budgetary Comparison Schedule – General Fund

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Fund balance, June 30, 2009	$ 30,249,447	$ 30,249,447	$ 30,249,447	$ -
Resources (inflows):				
Property taxes:				
Secured	11,044,000	11,044,000	11,596,929	552,929
Unsecured	500,000	500,000	505,803	5,803
Motor vehicle in lieu	2,450,000	2,450,000	2,417,925	(32,075)
Total	13,994,000	13,994,000	14,520,657	526,657
Other taxes:				
Sales and use and sales tax in lieu	3,690,000	3,690,000	3,936,796	246,796
Transient occupancy	1,395,000	1,395,000	1,175,466	(219,534)
Franchise	1,112,000	1,112,000	1,017,749	(94,251)
Real property transfer	100,000	100,000	141,159	41,159
Total	6,297,000	6,297,000	6,271,170	(25,830)
Licenses and permits:				
Business licenses	660,000	660,000	601,638	(58,362)
Permits	370,000	370,000	449,120	79,120
Total	1,030,000	1,030,000	1,050,758	20,758
Intergovernmental:				
Motor vehicle in lieu	-	-	89,463	89,463
Homeowner property tax relief	100,000	100,000	104,780	4,780
Reimbursements and grants	26,000	26,000	80,725	54,725
Total	126,000	126,000	274,968	148,968
Charges for current services:				
Service fees	271,000	271,000	352,085	81,085
Recreation and leisure	1,122,000	1,122,000	1,040,120	(81,880)
Total	1,393,000	1,393,000	1,392,205	(795)
Fines and forfeitures:				
Traffic fines and court fees	45,000	45,000	35,079	(9,921)
False alarm fines	-	-	8,734	8,734
Total	45,000	45,000	43,813	(1,187)
Investment income and rentals:				
Investment income	1,270,000	1,270,000	1,128,617	(141,383)
Rent	841,000	841,000	811,109	(29,891)
Total	2,111,000	2,111,000	1,939,726	(171,274)
Other revenues	512,400	512,400	541,853	29,453
Transfers in	-	-	-	-
Amounts available for appropriation	55,757,847	55,757,847	56,284,597	526,750

(Continued)

Budgetary Comparison Schedule – General Fund, Continued

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Charges to appropriations (outflows):				
General government:				
Council/Board	$ 326,122	$ 326,122	$ 261,362	$ 64,760
City/District Manager	774,645	774,645	704,159	70,486
City Clerk	207,753	213,811	146,868	66,943
City/District Attorney	198,377	238,377	201,500	36,877
Administrative Services	540,327	545,327	491,204	54,123
Human Resources	414,678	442,428	428,210	14,218
Financial Services	637,726	639,976	626,429	13,547
Total	3,099,628	3,180,686	2,859,732	320,954
Public safety - Police	9,818,816	9,818,816	9,434,901	383,915
Public safety - Fire	8,005,356	8,039,356	7,879,997	159,359
Public works	2,074,579	2,331,286	1,831,699	499,587
Community development	1,599,491	1,814,607	1,325,300	489,307
Parks and recreation	7,034,495	7,034,495	6,537,423	497,072
Transfers out	757,124	1,311,500	1,311,500	-
Total charges to appropriations	32,389,489	33,530,746	31,180,552	2,350,194
Fund balance, June 30, 2010	$ 23,368,358	$ 22,227,101	$ 25,104,045	$ 2,876,944

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.

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		
6/30/2007	$ 51,837,719	$ 46,587,617	$ 5,250,102	89.9%	103.3%	$ 10,373,476	50.6%
6/30/2008	58,959,588	51,765,675	7,193,913	87.8%	88.7%	11,145,166	64.5%
6/30/2009	67,440,426	55,542,565	11,897,861	82.4%	60.1%	11,752,805	101.2%

City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Total
ASSETS			
Cash and investments	$ 3,172,262	$ -	$ 3,172,262
Receivables, net of allowance:			
Intergovernmental	157,271	-	157,271
Taxes	42,805	-	42,805
Other	14,017	-	14,017
Total assets	$ 3,386,355	$ -	$ 3,386,355
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 655	$ -	$ 655
Accrued payroll	1,807	-	1,807
Due to other funds	83,438	-	83,438
Total liabilities	85,900	-	85,900
Fund balances:			
Unreserved, reported in:			
Special revenue funds	3,300,455	-	3,300,455
Total fund balances	3,300,455	-	3,300,455
Total liabilities and fund balances	$ 3,386,355	$ -	$ 3,386,355

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, 2010

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Total
REVENUES:			
Sales and use taxes	$ 428,222	$ -	$ 428,222
Intergovernmental	1,271,905	-	1,271,905
Fines and forfeitures	114,386	-	114,386
Investment income	42,617	222	42,839
Other	184,190	-	184,190
Total revenues	2,041,320	222	2,041,542
EXPENDITURES:			
Current:			
General government	181,386	-	181,386
Public safety - Police	101,082	-	101,082
Public safety - Fire	21,494	-	21,494
Public works	595,099	-	595,099
Parks and recreation	3,069	-	3,069
Capital outlay	587,500	-	587,500
Debt service:			
Principal repayment	-	415,000	415,000
Interest and fiscal charges	-	37,071	37,071
Total expenditures	1,489,630	452,071	1,941,701
REVENUES OVER (UNDER) EXPENDITURES	551,690	(451,849)	99,841
NET CHANGE IN FUND BALANCES	551,690	(451,849)	99,841
FUND BALANCES:			
Beginning of year	2,748,765	451,849	3,200,614
End of year	$ 3,300,455	$ -	$ 3,300,455

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City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2010

	Traffic Safety	Measure A	Gas Tax	SLESF/ COPS Grant
ASSETS				
Cash and investments	$ 136	$ 2,248,947	$ 429,475	$ -
Receivables, net of allowance:				
Intergovernmental	19,757	-	50,646	9,938
Taxes	-	42,805	-	-
Other	-	-	-	-
Total assets	$ 19,893	$ 2,291,752	$ 480,121	$ 9,938
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 259	$ -	$ -	$ -
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	9,938
Total liabilities	259	-	-	9,938
Fund Balances:				
Unreserved, reported in:				
Special revenue funds	19,634	2,291,752	480,121	-
Total fund balances	19,634	2,291,752	480,121	-
Total liabilities and fund balances	$ 19,893	$ 2,291,752	$ 480,121	$ 9,938

California Law Enforcement Equipment	California Opportunities	Proposition 42	Foster City Foundation	American Recovery and Reinvestment	Total
$ 26,867	$ 153,571	$ 227,614	$ 85,652	$ -	$ 3,172,262
-	-	76,930	-	-	157,271
-	-	-	-	-	42,805
-	1,500	-	12,517	-	14,017
$ 26,867	$ 155,071	$ 304,544	$ 98,169	$ -	$ 3,386,355
$ -	$ 256	$ -	$ 140	$ -	$ 655
-	1,807	-	-	-	1,807
-	-	-	73,500	-	83,438
-	2,063	-	73,640	-	85,900
26,867	153,008	304,544	24,529	-	3,300,455
26,867	153,008	304,544	24,529	-	3,300,455
$ 26,867	$ 155,071	$ 304,544	$ 98,169	$ -	$ 3,386,355

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, 2010

	Traffic Safety	Measure A	Gas Tax	SLESF/ COPS Grant
REVENUES:				
Sales and use tax	$ -	$ 428,222	$ -	$ -
Intergovernmental	-	-	516,589	100,961
Fines and forfeitures	114,386	-	-	-
Investment income	-	33,628	6,881	121
Other	-	-	-	-
Total revenues	114,386	461,850	523,470	101,082
EXPENDITURES:				
Current:				
General government	-	-	106,820	-
Public safety - police	-	-	-	101,082
Public safety - fire	-	-	-	-
Public works	103,001	-	492,098	-
Parks and recreation	-	-	-	-
Capital outlay	-	-	72,369	-
Total expenditures	103,001	-	671,287	101,082
REVENUES OVER (UNDER) EXPENDITURES	11,385	461,850	(147,817)	-
NET CHANGES IN FUND BALANCES	11,385	461,850	(147,817)	-
FUND BALANCES:				
Beginning of year	8,249	1,829,902	627,938	-
End of year	$ 19,634	$ 2,291,752	$ 480,121	$ -

California Law Enforcement Equipment	California Opportunities	Proposition 42	Foster City Foundation	American Recovery and Reinvestment	Total
$ -	$ -	$ -	$ -	$ -	$ 428,222
-	-	275,899	-	378,456	1,271,905
-	-	-	-	-	114,386
-	1,987	-	-	-	42,617
-	100,200	-	83,990	-	184,190
-	102,187	275,899	83,990	378,456	2,041,320
-	74,566	-	-	-	181,386
-	-	-	-	-	101,082
-	-	-	21,494	-	21,494
-	-	-	-	-	595,099
-	-	-	3,069	-	3,069
-	-	32,675	104,000	378,456	587,500
-	74,566	32,675	128,563	378,456	1,489,630
-	27,621	243,224	(44,573)	-	551,690
-	27,621	243,224	(44,573)	-	551,690
26,867	125,387	61,320	69,102	-	2,748,765
$ 26,867	$ 153,008	$ 304,544	$ 24,529	$ -	$ 3,300,455

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Fines and forfeitures	$ 103,000	$ 103,000	$ 114,386	$ 11,386
Total revenues	103,000	103,000	114,386	11,386
EXPENDITURES:				
Public works	103,000	103,000	103,001	(1)
Total expenditures	103,000	103,000	103,001	(1)
NET CHANGE IN FUND BALANCE	-	-	11,385	11,385
FUND BALANCE:				
Beginning of year	8,249	8,249	8,249	-
End of year	$ 8,249	$ 8,249	$ 19,634	$ 11,385

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Sales and use taxes	$ 423,000	$ 423,000	$ 428,222	$ 5,222
Investment income	37,000	37,000	33,628	(3,372)
Total revenues	460,000	460,000	461,850	1,850
EXPENDITURES:				
Capital outlay	288,106	288,106	-	288,106
Total expenditures	288,106	288,106	-	288,106
NET CHANGE IN FUND BALANCE	171,894	171,894	461,850	289,956
FUND BALANCE:				
Beginning of year	1,829,902	1,829,902	1,829,902	-
End of year	$ 2,001,796	$ 2,001,796	$ 2,291,752	$ 289,956

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 537,000	$ 537,000	$ 516,589	$ (20,411)
Investment income	5,000	5,000	6,881	1,881
Total revenues	542,000	542,000	523,470	(18,530)
EXPENDITURES:				
General government	106,820	106,820	106,820	-
Public works	492,098	492,098	492,098	-
Capital outlay	472,994	472,994	72,369	400,625
Total expenditures	1,071,912	1,071,912	671,287	400,625
NET CHANGE IN FUND BALANCE	(529,912)	(529,912)	(147,817)	382,095
FUND BALANCE:				
Beginning of year	627,938	627,938	627,938	-
End of year	$ 98,026	$ 98,026	$ 480,121	$ 382,095

City of Foster City and Estero Municipal Improvement District

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

SLESF/COPS Grant Special Revenue Fund

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 100,000	$ 100,000	$ 100,961	$ 961
Investment income	-	-	121	121
Total revenues	100,000	100,000	101,082	1,082
EXPENDITURES:				
Public safety - police	102,000	102,000	101,082	918
Total expenditures	102,000	102,000	101,082	918
NET CHANGE IN FUND BALANCE	(2,000)	(2,000)	-	2,000
FUND BALANCE:				
Beginning of year	-	-	-	-
End of year	$ (2,000)	$ (2,000)	$ -	$ 2,000

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Investment income	$ 7,000	$ 7,000	$ 1,987	$ (5,013)
Other	103,000	103,000	100,200	(2,800)
Total revenues	110,000	110,000	102,187	(7,813)
EXPENDITURES:				
General government	94,056	94,056	74,566	19,490
Total expenditures	94,056	94,056	74,566	19,490
NET CHANGE IN FUND BALANCE	15,944	15,944	27,621	11,677
FUND BALANCE:				
Beginning of year	125,387	125,387	125,387	-
End of year	$ 141,331	$ 141,331	$ 153,008	$ 11,677

City of Foster City and Estero Municipal Improvement District

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Proposition 42 Special Revenue Fund

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 286,000	$ 286,000	$ 275,899	$ (10,101)
Total revenues	286,000	286,000	275,899	(10,101)
EXPENDITURES:				
Capital outlay	61,320	61,320	32,675	28,645
Total expenditures	61,320	61,320	32,675	28,645
NET CHANGE IN FUND BALANCE	224,680	224,680	243,224	18,544
FUND BALANCE:				
Beginning of year	61,320	61,320	61,320	-
End of year	$ 286,000	$ 286,000	$ 304,544	$ 18,544

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Other	$ 8,000	$ 8,000	$ 83,990	$ 75,990
Total revenues	8,000	8,000	83,990	75,990
EXPENDITURES:				
Public Safety- Police	6,752	6,752	-	6,752
Public Safety- Fire	32,857	32,857	21,494	11,363
Parks and recreation	130,943	130,943	3,069	127,874
Capital outlay	104,000	104,000	104,000	-
Total Expenditures	274,552	274,552	128,563	145,989
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
NET CHANGE IN FUND BALANCE	(266,552)	(266,552)	(44,573)	221,979
FUND BALANCE:				
Beginning of year	69,102	69,102	69,102	-
End of year	$ (197,450)	$ (197,450)	$ 24,529	$ 221,979

City of Foster City and Estero Municipal Improvement District

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

American Recovery and Reinvestment Special Revenue Fund

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Intergovernmental	$ 440,000	$ 440,000	$ 378,456	$ (61,544)
Total revenues	440,000	440,000	378,456	(61,544)
EXPENDITURES:				
Capital outlay	440,000	440,000	378,456	61,544
Total Expenditures	440,000	440,000	378,456	61,544
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
Beginning of year	-	-	-	-
End of year	$ -	$ -	$ -	$ -

City of Foster City and Estero Municipal Improvement District
Combining Balance Sheet
Non-Major Debt Service Funds
June 30, 2010

	Vintage Park Special Assessment Bonds	Total
ASSETS		
Cash and investments	$ -	$ -
Restricted cash and investments	-	-
Special assessments receivables	-	-
Total assets	$ -	$ -
LIABILITIES AND FUND BALANCES		
Liabilities:		
Deferred revenue	-	-
Total liabilities	-	-
Fund Balances:		
Reserved for:		
Debt service	-	-
Total fund balances	-	-
Total liabilities and fund balances	$ -	$ -

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, 2010

	Vintage Park Special Assessment Bonds	Total
REVENUES:		
Investment income	$ 222	$ 222
Total revenues	222	222
EXPENDITURES:		
Debt service:		
Principal repayment	415,000	415,000
Interest and fiscal charges	37,071	37,071
Total expenditures	452,071	452,071
REVENUES OVER (UNDER) EXPENDITURES	(451,849)	(451,849)
NET CHANGES IN FUND BALANCES	(451,849)	(451,849)
FUND BALANCES:		
Beginning of year	451,849	451,849
End of year	$ -	$ -

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, 201

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 10,146,000	$ 10,146,000	$ 10,550,804	$ 404,804
Investment income	54,000	54,000	-	(54,000)
Total revenues	10,200,000	10,200,000	10,550,804	350,804
EXPENDITURES:				
Debt service:				
Principal repayment	3,560,000	3,560,000	3,560,000	-
Interest and fiscal charges	99,820	99,820	80,320	19,500
Total expenditures	3,659,820	3,659,820	3,640,320	19,500
REVENUES OVER (UNDER) EXPENDITURES	6,540,180	6,540,180	6,910,484	370,304
OTHER FINANCING USES:				
Transfer out	(12,879,180)	(12,879,180)	(10,548,804)	2,330,376
Total other financing uses	(12,879,180)	(12,879,180)	(10,548,804)	2,330,376
NET CHANGE IN FUND BALANCE	(6,339,000)	(6,339,000)	(3,638,320)	2,700,680
FUND BALANCE:				
Beginning of year	3,638,320	3,638,320	3,638,320	-
End of year	$ (2,700,680)	$ (2,700,680)	$ -	$ 2,700,680

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, 201

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Investment income	$ -	$ -	$ 222	$ 222
Total revenues	-	-	222	222
EXPENDITURES:				
Debt service:				
Principal repayment	415,000	415,000	415,000	-
Interest and fiscal charges	40,873	40,873	37,071	3,802
Total expenditures	455,873	455,873	452,071	3,802
NET CHANGE IN FUND BALANCE	(455,873)	(455,873)	(451,849)	4,024
FUND BALANCE:				
Beginning of year	451,849	451,849	451,849	-
End of year	$ (4,024)	$ (4,024)	$ -	$ 4,024

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City of Foster City and Estero Municipal Improvement District
Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2010

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
ASSETS				
Current assets:				
Cash and investments	$ 4,188,492	$ 3,997,184	$ 1,273,005	$ 3,049,046
Accounts receivable	16,931	-	12,500	21
Deposit and prepaid items	341	-	-	3,128
Inventory	34,968	42,163	-	-
Total current assets	4,240,732	4,039,347	1,285,505	3,052,195
Noncurrent assets:				
Capital assets:				
Depreciable	1,868,326	1,870,369	-	-
Total noncurrent assets	1,868,326	1,870,369	-	-
Total assets	6,109,058	5,909,716	1,285,505	3,052,195
LIABILITIES				
Current liabilities:				
Accounts payable	12,940	27,069	30,383	21,931
Accrued payroll	12,870	-	-	24,305
Refundable deposits	-	-	-	-
Claims liability	-	-	65,262	-
Compensated absences - current portion	9,076	-	-	34,428
Total current liabilities	34,886	27,069	95,645	80,664
Noncurrent liabilities:				
Compensated absences	14,118	-	-	62,873
OPEB liability	15,442	-	-	27,575
Total noncurrent liabilities	29,560	-	-	90,448
Total liabilities	64,446	27,069	95,645	171,112
NET ASSETS				
Invested in capital assets	1,868,326	1,870,369	-	-
Unrestricted	4,176,286	4,012,278	1,189,860	2,881,083
Total net assets	$ 6,044,612	$ 5,882,647	$ 1,189,860	$ 2,881,083

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Total
$ 2,005,580	$ 3,183,916	$ 3,981,000	$ 21,678,223
1,918	-	-	31,370
-	-	-	3,469
-	-	-	77,131
2,007,498	3,183,916	3,981,000	21,790,193
-	-	-	3,738,695
-	-	-	3,738,695
2,007,498	3,183,916	3,981,000	25,528,888
91,572	-	-	183,895
15,499	-	-	52,674
6,300	-	-	6,300
-	-	-	65,262
24,786	-	-	68,290
138,157	-	-	376,421
42,910	-	-	119,901
16,545	-	-	59,562
59,455	-	-	179,463
197,612	-	-	555,884
-	-	-	3,738,695
1,809,886	3,183,916	3,981,000	21,234,309
$ 1,809,886	$ 3,183,916	$ 3,981,000	$ 24,973,004

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, 2010

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
OPERATING REVENUES:				
Charges for services	$ 1,403,878	$ 435,240	$ 310,000	$ 1,534,257
Other	-	7,730	12,525	-
Total operating revenues	1,403,878	442,970	322,525	1,534,257
OPERATING EXPENSES:				
Personnel	341,391	-	-	651,408
Repairs and maintenance	332,359	-	-	300,273
General and administration	15,312	39,677	-	162,589
Depreciation	421,748	634,595	-	-
Contractual services	7,039	-	130,639	3,200
Insurance	42,000	-	130,416	-
Total operating expenses	1,159,849	674,272	261,055	1,117,470
OPERATING INCOME (LOSS)	244,029	(231,302)	61,470	416,787
NONOPERATING REVENUES (EXPENSES):				
Gain (loss) on sale of capital assets	29,929	(18,369)	-	-
Investment income (expense)	63,922	131,441	16,622	50,876
Total nonoperating revenues (expenses)	93,851	113,072	16,622	50,876
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	337,880	(118,230)	78,092	467,663
CONTRIBUTIONS AND TRANSFERS:				
Capital contribution	-	25,319	-	-
Transfers in	145,981	67,828	152,900	-
Transfers out	-	(4,615,659)	-	(350,028)
Total transfers	145,981	(4,522,512)	152,900	(350,028)
Changes in Net Assets	483,861	(4,640,742)	230,992	117,635
NET ASSETS:				
Beginning of the year	5,560,751	10,523,389	958,868	2,763,448
End of the year	$ 6,044,612	$ 5,882,647	$ 1,189,860	$ 2,881,083

Building Maintenance	Longevity Recognition Benefits	PEMHCA	Total
$ 1,566,606	$ 147,001	$ -	$ 5,396,982
-	-	-	20,255
1,566,606	147,001		5,417,237
406,873	99,180	-	1,498,852
208,490	-	-	841,122
506,485	-	-	724,063
-	-	-	1,056,343
180,393	-	-	321,271
-	-	-	172,416
1,302,241	99,180	-	4,614,067
264,365	47,821	-	803,170
-	-	-	11,560
35,440	102,080	-	400,381
35,440	102,080	-	411,941
299,805	149,901	-	1,215,111
-	-	-	25,319
-	2,101,500	3,981,000	6,449,209
(432,221)	-	-	(5,397,908)
(432,221)	2,101,500	3,981,000	1,076,620
(132,416)	2,251,401	3,981,000	2,291,731
1,942,302	932,515	-	22,681,273
$ 1,809,886	$ 3,183,916	$ 3,981,000	$ 24,973,004

City of Foster City and Estero Municipal Improvement District

Combining Statement of Cash Flows

Internal Service Funds

For the fiscal year ended June 30, 2010

	Vehicle Rental	Equipment Replacement	Self Insurance	Information Technology
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from other funds	$ 1,389,827	$ 451,576	$ 310,025	$ 1,534,236
Cash payments to suppliers for goods and services	(412,285)	(81,840)	(298,031)	(483,968)
Cash payments to employees for services	(335,825)	15,474	-	(627,595)
Net cash provided (used) by operating activities	641,717	385,210	11,994	422,673
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers received	145,981	67,828	152,900	-
Transfer paid	-	(4,615,659)	-	(350,028)
Net cash provided (used) by noncapital financing activities	145,981	(4,547,831)	152,900	(350,028)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets	29,929	(18,369)	-	-
Capital contributions received	-	25,319	-	-
Acquisition and construction of capital assets	(346,914)	(177,013)	-	-
Net cash provided (used) by capital and related financing activities	(316,985)	(170,063)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	63,922	131,441	16,622	50,876
Net cash provided (used) by investing activities	63,922	131,441	16,622	50,876
Net increase (decrease) in cash and cash equivalents	534,635	(4,201,243)	181,516	123,521
CASH AND CASH EQUIVALENTS:				
Beginning of year	3,653,857	8,198,427	1,091,489	2,925,525
End of year	$ 4,188,492	$ 3,997,184	$ 1,273,005	$ 3,049,046
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 244,029	$ (231,302)	$ 61,470	$ 416,787
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	421,748	634,595	-	-
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(14,051)	8,606	(12,500)	(21)
Deposit and prepaid items	(37)	-	-	(1,553)
Inventory	4,799	(42,163)	-	-
Increase (decrease) in:				
Accounts payable	(20,337)	-	30,383	(16,353)
Accrued payroll	(1,440)	15,474	-	(2,603)
Refundable deposit	-	-	-	-
Claims liability	-	-	(67,359)	-
Compensated absences	(8,436)	-	-	(1,159)
OPEB liability	15,442	-	-	27,575
Total adjustments	397,688	616,512	(49,476)	5,886
Net cash provided (used) by operating activities	$ 641,717	$ 385,210	$ 11,994	$ 422,673

Building Maintenance	Longevity Recognition Benefits	Longevity Recognition Benefits	Total
$ 1,564,688	$ 147,001	$ -	$ 5,397,353
(916,087)	-	-	(2,192,211)
(385,854)	(99,180)	-	(1,432,980)
262,747	47,821	-	1,772,162
-	2,101,500	3,981,000	6,449,209
(432,221)	-	-	(5,397,908)
(432,221)	2,101,500	3,981,000	1,051,301
-	-	-	11,560
-	-	-	25,319
-	-	-	(523,927)
-	-	-	(487,048)
35,440	102,080	-	400,381
35,440	102,080	-	400,381
(134,034)	2,251,401	3,981,000	2,736,796
2,139,614	932,515	-	18,941,427
$ 2,005,580	$ 3,183,916	$ 3,981,000	$ 21,678,223
$ 264,365	$ 47,821	$ -	$ 803,170
-	-	-	1,056,343
(1,918)	-	-	(19,884)
-	-	-	(1,590)
-	-	-	(37,364)
(20,719)	-	-	(27,026)
(6)	-	-	11,425
-	-	-	-
-	-	-	(67,359)
4,480	-	-	(5,115)
16,545	-	-	59,562
(1,618)	-	-	968,992
$ 262,747	$ 47,821	$ -	$ 1,772,162

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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 Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	$ 109,387,638	$ 111,894,545
Restricted	32,763,978	21,720,965	22,592,125	23,209,747	23,657,789	23,606,731	24,293,134	22,043,974
Unrestricted	39,219,884	35,928,134	36,848,780	39,557,946	44,825,904	49,475,890	48,498,680	46,699,565
Total governmental activities net assets	$ 149,116,588	$ 147,089,277	$ 152,337,561	$ 158,552,934	$ 165,887,501	$ 174,205,057	$ 182,179,452	$ 180,638,084
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	$ 60,853,224	$ 60,575,907
Restricted	941,091	954,328	622,786	644,200	301,692	-	-	-
Unrestricted	46,337,397	47,355,944	41,640,689	39,908,805	20,548,181	18,775,807	20,010,431	20,356,291
Total business-type activities net assets	$ 79,450,585	$ 79,898,630	$ 80,480,191	$ 80,081,341	$ 80,499,135	$ 80,209,816	$ 80,863,655	$ 80,932,198
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	$ 170,240,862	$ 172,470,452
Restricted	33,705,069	22,675,293	23,214,911	23,853,947	23,959,481	23,606,731	24,293,134	22,043,974
Unrestricted	85,557,281	83,284,078	78,489,469	79,466,751	65,374,085	68,251,697	68,509,111	67,055,856
Total primary government net assets	$ 228,567,173	$ 226,987,907	$ 232,817,752	$ 238,634,275	$ 246,419,636	$ 254,414,873	$ 263,043,107	$ 261,570,282

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

City of Foster City and Estero Municipal Improvement District

Changes in Net Assets

Last Eight Fiscal Years

(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental activities:								
General government	$ 3,959,964	$ 2,705,217	$ 2,848,557	$ 3,401,929	$ 3,172,917	$ 3,384,497	$ 3,673,100	$ 3,715,494
Police	6,972,046	7,458,401	7,672,926	7,874,658	8,414,456	8,598,000	9,637,744	9,601,374
Fire	6,152,976	6,558,290	6,456,232	7,707,520	7,129,555	7,277,640	7,376,366	7,960,605
Public works	3,951,120	6,192,009	4,272,573	4,938,721	5,832,257	4,795,377	4,746,696	4,792,866
Community development	6,445,306	6,734,993	4,330,177	3,939,444	4,517,721	4,399,597	5,165,200	10,058,917
Parks and recreation	5,867,155	5,967,687	6,201,991	6,112,184	6,274,796	6,969,205	7,540,180	7,486,684
Interest on long-term debt	2,496,351	2,003,449	1,394,022	1,149,134	714,924	527,048	286,765	71,079
Total governmental activities expenses	35,844,918	37,620,046	33,176,478	35,123,590	36,056,626	35,951,364	38,426,051	43,687,019
Business-type activities:								
Water	5,469,601	6,484,751	6,342,028	6,713,789	6,868,450	7,575,909	7,804,377	8,272,135
Wastewater	4,119,833	4,640,074	4,739,273	5,276,815	5,099,038	5,861,595	5,351,927	5,875,701
Public transportation	303,992	211,109	103,281	119,496	131,378	155,344	245,589	298,964
Total business-type activities expenses	9,893,426	11,335,934	11,184,582	12,110,100	12,098,866	13,592,848	13,401,893	14,446,800
Total primary government expenses	$ 45,738,344	$ 48,955,980	$ 44,361,060	$ 47,233,690	$ 48,155,492	$ 49,544,212	$ 51,827,944	$ 58,133,819
Program Revenues								
Governmental activities:								
Charges for services:								
Public works	$ 789,631	$ 398,625	$ 430,209	$ 556,598	$ 76,488	$ 160,062	$ 84,958	$ 146,430
Parks and recreation	1,031,043	1,043,428	1,092,235	1,103,417	1,017,538	1,032,979	1,065,675	1,055,300
Other activities	1,553,066	1,848,369	1,563,775	1,570,945	1,638,345	1,679,892	1,722,734	1,204,446
Operating grants and contributions	1,254,714	1,191,358	1,181,974	1,642,813	996,947	854,272	1,000,607	813,296
Capital grants and contributions	1,203,787	746,541	1,076,241	1,771,121	128,000	-	733,684	680,355
Total governmental activities program revenues	5,832,241	5,228,321	5,344,434	6,644,894	3,857,318	3,727,205	4,607,658	3,899,827
Business-type activities:								
Charges for services:								
Water	5,997,758	6,095,677	5,800,508	5,782,979	6,027,769	6,769,890	7,182,212	7,531,859
Sewer	4,808,073	5,036,794	5,141,871	5,155,092	5,170,037	5,570,010	6,175,068	6,543,036
Other activities	393,324	206,231	79,590	55,479	69,955	-	-	-
Capital grants and contributions	23,409	11,522	-	1,762	-	-	-	-
Total business-type activities program revenues	11,222,564	11,350,224	11,021,969	10,995,312	11,267,761	12,339,900	13,357,280	14,074,895
Total primary government program revenues	$ 17,054,805	$ 16,578,545	$ 16,366,403	$ 17,640,206	$ 15,125,079	$ 16,067,105	$ 17,964,938	$ 17,974,722
Net (Expense)/Revenue								
Governmental activities	$(30,012,677)	$(32,391,725)	$(27,832,044)	$(28,478,696)	$(32,199,308)	$(32,224,159)	$(33,818,393)	$(39,787,192)
Business-type activities	1,329,138	14,290	(162,613)	(1,114,788)	(831,105)	(1,252,948)	(44,613)	(371,905)
Total primary government net expense	$(28,683,539)	$(32,377,435)	$(27,994,657)	$(29,593,484)	$(33,030,413)	$(33,477,107)	$(33,863,006)	$(40,159,097)
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	$ 26,525,347	$ 27,328,303
Franchise taxes	777,956	838,572	875,033	909,123	981,494	1,029,576	1,044,988	1,017,749
Sales taxes	3,667,546	3,527,247	3,670,336	4,136,136	4,485,030	5,059,382	4,950,468	4,365,018
Other taxes	1,805,428	1,873,576	1,980,139	2,202,260	2,396,793	2,552,680	2,307,231	2,099,539
Payments in lieu of taxes	1,726,710	1,607,385	2,405,400	2,190,769	2,605,998	2,250,733	2,359,092	2,417,925
Investment earnings	1,944,840	603,723	1,701,412	1,652,286	4,463,127	3,933,537	2,449,586	2,193,541
Miscellaneous	131,321	477,594	378,185	991,956	768,061	438,822	847,954	253,121
Transfers	726,307	177,619	1,931	(44,772)	(80,424)	(82,038)	(110,733)	(10,519)
Total governmental activities	35,076,163	30,364,414	33,080,328	34,694,069	39,566,875	40,508,715	40,373,933	39,664,677
Business-type activities:								
Property Tax	12,016	1,942	-	-	-	-	-	-
Investment earnings	1,670,467	609,432	746,105	671,166	1,145,239	809,666	451,762	296,930
Loss on sales of capital assets	-	-	-	-	-	(17,198)	-	-
Miscellaneous	-	-	-	-	28,262	89,123	135,957	132,999
Transfers	(726,307)	(177,619)	(1,931)	44,772	80,424	82,038	110,733	10,519
Total business-type activities	956,176	433,755	744,174	715,938	1,253,925	963,629	698,452	440,448
Total primary government	$ 36,032,339	$ 30,798,169	$ 33,824,502	$ 35,410,007	$ 40,820,800	$ 41,472,344	$ 41,072,385	$ 40,105,125
Change in Net Assets								
Governmental activities	$ 5,063,486	$ (2,027,311)	$ 5,248,284	$ 6,215,373	$ 7,367,567	$ 8,284,556	$ 6,555,540	$ (122,515)
Business-type activities	2,285,314	448,045	581,561	(398,850)	422,820	(289,319)	653,839	68,543
Total primary government	$ 7,348,800	$ (1,579,266)	$ 5,829,845	$ 5,816,523	$ 7,790,387	$ 7,995,237	$ 7,209,379	$ (53,972)

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

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Revenues								
Taxes	$ 30,188,837	$ 28,482,468	$ 30,773,530	$ 31,881,063	$ 33,523,781	$ 35,329,687	$ 36,322,157	$ 36,445,627
Licenses, fees and permits	881,315	845,900	925,063	1,145,886	1,156,192	1,166,550	1,085,643	1,050,758
Fines and penalties	185,977	238,786	231,281	190,439	194,613	164,661	142,887	158,199
Charges for services	1,202,629	1,164,994	1,218,808	1,334,881	1,383,692	1,347,279	1,403,448	1,392,205
Special assessments	1,882,383	1,229,743	1,466,046	1,316,143	799,236	352,443	189,911	-
Intergovernmental	4,101,504	1,375,769	1,709,815	1,716,468	1,183,015	1,443,393	1,601,956	1,546,873
Investment earnings	3,157,650	2,942,074	3,554,502	3,800,211	5,127,172	4,706,132	3,444,940	2,608,180
Other revenues	1,415,975	1,347,151	578,459	1,032,866	1,024,736	1,012,569	1,661,625	827,083
Total revenues	43,016,270	37,626,885	40,457,504	42,417,957	44,392,437	45,522,714	45,852,567	44,028,925
Expenditures								
General government	2,386,220	2,011,884	2,173,641	2,371,339	2,471,650	2,979,792	3,150,439	3,271,525
Police	6,972,046	7,458,401	7,629,412	7,886,775	8,470,914	8,650,231	9,271,457	9,535,983
Fire	6,006,387	6,449,536	6,412,718	6,831,111	7,213,382	7,373,331	7,385,613	7,876,172
Public works	2,163,972	2,699,440	2,254,732	2,571,047	2,428,438	2,435,402	2,700,326	2,426,798
Community development	6,336,193	6,463,105	4,099,415	4,191,028	4,550,667	4,429,165	7,194,733	10,017,098
Parks and recreation	5,380,143	5,330,070	5,199,602	5,500,330	5,704,605	6,361,683	6,543,724	6,340,330
Capital outlay	12,898,471	5,131,537	1,885,475	2,276,329	1,186,620	2,110,297	6,255,420	2,391,675
Debt service								
Interest	4,448,977	3,989,991	2,971,975	2,921,459	2,387,604	1,998,571	1,509,465	996,412
Principal	8,062,251	13,355,000	5,540,000	9,656,000	5,695,000	5,210,000	3,800,000	4,775,000
Total expenditures	54,654,660	52,888,964	38,166,970	44,205,418	40,108,880	41,548,472	47,811,177	47,630,993
Excess of revenues over (under) expenditures	(11,638,390)	(15,262,079)	2,290,534	(1,787,461)	4,283,557	3,974,242	(1,958,610)	(3,602,068)
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	9,184,980	10,548,804
Transfers out	(5,983,116)	(4,773,251)	(4,938,771)	(8,918,100)	(6,255,434)	(5,925,443)	(9,295,713)	(11,860,304)
Total other financing sources (uses)	(138,000)	177,619	1,931	75,866	(359,327)	(82,038)	(110,733)	(1,311,500)
Net change in fund balances	$ (11,776,390)	$ (15,084,460)	$ 2,292,465	$ (1,711,595)	$ 3,924,230	$ 3,892,204	$ (2,069,343)	$ (4,913,568)
Debt service as a percentage of noncapital expenditures	42.78%	57.03%	30.65%	42.85%	26.21%	22.37%	14.65%	14.62%

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

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

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

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

City of Foster City and Estero Municipal Improvement District
Assessed Value of Taxable Property
Last Six 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	Total Direct Tax Rate
							%
2005	$ 3,543,421	$ 837,154	$ 268,701	$ 497,151	$ 36,914	$ 5,109,513	0.47247
2006	3,927,763	857,293	274,483	479,612	45,780	5,493,371	0.47556
2007	4,219,991	946,856	357,821	499,279	86,616	5,937,331	0.29933
2008	4,442,719	1,026,283	375,300	447,472	87,915	6,203,859	0.29144
2009	4,638,028	1,096,272	479,764	370,726	82,252	6,502,538	0.29565
2010	4,723,627	1,162,396	516,302	379,664	85,466	6,692,523	0.29099

Source: San Mateo County Assessor 2009/10 - Combined Tax Rolls

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

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

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
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
2008/09	1.0000	-	0.0315	0.0298	0.0165	1.0778
2009/10	1.0000		0.0326	0.0319	0.0182	1.0827

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 Five Years Ago

	FY 2009/2010			FY 2004/2005		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Gilead Vintage Park Limited Partnership	$ 357,005,146	1	5.33%	$ 179,510,476	2	3.49%
SPK Metro Center LLC	235,733,991	2	3.52%	143,311,752	4	2.78%
Visa International Services	227,496,451	3	3.40%	251,197,402	1	4.88%
Parkside Towers	148,300,000	4	2.21%			
Applera Corporation	113,599,328	5	1.70%	150,713,264	3	2.93%
Grupe Real Estate Investment 15	88,754,136	6	1.33%	80,387,396	6	1.56%
Electronic For Imaging Inc.	83,273,150	7	1.24%	131,407,416	5	2.55%
Sony Computer Entertainment	77,003,329	8	1.15%			
BRE Properties Inc.	73,442,880	9	1.10%	67,190,046	9	1.31%
Essex Harbor Cove Apartments LP	71,851,261	10	1.07%			
PWM Commercial Venture LLC				72,262,382	7	1.40%
Gateway Phoenix & 5990 Sepulveda Associates				69,700,000	8	1.35%
Walton Bayside Investors IV LLC				52,563,370	10	1.02%
Total	$ 6,696,522,597		22.05%	$ 5,146,426,934		23.28%

Source: San Mateo County Assessor 2009/10 - 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
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%	33,698	10,855,474	94.28%
2009	11,994,160	11,087,934	92.44%	56,327	11,144,261	92.91%
2010	12,415,753	11,337,451	91.32%	-	11,337,451	91.32%

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 Six Fiscal Years

(in millions of gallons)

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

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 six years of data.

City of Foster City and Estero Municipal Improvement District
Water and Sewer Rates
Last Ten Fiscal Years

Water	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Availability / Meter Charge (per Month)										
5/8 inch	$ 9.50	$ 9.50	$ 9.50	$ 12.50	$ 12.50	$ 12.90	$ 13.90	$ 15.60	$ 16.85	$ 17.55
3/4 inch	$ 9.50	$ 9.50	$ 9.50	$ 12.50	$ 12.50	$ 12.90	$ 13.90	$ 15.60	$ 16.85	$ 17.55
1 inch	$ 23.75	$ 23.75	$ 23.75	$ 31.25	$ 31.25	$ 32.25	$ 34.75	$ 39.00	$ 42.15	$ 43.90
1&1/2 inch	$ 47.50	$ 47.50	$ 47.50	$ 62.50	$ 62.50	$ 64.40	$ 69.50	$ 78.00	$ 84.25	$ 87.75
2 inch	$ 76.00	$ 76.00	$ 76.00	$ 100.00	$ 100.00	$ 103.00	$ 111.20	$ 124.80	$ 134.80	$ 140.40
3 inch	$ 133.00	$ 133.00	$ 133.00	$ 175.00	$ 175.00	$ 180.00	$ 194.60	$ 218.40	$ 235.90	$ 245.70
4 inch	$ 209.00	$ 209.00	$ 209.00	$ 275.00	$ 275.00	$ 280.00	$ 305.80	$ 343.20	$ 370.70	$ 386.10
6 inch	$ 399.00	$ 399.00	$ 399.00	$ 525.00	$ 525.00	$ 540.00	$ 583.80	$ 655.20	$ 707.70	$ 737.10
8 inch	$ 627.00	$ 627.00	$ 627.00	$ 825.00	$ 825.00	$ 850.00	$ 917.40	$ 1,029.60	$ 1,112.10	$ 1,158.30
Consumption Charge (per Unit)*										
All Classes	$ 0.98	$ 1.41	$ 1.57	$ 1.26	$ 1.26	$ 1.29	$ 1.49	$ 1.60	$ 1.73	
Single Family Residential										
0-10 units										$ 1.57
11-20 units										$ 2.09
> 20 units										$ 4.18
Multi Family Residential										
0-5 units										$ 1.57
6-10 units										$ 2.09
> 10 units										$ 4.18
Irrigation										
0-100% of annual water budget										$ 2.09
> 100% of annual water budget										$ 4.18
Commercial and Fire Line										$ 2.09
Private Fire Protection Service										
Availability / Meter Charge (per Month)										
3/4 inch	$ 15.07	$ 15.07	$ 15.07	$ 21.88	$ 21.88	$ 22.50	$ 24.33	$ 27.30	$ 29.50	$ 30.75
1 inch	$ 15.07	$ 15.07	$ 15.07	$ 21.88	$ 21.88	$ 22.50	$ 24.33	$ 27.30	$ 29.50	$ 30.75
1&1/2 inch	$ 15.07	$ 15.07	$ 15.07	$ 21.88	$ 21.88	$ 22.50	$ 24.33	$ 27.30	$ 29.50	$ 30.75
2 inch	$ 24.10	$ 24.10	$ 24.10	$ 35.00	$ 35.00	$ 36.25	$ 38.92	$ 43.68	$ 47.20	$ 49.15
3 inch	$ 42.18	$ 42.18	$ 42.18	$ 61.25	$ 61.25	$ 63.25	$ 68.11	$ 76.44	$ 82.60	$ 86.00
4 inch	$ 66.29	$ 66.29	$ 66.29	$ 96.25	$ 96.25	$ 99.25	$ 107.03	$ 120.12	$ 129.75	$ 135.15
6 inch	$ 126.55	$ 126.55	$ 126.55	$ 183.75	$ 183.75	$ 189.25	$ 204.33	$ 229.32	$ 247.70	$ 258.00
8 inch	$ 198.86	$ 198.86	$ 198.86	$ 288.75	$ 288.75	$ 297.50	$ 321.09	$ 360.36	$ 389.25	$ 405.45
Sewer										
Residential (per Month)										
Single Family	$ 27.69	$ 31.09	$ 34.11	$ 35.13	$ 35.13	$ 35.13	$ 37.94	$ 40.98	$ 43.85	$ 46.05
Townhouse	$ 23.28	$ 26.07	$ 28.68	$ 29.54	$ 29.54	$ 29.54	$ 31.90	$ 34.45	$ 36.90	$ 38.75
Duplex	$ 23.28	$ 26.07	$ 28.68	$ 29.54	$ 29.54	$ 29.54	$ 31.90	$ 34.45	$ 36.90	$ 38.75
Apartment / Condominium	$ 22.02	$ 24.66	$ 27.13	$ 27.94	$ 27.94	$ 27.94	$ 30.18	$ 34.45	$ 36.90	$ 38.75
Commercial (per Unit* of Water Billed)										
Restaurant	$ 5.04	$ 5.64	$ 6.20	$ 6.39	$ 6.39	$ 6.39	$ 6.90	$ 7.45	$ 7.97	$ 8.37
Miscellaneous	$ 1.64	$ 1.84	$ 2.02	$ 2.08	$ 2.08	$ 2.08	$ 2.25	$ 2.62	$ 2.80	$ 2.94
Institutional (per Unit* of Water Billed)										
School	$ 1.00	$ 1.12	$ 1.23	$ 1.27	$ 1.27	$ 1.27	$ 1.37	$ 1.48	$ 1.58	$ 1.66
Church	$ 1.00	$ 1.12	$ 1.23	$ 1.27	$ 1.27	$ 1.27	$ 1.37	$ 1.48	$ 1.58	$ 1.66
Public Facility	$ 1.00	$ 1.12	$ 1.23	$ 1.27	$ 1.27	$ 1.27	$ 1.37	$ 1.48	$ 1.58	$ 1.66

Unit* = 748 Gallons

Source: City of Foster City Financial Services Department

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

	Governmental Activities			Business-Type Activities			
Fiscal Year	General Obligation Bonds	Redevelopment Bonds	Special Assessment Bonds	Sewer Bonds	Total Primary Government	Percentage of Personal Income	Per Capita
2001	18,211	29,675	15,355	2,729	65,970	4.070	2,265
2002	14,926	29,135	11,095	2,399	57,555	3.800	1,990
2003	11,501	26,340	9,390	1,859	49,090	3.160	1,646
2004	4,941	23,430	5,505	1,582	35,458	2.170	1,188
2005	3,491	20,400	4,445	1,242	29,578	1.670	990
2006	1,985	13,385	3,310	785	19,465	0.970	651
2007	635	10,250	2,100	280	13,265	0.006	438
2008	-	6,975	800	-	7,775	0.004	257
2009	-	3,560	415	-	3,975	n/a	131
2010	-	-	-	-	-	0.000	-

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, 2010

2009-10 Assessed Valuation:	$6,684,154,422
Redevelopment Incremental Valuation:	1,944,250,601
Adjusted Assessed Valuation:	$4,739,903,821

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt Outstanding 6/30/2010	Percentage Applicable (1)	City's Share of Overlapping Debt 6/30/10
San Mateo Community College District	$624,979,994	3.659%	$22,868,018
San Mateo Union High School District	307,495,456	10.401%	31,982,602
Sequoia Union High School District	302,420,000	0.053%	160,283
San Mateo-Foster City School District	143,854,017	23.030%	33,129,580
Belmont-Redwood Shores School District	9,870,000	0.314%	30,992
Estero Municipal Improvement District	**0**	**100.000%**	**0**
City of Foster City 1915 Act Bonds	**0**	**100.000%**	**0**
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$88,171,475
OVERLAPPING GENERAL FUND DEBT:			
San Mateo County General Fund Obligations	$349,089,816	3.659%	$12,773,196
San Mateo County Board of Education Certificates of Participation	12,885,000	3.659%	471,462
Belmont-Redwood Shores School District Certificates of Participation	5,465,000	0.314%	17,160
San Mateo Union High School District Certificates of Participation	65,946,236	10.401%	6,859,068
Midpeninsula Regional Park District General Fund Obligations	113,788,031	0.007%	7,965
San Mateo County Mosquito Abatement District Certificates of Participation	275,000	5.002%	13,756
TOTAL OVERLAPPING GENERAL FUND DEBT			$20,142,607
COMBINED TOTAL DEBT			$108,314,082 (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 2009-10 Assessed Valuation:

Direct Debt ……0.00%

Total Direct and Overlapping Tax and Assessment Debt……1.32%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt……2.29%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	$ 599,593	$ 656,328	$ 703,260	$ 731,087	$ 759,294	$ 815,558	$ 882,082	$ 922,063	$ 967,627	$ 995,982
Total net debt applicable to limit	11,654	8,364	4,536	3,059	1,469	-	-	-	-	-
Legal debt margin	$ 587,939	$ 647,964	$ 698,724	$ 728,028	$ 757,825	$ 815,558	$ 882,082	$ 922,063	$ 967,627	$ 995,982
Total net debt applicable to the limit as a percentage of debt limit	1.94%	1.27%	0.64%	0.42%	0.19%	0.00%	0.00%	0.00%	0.00%	0.00%

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

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

Year	Population	Personal Income *(thousands of dollars)*	Per Capita Personal Income	Unemployment Rate
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	3.2%
2006	29,900	1,998,486	66,839	2.8%
2007	30,269	2,171,892	71,753	2.9%
2008	30,308	2,237,912	73,839	3.5%
2009	30,429	n/a	n/a	6.7%
2010	30,719	n/a	n/a	6.8%

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 Eight Years Ago

	2010			2002		
Employer	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Gilead Sciences	1,947	1	11.76%	1,200	3	7.59%
Applied Biosystems	1,675	2	10.12%	1,800	2	11.39%
VISA International & VISA USA	1,429	3	8.63%	3,200	1	20.25%
Electronics for Imaging	1,252	4	7.56%	700	4	4.43%
Inovant LLC	968	5	5.85%			
Sony Computer Entertainment	768	6	4.64%	550	5	3.48%
QuinStreet, Inc.	302	7	1.82%			
IBM Corporation	296	8	1.79%			
Mid-Peninsula Housing	264	9	1.59%			
Rearden Commerce, Inc.	251	10	1.52%			
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%
Solarcity, Inc.			0.00%			
Total	16,558		55.27%	15,800		49.68%

Source: 2002 City of Foster City Community Development Department
2010 Business License of Financial Services Department

Note: As some information required by GASB 44 is not readily available, data from 2000 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

	Full-time Equivalent Employees as of June 30									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Function/Program										
General government										
Management services	16.0	18.0	18.0	18.0	19.0	19.0	19.0	20.0	19.0	19.0
Finance	9.0	10.0	10.0	10.0	9.0	9.0	9.0	8.0	8.0	8.0
Planning	9.5	9.0	7.0	7.0	5.0	5.0	5.5	5.5	5.5	6.5
Building	6.5	7.0	7.0	6.5	6.0	6.0	6.5	6.5	6.5	5.5
Police										
Officers	44.0	45.0	45.0	45.0	39.0	37.0	37.0	39.0	39.0	39.0
Civilians	18.0	18.0	18.0	18.0	17.0	17.0	17.0	17.0	17.0	17.0
Fire										
Firefighters and officers	40.0	40.0	40.0	40.0	36.0	36.0	36.0	36.0	36.0	36.0
Civilians	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Other public works										
Engineering	11.0	11.0	12.0	12.0	10.0	9.0	8.0	7.0	7.0	7.0
Other	13.0	13.0	12.0	12.0	10.0	10.0	10.0	10.0	10.0	11.0
Parks and recreation	40.0	43.0	43.0	43.0	42.0	41.0	41.0	41.0	41.0	41.0
Water	9.0	9.0	9.0	9.0	11.0	11.0	11.0	11.0	11.0	11.0
Wastewater	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.0
Total	230.0	237.0	235.0	234.5	217.0	213.0	213.0	214.0	213.0	213.0

Source: City Budget

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

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Function/Program						
Police						
Physical arrests	797	727	762	769	677	831
Parking violations	1,065	956	863	891	854	865
Traffic violations	2,472	1,772	2,396	1,870	2,004	2,811
Fire						
Emergency responses	1,882	1,981	1,940	2,095	1,895	1,828
Fires extinguished	116	116	105	107	102	85
Inspections	1,779	1,813	1,102	1,128	1,026	966
Other public works						
Street resurfacing (miles)	-	3	1	1.8	0.9	0.5
Potholes repaired	30	27	30	25	45	70
Parks and recreation						
Athletic field permits issued	37	48	49	52	45	54
Community center admissions	8,279	8,481	8,804	9,144	8,648	8,209
Water						
New connections	-	6	4	2	-	-
Water mains breaks	19	17	-	14	6	1
Average daily consumption (thousands of gallons)	5,174	5,257	5,574	5,520	5,230	4,890
Peak daily consumption (thousands of gallons)	10,202	11,146	10,634	10,450	10,530	10,340
Wastewater						
Average daily sewage treatment (thousands of gallons)	3,103	3,185	3,074	2,980	2,600	2,450

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 six years of data.

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

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Function/Program						
Police						
Stations	1	1	1	1	1	1
Zone offices	1	1	1	1	1	1
Patrol units	1	1	1	1	1	1
Fire stations	1	1	1	1	1	1
Other public works						
Streets (miles)	46.1	46.1	46.1	46.1	46.1	46.1
Streetlights	1,918	1,918	1,918	1,918	1,918	1,918
Traffic signals	20	23	25	25	25	25
Parks and recreation						
Acreage	103.77	167.77	171.00	210.00	210.00	210.00
Playgrounds	21	21	21	21	21	21
Baseball/softball diamonds	8/3	8/3	8/3	8/3	8/3	8/3
Soccer/football fields	10/0	10/0	10/0	10/0	10/0	10/0
Community centers	2	2	2	2	3	3
Water						
Water mains (miles)	110	110	110	110	110	110
Fire hydrants	1,149	1,149	1,149	1,149	1,149	1,149
Storage capacity (thousands of gallons)	12,000	20,000	20,000	20,000	20,000	20,000
Wastewater						
Sanitary sewers (miles)	66	66	66	66	66	66
Storm sewers (miles)	83	83	83	83	83	83
Treatment capacity (thousands of gallons)	52,130	52,130	52,130	52,130	52,130	52,130
Transit–minibuses	1	1	1	1	1	1

Sources: Various city departments

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

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Certified Public Accountants

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

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

We have audited the 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, 2010, and have issued out report thereon dated January 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of finding and response, as item FS 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.*

City/District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City/District's response and, accordingly, we express no opinion on it.

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.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
January 27, 2011

FS2010-01 Restatement of Previously Issued Financials (Significant Deficiency)

Criteria: The City/District is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition: The City has restated its previously issued financial statements to correct the recognition of sales taxes advanced during FY2009. The effect of the restatement was a $1,418,853 decrease to the net asset in the 2009 Government-Wide Financial Statements.

Cause: The City/District's review process of the financial reports did not identify the misstatements.

Effect: The previous financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the City/District enhance its review process over financial reporting to ensure that financial transactions are properly presented in the financial statements.

View of Responsible Officials and Planned Corrective Action:

In the prior year, the City/District recorded an entry to the Governmental Funds General Fund to pick up the sales tax that was overpaid by the State to the City as deferred revenue as of June 30, 2010 during the time that audit fieldwork was being conducted by the independent auditors. This entry was fully disclosed to the auditors prior to the preparation of the financial statements. During preparation of the prior year's financial statements, City staff conferred with the auditors as to the proper treatment of the deferred revenue entry for the Government-Wide statement. The auditors indicated that the appropriate way to handle the transaction was to recognize the revenues in the Statement of Activities and Changes in Net Assets for the year ended June 30, 2010. Even though this was contradictory to the way in which this transaction was treated in the Governmental Funds statements, City staff concurred with the auditors' recommendations.

The current year auditors determined that the treatment of this transaction for Government-Wide purposes was incorrect, and that a restatement of opening net assets should be made to reflect the correct way that this transaction should have been handled. City staff has elected to agree with the restatement of the opening net assets.

City/District staff has relied upon the auditors to assist in the preparation of the financial statements in the past. Given this set of circumstances, the City/District has determined that it will be handling all components of the compilation and preparation of the financial statements in future years.