

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION – Tax Matters."



\$70,200,000
Silicon Valley Clean Water
(San Mateo County, California)
2015 Wastewater Revenue Bonds

Due: August 1, as shown on the inside cover

Dated: Date of Delivery

The Authority: Silicon Valley Clean Water (formerly named the South Bayside System Authority) (the "Authority" or "SVCW") is a joint exercise of powers authority established to provide wastewater transmission, treatment, and effluent disposal for the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members").

Purpose: The captioned bonds (the "2015 Bonds") are being issued to (i) finance the acquisition and construction of capital improvements to the Authority's wastewater system, (ii) defease and refund certain outstanding bonds of the Authority and (iii) pay costs of issuing the 2015 Bonds.

Book-Entry; Denominations; Payment Dates: The 2015 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2016, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2015 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2015 Bonds will not receive certificates representing their interests in the 2015 Bonds. Payments of the principal of, premium, if any, and interest on the 2015 Bonds will be made by to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2015 Bonds. See "THE 2015 Bonds."

"Record Date" for the 2015 Bonds is defined in the Indenture as the 15th calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

Security: The 2015 Bonds are limited obligations of the Authority, which are payable solely from and secured solely by the Revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members") under the Financing Agreements. The 2015 Bonds do not constitute an indebtedness of the Authority, the Participating Members, the State of California or any political subdivision or agency thereof within the meaning of any constitutional or statutory provisions. Neither the faith and credit nor the taxing power of the State of California, nor any political corporation or subdivision or agency thereof, nor the faith and credit of the Authority or the Participating Members, is pledged to the payment of the principal of or interest on the 2015 Bonds.

The Participating Members' obligations under their respective Financing Agreements are secured by a pledge of Net Revenues derived from the respective wastewater systems of the Participating Members. The Participating Members executed and delivered these or similar Financing Agreements in connection with issuance by the Authority of its (i) \$10,000,000 initial principal amount of 2008 Wastewater Revenue Bonds (the "2008 Bonds"), (ii) \$55,855,000 initial principal amount of 2009 Wastewater Revenue Bonds (the "2009 Bonds") and (iii) \$60,000,000 initial principal amount of 2014 Wastewater Revenue Bonds (the "2014 Bonds"); under the Financing Agreements, each Participating Member's obligation with respect to the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and its obligation with respect to the 2015 Bonds are payable on a parity basis from Net Revenues of the Participating Member's wastewater collection system. In addition, the Participating Members are authorized to incur additional obligations payable from Net Revenues on a parity basis with their obligations under the Financing Agreements.

The Authority is not funding a debt service reserve account for the 2015 Bonds.

Redemption: The 2015 Bonds are subject to optional and mandatory sinking fund redemption prior to their stated date of maturity.

MATURITY SCHEDULE
(see inside cover)

The 2015 Bonds will be offered when, as and if issued subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also acting as Disclosure Counsel to the Authority. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Underwriter's Counsel. Certain legal matters will be passed upon by the General Counsels of the Authority and the West Bay Sanitary District, and by the City Attorneys of the City of Redwood City and the City of San Carlos. It is anticipated that the 2015 Bonds in definitive form will be available for delivery to DTC on or about November 24, 2015.

STIFEL

MATURITY SCHEDULE

Base CUSIP†: 82707B

\$50,055,000 Serial Bonds

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
2016	\$ 770,000	2.000%	0.210%	BA6
2017	780,000	2.000	0.480	BB4
2018	795,000	4.000	0.710	BC2
2019	830,000	4.000	0.900	BD0
2020	2,030,000	5.000	1.060	BE8
2021	2,130,000	5.000	1.260	BF5
2022	2,235,000	5.000	1.480	BG3
2023	2,345,000	5.000	1.700	BH1
2024	2,475,000	5.000	1.870	BJ7
2025	2,580,000	5.000	2.030	BK4
2026	2,700,000	5.000	2.190 C	BL2
2027	2,845,000	5.000	2.350 C	BM0
2028	2,985,000	5.000	2.510 C	BN8
2029	3,125,000	5.000	2.600 C	BP3
2030	2,645,000	5.000	2.690 C	BQ1
2031	2,775,000	5.000	2.780 C	BR9
2032	2,905,000	5.000	2.850 C	BS7
2033	3,050,000	5.000	2.910 C	BT5
2034	3,190,000	5.000	2.960 C	BU2
2035	3,350,000	5.000	3.010 C	BV0
2036	3,515,000	5.000	3.040 C	BY4

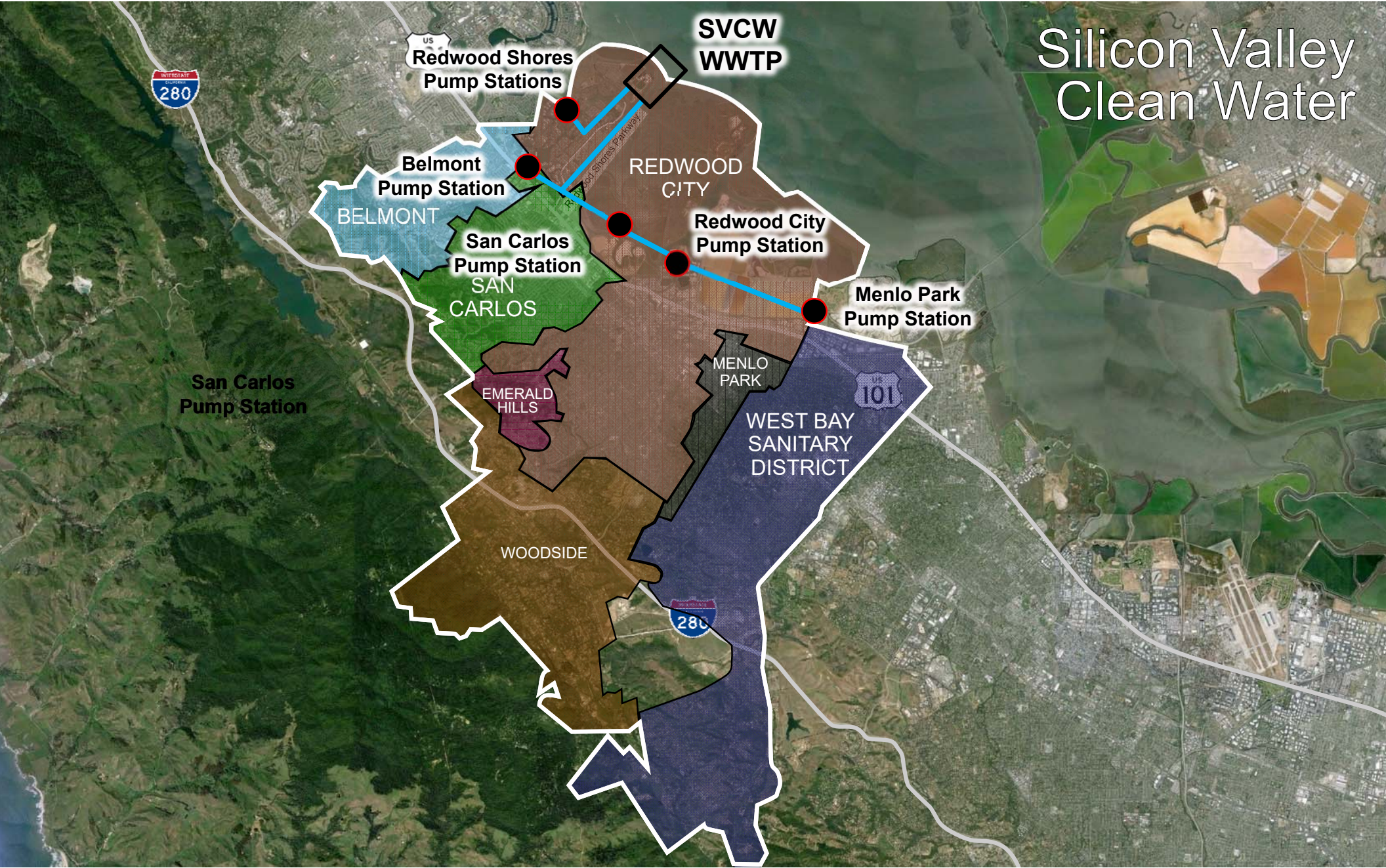
\$12,840,000 5.000% Term Bond due August 1, 2040 Yield 3.120% C CUSIP† 82707BBW8

\$7,305,000 5.000% Term Bond due August 1, 2045 Yield 3.190% C CUSIP† 82707BBX6

C Yield to a par call date of August 1, 2025.

† Copyright 2014, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. None of the Authority, the Members or the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

Silicon Valley Clean Water



[THIS PAGE INTENTIONALLY LEFT BLANK]

SILICON VALLEY CLEAN WATER

Authority Commissioners

<u>Commissioner</u>	<u>Title</u>	<u>Member Agency Represented</u>
John Seybert	Chair	City of Redwood City
Warren Lieberman	Vice Chair	City of Belmont
Robert Grassilli	Secretary	City of San Carlos
Edward Moritz	Member	West Bay Sanitary District

Authority Management

Daniel T. Child, *Manager*
Teresa Herrera, *Assistant Manager/Authority Engineer*
Monte Hamamoto, *Wastewater Superintendent*
Matthew Anderson, *Chief Financial Officer*

Professional Services

Bond Counsel and Disclosure Counsel
Jones Hall, A Professional Law Corporation, San Francisco, California

Financial Advisor
Bartle Wells Associates, Berkeley, California

Authority Counsel
Law Offices of David E. Schricker, P.C., Sunnyvale, California

Trustee and Escrow Bank
The Bank of New York Mellon Trust Company, N.A., Los Angeles, California

Verification Agent
Causey Demgen & Moore, P.C., Denver, Colorado

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2015 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2015 Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority and the Participating Members, in any press release and in any oral statement made with the approval of an authorized officer of the Authority and the Participating Members, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority, the Participating Members or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2015 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Limited Scope of Information. The Authority and the Participating Members have obtained certain information set forth in this Official Statement from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the Authority and the Participating Members. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale of the 2015 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings given in the Indenture.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the 2015 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2015 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page and the public offering prices may be changed from time to time by the Underwriter.

THE 2015 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2015 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

Website. The Authority and the Participating Members maintain Internet websites. The information on those websites is not incorporated by reference in this Official Statement.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Maximum Capacity Rights Owned by	
Silicon Valley Clean Water.....	1	Members	30
Purpose of the 2014 Bonds.....	2	Wastewater Flow	31
Security for the 2015 Bonds.....	3	Capacity Fees for New Development.....	31
Parity Debt of the Participating Members	4	Outstanding Debt	31
Other Debt of the Authority	4	Comparative Residential Sewer Charges ...	32
Disclaimer.....	5	Participating Member Historical & Adopted	
FINANCING PLAN	6	Sewer Rate Increases	33
General.....	6	Comparative Residential Sewer Charges...	34
The Project	6	CONSTITUTIONAL LIMITATIONS ON	
Anticipated Sources and Uses of Funds	9	APPROPRIATIONS	36
DEBT SERVICE SCHEDULE	10	Article XIII B Gann Limit	36
COMBINED DEBT SERVICE SCHEDULE.....	11	Articles XIIC and XIID.....	36
THE 2015 BONDS	12	RISK FACTORS	40
Authority for Issuance	12	Demand for the Sewer Service	40
Description of the 2014 Bonds	12	Wastewater System Expenses.....	40
Redemption	13	Parity Debt.....	40
SECURITY FOR THE 2015 BONDS	14	Natural Disasters	41
General.....	14	Limitations on Remedies Available;	
Financing Agreements	15	Bankruptcy	41
Issuance of Parity Debt by the Authority	17	Limited Obligations.....	42
State Revolving Fund Loans of the		Change in Law	42
Authority	18	Loss of Tax Exemption.....	43
Line of Credit	18	Secondary Market for Bonds.....	43
THE AUTHORITY AND THE WASTEWATER		Build America Bonds	43
SYSTEM	19	CONCLUDING INFORMATION	44
The Authority.....	19	Continuing Disclosure	44
Governance & Management	20	Verification of Mathematical Accuracy	45
The Wastewater System	22	Absence of Litigation	45
Sewer Utility Regulatory Issues	25	Legal Matters.....	45
Capital Improvement Program	26	Tax Matters	46
Financial Plan.....	27	Ratings	47
Member Financial Projections.....	29	Underwriting	47
Budget and Billing Process	29	Miscellaneous.....	48
Cost Allocation to Members	29		

- Appendix A – Information About Redwood City’s Wastewater System
- Appendix B – Information About the City of San Carlos’ Wastewater System
- Appendix C – Information About the West Bay Sanitary District
- Appendix D – Area Statistical Information
- Appendix E – Summary of Principal Legal Documents
- Appendix F – Forms of Continuing Disclosure Certificates
- Appendix G – Form of Bond Counsel Opinion
- Appendix H – DTC and the Book-Entry Only System
- Appendix I – Audited Financial Report for Silicon Valley Clean Water – Fiscal Year Ended June 30, 2014
- Appendix J – Comprehensive Annual Financial Report for the City of Redwood City – Fiscal Year Ended June 30, 2014
- Appendix K – Comprehensive Annual Financial Report for the City of San Carlos – Fiscal Year Ended June 30, 2014
- Appendix L – Financial Statements and Independent Auditor’s Report for West Bay Sanitary District – Fiscal Year Ended June 30, 2014

[THIS PAGE INTENTIONALLY LEFT BLANK]

\$70,200,000
Silicon Valley Clean Water
(San Mateo County, California)
2015 Wastewater Revenue Bonds

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and attached appendices, and the documents that it summarizes or describes. A full review should be made of the entire Official Statement. Unless otherwise indicated, capitalized terms used but not defined in this Official Statement have the respective meanings ascribed to them in the Indenture (as that term is defined below).

This Official Statement, including the cover page and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**2015 Bonds**”) to be issued by Silicon Valley Clean Water (formerly the South Bayside System Authority) (the “**Authority**” or “**SVCW**”) under authority conferred by its Joint Powers Agreement (as that term is defined below).

Silicon Valley Clean Water

Silicon Valley Clean Water is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the Cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the “**Members**”), all of which are located in the northern part of Silicon Valley, between the Cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in the City of Redwood City. The Authority serves more than 200,000 people and businesses located predominantly in San Mateo County, California. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

The Authority owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to the Authority’s treatment plant, five wastewater pump stations, and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. The Authority also provides recycled water to the City of Redwood City.

Since 2008, the Authority has been rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority has previously funded or has received funding commitments for over \$196 million to be used for capital improvements. A June 2015 update of the Authority’s 2008 10-Year Capital Improvement Program (the “**CIP**”) identified roughly \$635 million of capital funding still needed between 2015 and 2023, of which \$377 million (59%) is to replace the sewer conveyance system and \$100 million (15%) is to address anticipated regulatory changes regarding nutrient removal. The Authority anticipates funding its remaining CIP expenditures via a combination of bonds (including the 2015 Bonds), State Revolving Fund Loans issued by the California State Water Resources Control Board (the “**SWRCB**”), a line of credit with Wells

Fargo Bank, National Association and cash funding. See “THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program” and “THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan.”

The 2015 Bonds are being issued to generate funding for the next phase of the Authority’s CIP. Financing Agreements adopted between the Authority and the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (collectively, the “**Participating Members**”) obligate each of these agencies to make payments to the Authority for their respective allocable share of debt service on the 2015 Bonds. The City of Belmont is not a Participating Member for this financing and is not obligated to make any debt service payments on the 2015 Bonds. The Participating Members include:

- **City of Redwood City** - The City of Redwood City (“**Redwood City**”) is located approximately 25 miles south of San Francisco and has a population of roughly 81,000. Redwood City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, Redwood City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **City of San Carlos** - The City of San Carlos (“**San Carlos**”) is located approximately 22 miles south of San Francisco and has a population of roughly 29,000. San Carlos owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, San Carlos also conveys wastewater from four San Mateo County sewer maintenance districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **West Bay Sanitary District** - The West Bay Sanitary District (“**West Bay Sanitary District**”) is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The District is located approximately 26 miles south of San Francisco and serves a population of approximately 55,000. The West Bay Sanitary District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 13 sewer pump stations.

Each of the Member Agencies has been proactively raising sewer rates to support their allocable share of funding requirements for the Authority’s operations and CIP, as well as their own operating and capital programs. See “THE AUTHORITY AND THE WASTEWATER SYSTEM - Participating Member Historical & Adopted Sewer Rate Increases.

Purpose of the 2015 Bonds

The above-captioned bonds (the “**2015 Bonds**”) are being issued to (i) finance the acquisition and construction of capital improvements to the Authority’s wastewater system (the “**Project**”), (ii) refund certain outstanding bonds of the Authority (specifically, the 2008 Bonds and the 2009 Bonds, as described below) and (iii) pay costs of issuing the 2015 Bonds. The Project includes capital improvements that are allocable to the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the “**Participating Members**”). The City of Belmont will fund its share of the allocable improvements independently.

Security for the 2015 Bonds

The 2015 Bonds are being issued under an Indenture of Trust, dated as of November 1, 2015 (the “**Indenture**”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). The 2015 Bonds are limited obligations of the Authority, payable solely from “**Revenues**” under the Indenture consisting primarily of (i) certain amounts payable by the Participating Members under the Financing Agreements described below (the “**SVCW Bond Payments**”), representing the portion of debt service on the 2015 Bonds that is allocable to each Participating Member (the “**Allocable Share**”), and (ii) amounts on hand from time to time in the funds established under the Indenture. The 2015 Bonds are not secured by other revenues of the Authority.

Each Participating Agency is obligated to pay debt service for its Allocable Share of the 2015 Bonds as follows:

<u>Participating Member</u>	<u>Allocable Share of 2015 Bonds (%)</u>	<u>Allocable Share of 2015 Bonds (\$)</u>
City of Redwood City	51.27%	\$35,990,000
City of San Carlos	17.76%	12,465,000
West Bay Sanitary District	30.98%	21,745,000
Total	100.00%	\$70,200,000

Each Participating Agency is obligated to pay debt service for the 2009 Bonds, the 2014 Bonds and the 2015 Bonds as follows:

<u>Participating Member</u>	<u>2009 Bonds</u>	<u>Allocable Share of 2014 Bonds</u>	<u>2015 Bonds</u>	<u>Total</u>	<u>% of Total Bonds</u>
City of Redwood City	\$2,895,000	\$31,743,485.36	\$35,990,000	\$70,628,485.36	52.59%
City of San Carlos	750,000	9,894,922.14	12,465,000	23,109,922.14	17.21
West Bay Sanitary District	1,280,000	17,541,592.04	21,745,000	40,566,592.50	30.20
Total	\$4,925,000	\$59,180,000.00	\$70,200,000	\$134,305,000.00	100.00

Concurrently with the issuance of the 2015 Bonds, the Authority anticipates that the City of Belmont will contribute approximately \$4.2 million and the City of Redwood City will contribute \$10 million towards the next phase of the CIP.

The Authority previously entered into or will enter into the following Financing Agreements (each, a “**Financing Agreement**”):

- Financing Agreements with each of the Participating Members, dated as of December 1, 2008, in connection with issuance by the Authority of its \$10,000,000 initial principal amount 2008 Wastewater Revenue Bonds (the “**2008 Bonds**”). The Financing Agreements with the City of Redwood City and West Bay Sanitary District, as amended by a First Amendment to Financing Agreement dated as of March 20, 2014, obligate those parties to make payments to the Authority with respect to the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and all future bond issuances of the Authority.
- Financing Agreement, dated as of July 1, 2009, with the City of San Carlos in connection with issuance by the Authority of its \$55,855,000 initial principal amount 2009 Wastewater Revenue Bonds (the “**2009 Bonds**”). The 2009 Bonds

were issued as Build America Bonds and the Authority receives (and allocates proportionate shares to each Participating Member) payments from the federal government (“**Refundable Credits**”).

- Financing Agreement, dated as of March 1, 2014, with the City of San Carlos related to the 2014 Bonds. The City of San Carlos and the Authority entered into a separate financing agreement related each of to the 2008 Bonds and the 2009 Bonds.
- Financing Agreement, dated as of November 1, 2015, with the City of San Carlos related to the 2015 Bonds. The City of San Carlos and the Authority entered into a separate financing agreement related to each of the 2008 Bonds, the 2009 Bonds and the 2014 Bonds.

Under the Financing Agreements, each Participating Member is obligated to make SVCW Bond Payments to the Authority in an amount sufficient to pay that Participating Member’s Allocable Share of debt service on (i) the 2008 Bonds, (ii) the 2009 Bonds, (iii) the 2014 Bonds, (iv) the 2015 Bonds and (v) any bonds issued by the Authority in the future.

Each Participating Member’s obligation to make the SVCW Bond Payments under its respective Financing Agreement is secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member, and is not secured by the full faith and credit or general funds of the Participating Member. Each Participating Member’s obligation to make SVCW Bond Payments with respect to the 2015 Bonds is payable on a parity basis with its obligation to pay its Allocable Share of debt service on the 2008 Bonds, its allocable share of debt service on the 2009 Bonds and its allocable share of debt service on the 2014 Bonds. There is no joint or several liability among the Participating Members, and each Participating Member is obligated only for its Allocable Share.

The Authority is not funding a debt service reserve for the 2015 Bonds.

Parity Debt of the Participating Members

The Participating Members are authorized under their respective Financing Agreements to incur additional obligations payable from Net Revenues, which may be on a parity with the SVCW Bond Payments that secure the 2015 Bonds. As of the date hereof, none of the Participating Members has incurred any obligations on a parity with their obligations in respect of the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and the 2015 Bonds. See “SECURITY FOR THE 2015 BONDS – Issuance of Parity Debt by the Participating Members.”

Other Debt of the Authority

The Authority is not authorized to issue additional obligations payable from Revenues, because “Revenues” is defined to include the SVCW Bond Payments that represent debt service payments on the 2015 Bonds. However, the Authority has previously issued the 2008 Bonds, the 2009 Bonds and the 2014 Bonds, which are payable from SVCW Bond Payments that represent debt service on those bonds, and may issue bonds in the future payable from increased SVCW Bond Payments.

SRF Loans. The Authority has previously been awarded funding commitments for a combined total of \$46.7 million under two loans from the SWRCB (each an “**SRF Loan**”).

SVCW is currently seeking approval for a third SRF loan in the amount of \$14 million for planning purposes related to conveyance system projects. Going forward, the Authority intends to continue its use of low-cost SRF Loans and borrow up to an additional \$515 million from the SWRCB in order to fund the majority of conveyance and nutrient removal projects. SRF Loans are payable from a source of the Authority's revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and the 2015 Bonds, and each Participating Member will be responsible for payments to the Authority for repayment of the SRF Loans pursuant to the Joint Powers Agreement (as defined below). While the SRF Loans are not direct obligations of the Participating Members, and are not secured by a pledge of Net Revenues, payments from each Participating Member are paid to the Authority pursuant to Joint Powers Agreement (as defined below). Payments made by the Participating Members with respect to the SRF Loans are not secured by a pledge of or lien on the Net Revenues from the respective wastewater systems of such Participating Members, nor are they an Operation and Maintenance Cost of the Participating Members. See "SECURITY FOR THE 2015 BONDS - State Revolving Fund Loans of the Authority".

Line of Credit. The Authority has a short-term line of credit with Wells Fargo Bank, National Association (the "**Line of Credit**"), which is used to provide interim funding. Specifically, the Line of Credit furnishes interim cash flows whenever SVCW awaits reimbursement from its SRF Loans. The Line of Credit is also payable from a source of the Authority's revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2008 Bonds, the 2009 Bonds, the 2014 Bonds and the 2015 Bonds, and each Participating Member will be responsible for payments to the Authority for repayment of the Line of Credit pursuant to the Joint Powers Agreement (as defined below). Payments made by the Participating Members with respect to the Line of Credit are not secured by a pledge of or lien on the Net Revenues from the respective wastewater systems of such Participating Members. See "SECURITY FOR THE 2015 BONDS – Line of Credit."

Disclaimer

This introduction is not a summary of this Official Statement. Information presented in this section is described more completely elsewhere in this Official Statement, which should be read in its entirety. Terms used in this Official Statement and not otherwise defined have the meanings ascribed to them in the Indenture. All references herein to the 2015 Bonds, the Indenture, the Joint Agreement, and the Financing Agreements are qualified in their entirety by reference to the actual documents. Documents referred to in this Official Statement can be obtained from the financial advisor prior to the closing, and from the Authority thereafter.

[remainder of page intentionally left blank]

FINANCING PLAN

General

The 2015 Bonds are being issued to (i) finance the acquisition and construction of capital improvements to the Authority's wastewater system (the "**Project**"), (ii) refund certain outstanding bonds of the Authority and (iii) pay costs of issuing the 2015 Bonds.

The Project

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater conveyance and treatment facilities, which are approaching the end of their useful operating lives. In addition, planned technological upgrades and system-wide automation projects are designed to improve operational efficiency and reliability and are expected to reduce future operating and maintenance expenses of the facilities.

The Authority has previously funded or received funding commitments for over \$196 million to be used for capital improvements, including funds from the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, cash contributions from the City of Belmont and the City of Redwood City, SRF Loans, the Line of Credit, and interest earned on project funds. A June 2015 update of the CIP identified roughly \$635 million of additional capital funding still needed through 2023. The Authority anticipates funding its remaining capital improvement costs via a combination of bonds (including the 2015 Bonds), SRF Loans issued by the SWRCB, the Line of Credit and cash funding.

Under the Joint Powers Agreement, each of the Members is contractually obligated to fund its allocable share of the Authority's capital improvements. The City of Belmont anticipates providing cash (either from its own financing or its reserves) for its allocable share of related capital improvements of the Authority's CIP rather than participating in the issuance of the 2015 Bonds.

See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Plan" and "THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan" for additional information about the CIP and the Authority's plans for meeting the capital funding needs.

Advance Refunding of the 2008 Bonds

Identification of Refunded 2008 Bonds. On December 31, 2008, the Authority issued its \$10,000,000 aggregate principal amount of South Bayside System Authority 2008 Wastewater Revenue Bonds (the "**2008 Bonds**"). Proceeds of the 2015 Bonds will be used to defease and refund, on an advance basis, certain maturities of the 2008 Bonds (the "**Refunded 2008 Bonds**"), as identified in the following table:

Refunded 2008 Bonds

Maturities to be Refunded (August 1)	CUSIP†	Principal Amount Redeemed or Deceased	Redemption Date	Redemption Price (% of Par Amount Redeemed)
2016	83645H AG4	\$415,000	--	--
2017	83645H AH2	430,000	--	--
2018	83645H AJ8	450,000	08/01/2017	100.0
2019	83645H AK5	470,000	08/01/2017	100.0
2020	83645H AL3	490,000	08/01/2017	100.0
2021	83645H AM1	510,000	08/01/2017	100.0
2022	83645H AN9	535,000	08/01/2017	100.0
2023	83645H AP4	555,000	08/01/2017	100.0
2025	83645H AR0	1,195,000	08/01/2017	100.0
2029	83645H AS8	2,770,000	08/01/2017	100.0

[†]CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter are responsible for the accuracy of such data.

The Authority will deliver certain proceeds of the 2015 Bonds to The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as escrow bank (the “**Escrow Bank**”), for deposit in an escrow fund for the Refunded 2008 Bonds (the “**2008 Escrow Fund**”) established under an Escrow Agreement relating to the Refunded 2008 Bonds (the “**2008 Escrow Agreement**”), between the Authority and the Escrow Bank.

Amounts held by the Escrow Bank in the 2008 Escrow Fund will be invested in certain federal securities (or held in cash) which are sufficient to pay the principal of and interest on the Refunded 2008 Bonds coming due and payable to and including August 1, 2017, and on such date will be applied to pay the redemption price of the outstanding Refunded 2008 Bonds in full. Pursuant to the 2008 Escrow Agreement, the Authority irrevocably elects to call all of the outstanding Refunded 2008 Bonds for redemption on August 1, 2017, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium. As a result of the deposit and application of funds under the Escrow Agreement relating to the Refunded 2008 Bonds, the Refunded 2008 Bonds will be fully defeased upon the issuance of the 2015 Bonds and will no longer be secured by revenues which were originally pledged for the payment of the 2008 Bonds, including payments made under the Financing Agreements.

Crossover Refunding of the 2009 Bonds

On July 2, 2009, the Authority issued its \$55,855,000 aggregate principal amount of South Bayside System Authority (San Mateo County, California) 2009 Wastewater Revenue Bonds (Federally Taxable – Build America Bonds – Direct Payment) (the “**2009 Bonds**”). Proceeds of the 2015 Bonds will be used to refund, on an advance crossover basis, certain maturities of the 2009 Bonds (the “**Refunded 2009 Bonds**”) and together with the Refunded 2008 Bonds, the “**Refunded Bonds**”), as identified in the following table:

Refunded 2009 Bonds

Maturities to be Refunded (August 1)	CUSIP†	Principal Amount Redeemed	Redemption Date	Redemption Price (% of Par Amount Redeemed)
2024	83645H BD0	7,445,000	08/01/2019	100.0
2029	83645H BE8	9,445,000	08/01/2019	100.0
2039	83645H BF5	27,875,000	08/01/2019	100.0

[†]CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter are responsible for the accuracy of such data.

The Authority will deliver certain proceeds of the 2015 Bonds to the Escrow Bank for deposit in an escrow fund for the Refunded 2009 Bonds (the "**2009 Escrow Fund**") established under an Escrow Agreement relating to the Refunded 2009 Bonds (the "**2009 Escrow Agreement**"), between the Authority and the Escrow Bank.

The refunding of the Refunded 2009 Bonds is being structured as a crossover refunding. As such, the amounts held by the Escrow Bank in the 2009 Escrow Fund will be invested in certain federal securities (or held in cash) which are sufficient to pay (a) the interest coming due on a corresponding portion of the 2015 Bonds to and including August 1, 2019 (the "**Crossover Date**"), and (b) the redemption price of the Refunded 2009 Bonds upon the redemption thereof on the Crossover Date. The 2009 Escrow Agreement provides that a portion of the redemption price of the Refunded 2009 Bonds will be prepaid on the Crossover Date from amounts held in the reserve fund which has been established for the 2009 Bonds. Pursuant to the 2009 Escrow Agreement, the Authority irrevocably elects to call all of the outstanding Refunded 2009 Bonds for redemption on the Crossover Date at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium. Prior to the Crossover Date, the Refunded 2009 Bonds will not be secured by or payable from amounts held by the Escrow Agent under the 2009 Escrow Agreement, but will continue to be secured by and payable from the revenues which were originally pledged for the payment of the 2009 Bonds, including payments made under the Financing Agreements. Prior to the Crossover Date, interest on a portion of the 2015 Bonds in the aggregate principal amount of \$6,986,102.08 will be payable from amounts in the 2009 Escrow Fund and will not be secured by a pledge of Revenues. See "SECURITY FOR THE 2015 BONDS - General" below.

Verification

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Causey Demgen & Moore, P.C., Denver, Colorado (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" herein.

Anticipated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the 2015 Bonds.

Sources:

Bond Proceeds	\$70,200,000.00
Original Issue Premium	12,788,136.30
Other Sources of Funds	<u>5,883,031.59</u>
<i>Total Sources</i>	\$88,871,167.89

Uses:

Deposit to Project Fund	\$30,000,000.00
Deposit to 2008 Escrow Fund	8,459,128.65
Deposit to 2009 Escrow Fund	49,783,892.39
Underwriter's Discount	349,765.00
Costs of Issuance ⁽¹⁾	<u>278,381.85</u>
<i>Total Uses</i>	\$88,871,167.89

-
- (1) Estimate includes legal and financing costs, printing costs, initial fees of the Trustee and Escrow Bank, Bond Counsel and Disclosure Counsel fees, Financial Advisor fees, Rating Agency fees, Verification Agent fees, certain other costs, and contingency.

DEBT SERVICE SCHEDULE

The following table presents the annual debt service on the 2015 Bonds, assuming there are no optional redemptions. The Participating Members' scheduled payments under the Financing Agreements are sufficient in time and amount to pay scheduled debt service on the 2015 Bonds when due.

Period Ending (August 1)	Principal	Interest	Less Payments from Escrow	Total Debt Service
2016	\$ 770,000.00	\$2,365,196.53	(\$1,300,352.08)	\$ 1,834,844.45
2017	780,000.00	3,431,850.00	(1,895,250.00)	2,316,600.00
2018	795,000.00	3,416,250.00	(1,895,250.00)	2,316,000.00
2019	830,000.00	3,384,450.00	(1,895,250.00)	2,319,200.00
2020	2,030,000.00	3,351,250.00	-	5,381,250.00
2021	2,130,000.00	3,249,750.00	-	5,379,750.00
2022	2,235,000.00	3,143,250.00	-	5,378,250.00
2023	2,345,000.00	3,031,500.00	-	5,376,500.00
2024	2,475,000.00	2,914,250.00	-	5,389,250.00
2025	2,580,000.00	2,790,500.00	-	5,370,500.00
2026	2,700,000.00	2,661,500.00	-	5,361,500.00
2027	2,845,000.00	2,526,500.00	-	5,371,500.00
2028	2,985,000.00	2,384,250.00	-	5,369,250.00
2029	3,125,000.00	2,235,000.00	-	5,360,000.00
2030	2,645,000.00	2,078,750.00	-	4,723,750.00
2031	2,775,000.00	1,946,500.00	-	4,721,500.00
2032	2,905,000.00	1,807,750.00	-	4,712,750.00
2033	3,050,000.00	1,662,500.00	-	4,712,500.00
2034	3,190,000.00	1,510,000.00	-	4,700,000.00
2035	3,350,000.00	1,350,500.00	-	4,700,500.00
2036	3,515,000.00	1,183,000.00	-	4,698,000.00
2037	3,680,000.00	1,007,250.00	-	4,687,250.00
2038	3,860,000.00	823,250.00	-	4,683,250.00
2039	4,040,000.00	630,250.00	-	4,670,250.00
2040	1,260,000.00	428,250.00	-	1,688,250.00
2041	1,320,000.00	365,250.00	-	1,685,250.00
2042	1,390,000.00	299,250.00	-	1,689,250.00
2043	1,455,000.00	229,750.00	-	1,684,750.00
2044	1,530,000.00	157,000.00	-	1,687,000.00
2045	1,610,000.00	80,500.00	-	1,690,500.00
Total	\$70,200,000.00	\$56,445,246.53	(\$6,986,102.08)	\$119,659,144.45

COMBINED DEBT SERVICE SCHEDULE

The following table presents the annual debt service on the 2009 Bonds, the 2014 Bonds and the 2015 Bonds (including sinking fund redemptions), assuming there are no optional redemptions. The Participating Members' scheduled payments under the Financing Agreements are sufficient in time and amount to pay scheduled debt service on the 2009 Bonds, the 2014 Bonds and the 2015 Bonds when due.

Period Ending (August 1)	2009 Bonds ⁽¹⁾	2014 Bonds	2015 Bonds ⁽²⁾	Total Debt Service
2016	\$4,992,460.50	\$3,845,100.00	\$1,834,844.45	\$10,672,404.95
2017	4,978,660.50	3,835,350.00	2,316,600.00	11,130,610.50
2018	4,948,117.50	3,833,600.00	2,316,000.00	11,097,717.50
2019	4,926,492.50	3,839,800.00	2,319,200.00	11,085,492.50
2020	--	3,833,500.00	5,381,250.00	9,214,750.00
2021	--	3,834,000.00	5,379,750.00	9,213,750.00
2022	--	3,831,500.00	5,378,250.00	9,209,750.00
2023	--	3,830,875.00	5,376,500.00	9,207,375.00
2024	--	3,827,000.00	5,389,250.00	9,216,250.00
2025	--	3,824,750.00	5,370,500.00	9,195,250.00
2026	--	3,823,875.00	5,361,500.00	9,185,375.00
2027	--	3,824,125.00	5,371,500.00	9,195,625.00
2028	--	3,820,375.00	5,369,250.00	9,189,625.00
2029	--	3,817,500.00	5,360,000.00	9,177,500.00
2030	--	3,815,250.00	4,723,750.00	8,539,000.00
2031	--	3,813,375.00	4,721,500.00	8,534,875.00
2032	--	3,811,625.00	4,712,750.00	8,524,375.00
2033	--	3,809,750.00	4,712,500.00	8,522,250.00
2034	--	3,807,500.00	4,700,000.00	8,507,500.00
2035	--	3,811,800.00	4,700,500.00	8,512,300.00
2036	--	3,800,850.00	4,698,000.00	8,498,850.00
2037	--	3,797,225.00	4,687,250.00	8,484,475.00
2038	--	3,792,225.00	4,683,250.00	8,475,475.00
2039	--	3,790,475.00	4,670,250.00	8,460,725.00
2040	--	3,798,800.00	1,688,250.00	5,487,050.00
2041	--	3,780,375.00	1,685,250.00	5,465,625.00
2042	--	3,777,625.00	1,689,250.00	5,466,875.00
2043	--	3,776,625.00	1,684,750.00	5,461,375.00
2044	--	3,772,000.00	1,687,000.00	5,459,000.00
2045	--	--	1,690,500.00	1,690,500.00
Total	\$19,845,731.00	\$110,576,850.00	\$119,659,144.45	\$250,081,725.45

(1) Represents allocated share of gross debt service on the Series 2009 Bonds through the Crossover Date; does not reflect the application of Refundable Credits to pay debt service.

(2) Excludes debt service payments made from escrow funds.

THE 2015 BONDS

Authority for Issuance

The 2015 Bonds will be issued by the Authority in accordance with Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code (commencing with Section 6584) (the “**Bond Law**”) of the State of California (the “**State**”), resolutions adopted by the governing boards of the Authority and the Participating Members, and the Indenture.

Description of the 2015 Bonds

Bond Terms: The 2015 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2015 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest: Interest on the 2015 Bonds will be payable on February 1 and August 1 in each year, beginning February 1, 2016 (each an “**Interest Payment Date**”).

Interest on the 2015 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (i) a 2015 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (ii) a 2015 Bond is authenticated on or before January 15, 2016, in which event interest thereon will be payable from the Closing Date, or
- (iii) interest on any 2015 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on the 2015 Bonds on each Interest Payment Date to the persons in whose names the ownership of the 2015 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2015 Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such 2015 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2015 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2015 Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2015 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial

institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Redemption

Optional Redemption: The 2015 Bonds maturing on or before August 1, 2025 are not subject to optional redemption prior to maturity. The 2015 Bonds maturing on or after August 1, 2026 may be called prior to maturity and redeemed at the option of the Authority on any date on or after August 1, 2025, as a whole or in part, from any source of available funds, at a redemption price of 100% of the of the principal amount of the 2015 Bonds to be redeemed, together with accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption: Subject to certain provisions of the Indenture, the 2015 Bonds maturing on August 1, 2040 and August 1, 2045 are subject to mandatory redemption in whole, or in part by lot, from sinking fund payments made under the Indenture at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on August 1 in the years shown in the following tables:

Term Bond maturing August 1, 2040

Payment Date <u>(August 1)</u>	Payment <u>Amount</u>
2037	\$3,680,000
2038	3,860,000
2039	4,040,000
2040 (Maturity)	1,260,000

Term Bond maturing August 1, 2045

Payment Date <u>(August 1)</u>	Payment <u>Amount</u>
2041	\$1,320,000
2042	1,390,000
2043	1,455,000
2044	1,530,000
2045 (Maturity)	1,610,000

Notice of Redemption: The Trustee will mail notice of any redemption to the respective Owners of any 2015 Bonds designated for redemption at their respective addresses appearing on the registration books, to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2015 Bonds or the cessation of the accrual of interest thereon.

The Authority has the right to rescind any notice of optional redemption of the 2015 Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2015 Bonds then called for redemption, and such cancellation shall not constitute an event of default. The Authority and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption.

Manner of Redemption of 2015 Bonds of the Same Maturity: Whenever provision is made in the Indenture for the redemption of less than all of the 2015 Bonds of the same maturity, the Trustee will select the 2015 Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2015 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate 2015 Bonds which may be separately redeemed.

SECURITY FOR THE 2015 BONDS

General

The 2015 Bonds are limited obligations of the Authority, payable solely from “**Revenues**” under the Indenture consisting primarily of (i) SVCW Bond Payments to be received by the Authority from Participating Members, and (ii) amounts on hand from time to time in the funds established under the Indenture. In conjunction with the issuance of the 2015 Bonds, and pursuant to the Financing Agreements, the Authority has directed the Participating Members to make the SVCW Bond Payments directly to the Trustee.

All SVCW Bond Payments received by the Trustee will be deposited in the Revenue Fund which will be maintained by the Trustee under the Indenture. On or before each date on which principal of or interest or premium (if any) on the 2015 Bonds becomes due and payable, the Trustee will transfer the amounts necessary to make scheduled principal and interest payments on the 2015 Bonds and pay the redemption price of any 2015 Bonds called for redemption.

Notwithstanding the foregoing, a portion of the 2015 Bonds will be applied to the crossover refunding of the Refunded 2009 Bonds. Prior to the Crossover Date, interest on such portion of the 2015 Bonds will be payable solely from amounts held by the Escrow Agent in the 2009 Escrow Fund, and will not be secured by or payable from SVCW Bond Payments. Following the Crossover Date, debt service on such portion of the 2015 Bonds will be payable from SVCW Bond Payments and other Revenues. The portion of debt service on the 2015 Bonds which is payable solely from amounts held by the Escrow Agent in the 2009 Escrow Fund is described more fully in the following table:

**2015 Bond Debt Service Payments
From 2009 Escrow Fund**

<u>Payment Date</u>	<u>Interest</u>
February 1, 2016	\$352,727.08
August 1, 2016	947,625.00
February 1, 2017	947,625.00
August 1, 2017	947,625.00
February 1, 2018	947,625.00
August 1, 2018	947,625.00
February 1, 2019	947,625.00
August 1, 2019	947,625.00

Financing Agreements

General. As described in this Official Statement, the Authority and each of the Participating Members originally entered into Financing Agreements concurrently with issuance of the 2008 Bonds, the City of San Carlos entered into new Financing Agreements relating to the 2009 Bonds and the 2014 Bonds, and the City of San Carlos is entering into a new Financing Agreement relating to the 2015 Bonds. A more complete description of the Financing Agreements is set forth in Appendix E. Certain key provisions are summarized below.

SVCW Bond Payments. Each of the Participating Members is responsible for paying its Allocable Share of debt service on the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and any bonds the Authority may issue in the future that such Participating Member chooses to participate in. These issuances constitute SVCW Bond Payments under the Financing Agreements of the Participating Members. The Authority allocates debt service to each of the Participating Members in accordance with the Joint Powers Agreement. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

Pledge of Net Revenues. Under each Financing Agreement, the SVCW Bond Payments of a Participating Member are secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member. “**Net Revenues**” consist generally of wastewater system “**Gross Revenues**” remaining after payment of “**Operation and Maintenance Costs**.” The Net Revenues from one Participating Member’s wastewater system are pledged solely to its own SVCW Bond Payments and any other indebtedness of such Participating Member secured by a lien on and pledge of Net Revenues; no Participating Member has any liability or responsibility for the SVCW Bond Payments of another Participating Member.

Flow of Funds. Each of the Participating Members covenants and agrees that all Gross Revenues derived from its wastewater system will be deposited in a wastewater fund, which will be maintained so long as the related Financing Agreement remains outstanding. Amounts on deposit in each Participating Member’s wastewater fund will be used to pay, in the following order of priority:

- (a) all Operation and Maintenance Costs of the Participating Member’s wastewater collection and transmission system;

- (b) the SVCW Bond Payments of such Participating Member, and payments of principal of and interest on any Parity Debt (as defined below) issued by such Participating Member;
- (c) any other payments required to comply with the provisions of the Joint Powers Agreement, including payments due with respect to SRF Loans or the Line of Credit, and any Parity Debt Documents;
- (d) any other lawful expenses of the Participating Member's wastewater collection and transmission system.

Rate Covenants. Each of the Participating Members covenants to establish rates and charges for its wastewater system during each fiscal year, as follows:

- To yield Gross Revenues sufficient to pay Operation and Maintenance Costs of the Participating Member's wastewater collection and transmission system, fund its allocable share of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and any additional Parity Debt, and pay any other obligations payable from the Gross Revenues of its wastewater system; and
- Generate wastewater system Net Revenues equal to at least 120% of the Participating Member's allocable share of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds (i.e., the Participating Member's SVCW Bond Payments) and any Parity Debt, provided that the unencumbered fund balance of the Participating Member's wastewater system as of the last day of the immediately preceding fiscal year can be counted as Net Revenues in an amount not to exceed 20% of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and any Parity Debt.

No Senior Lien Debt. Each of the Participating Members covenants that it will not issue or incur any additional bonds or other obligations which are senior to its allocable share of debt service payments for the 2015 Bonds.

Pro Rata Nature of SVCW Bond Payments. As described above, each Participating Member's SVCW Bond Payment obligation is equal to its Allocable Share of debt service with respect to the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and any future bonds issued by the Authority that are payable from SVCW Bond Payments. Each Participating Member's Allocable Share of debt service is calculated based on their allocated share of SVCW capital improvement costs to be funded by each debt issue (as determined in accordance with the Joint Powers Agreement, as defined herein) less any cash contributions toward their share of allocated costs. SVCW Bond Payments will be allocated to the 2009 Bonds, the 2014 Bonds and the 2015 Bonds (and any such future bonds issued by the Authority) on a pro rata basis. The Participating Member's SVCW Bond Payments are projected to be sufficient to pay debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and on bonds that may be issued in the future by the Authority that are payable from SVCW Bond Payments.

Issuance of Parity Debt by the Participating Members. Each of the Participating Members may issue parity debt ("Parity Debt") payable from the Net Revenues of its wastewater systems provided that the following conditions are met:

- (a) the Participating Member is not in default on payment of the SVCW Bond Payments or any parity debt;

(b) the amount of Net Revenues as shown by the books of the Participating Member for the latest fiscal year for which audited statements are available, or as shown by the books of the Participating Member for any more recent 12-month period, are at least equal to 120% of the amount of Maximum Annual Debt Service on the related SVCW Bond Payments and any parity debt issued by the Participating Member, provided that Net Revenues may be increased to reflect:

(i) any increase in wastewater system rates and charges that have been adopted prior to the issuance of parity debt and that will be in effect in any of the subsequent three fiscal years in an amount by which the Net Revenues would have increased if the increase had been in effect during that period;

(ii) unencumbered wastewater system fund balances as of the last day of the immediately preceding fiscal year, but in no case in an amount exceeding 20% of Maximum Annual Debt Service;

(iii) any additions or improvements or extensions of each Participating Member's wastewater system that were not in effect during the 12-month period in an amount equal to the estimated additional average annual Net Revenues that would be derived during first three years in which the addition, improvement, or extension is to be in operation, all as shown by the certificate of a qualified independent financial consultant employed by the Participating Member;

(c) the Participating Member shall be in compliance with all conditions for issuing parity debt as set forth in any Parity Debt Documents.

Issuance of Subordinate Debt. Each of the Participating Members may issue unsecured or subordinate obligations.

Third Party Beneficiaries. The Trustee is a third party beneficiary and is entitled to the benefits of the Financing Agreements with the same force and effect as if the Trustee was a party to each of the Financing Agreements.

No Reserve Fund

The Authority is not establishing a debt service reserve fund for the 2015 Bonds.

Issuance of Parity Debt by the Authority

Under the Indenture, the Authority covenants that, except for the 2015 Bonds, no additional bonds, notes, or other indebtedness will be issued or incurred which are payable from Revenues in whole or in part. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments. Nothing in the Indenture limits the authority of the Participating Members to issue parity obligations in accordance with their respective Financing Agreements as described under “- Financing Agreements” above.

State Revolving Fund Loans of the Authority

The Authority has previously borrowed \$11,359,882 under that certain Project Finance Agreement, dated February 1, 2012, by and between SVCW and the SWRCB and has a financing commitment for \$35,385,953 under that certain Project Finance Agreement, dated May 10, 2012, by and between SVCW and the SWRCB (each, as amended, an “**SRF Loan**”), which SRF Loans account for a combined total of \$46,745,835 of capital project funding commitments. The final amount of the SRF Loans may be amended depending on the amount of final project costs determined eligible for funding after the projects have been completed. SVCW also recently applied for a third SRF Loan in the amount of \$14,000,000 in order to fund planning activities associated with conveyance system projects. The SRF Loans, and any future loans from the SWRCB to the Authority constitute indebtedness of the Authority and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates obtaining additional funding through SRF Loans of up to \$515 million over the next eight years, including a \$14 million SRF planning loan for which SVCW recently applied.

The SRF Loans are secured by a pledge of the Authority’s net revenues, which net revenues do not include the revenues securing the SVCW Bond Payments. Pursuant to the Joint Powers Agreement, the Authority is authorized to charge its Members for their proportionate share of debt service payments on the SRF Loans. This revenue source is separate and distinct from Revenues pledged to the 2015 Bonds, and the SRF Loans are accordingly not considered parity debt to the 2008 Bonds, 2009 Bonds, 2014 Bonds or 2015 Bonds. The 2008 Bonds, 2009 Bonds, 2014 Bonds and 2015 Bonds have priority in payment over the SRF Loans because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the SRF Loans are not secured by a pledge of the Participating Member’s Net Revenues.

Line of Credit

The Authority has also obtained a \$30,000,000 short-term line of credit (the “**Line of Credit**”) with Wells Fargo Bank, National Association, which is used to provide interim financing. Specifically, the Line of Credit furnishes interim cash flows whenever SVCW awaits reimbursement from its SRF Loans. This Line of Credit replaced a previous line of credit with Bank of the West, and is secured by a source of revenues of the Authority that is distinct from the Revenues securing the 2015 Bonds and revenues securing the 2008 Bonds, the 2009 Bonds and the 2014 Bonds. As of September 30, 2015, \$8,800,000 is currently outstanding under the Line of Credit.

The 2008 Bonds, 2009 Bonds, 2014 Bonds and 2015 Bonds have priority in payment over the Line of Credit because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the Line of Credit are not secured by a pledge of the Participating Member’s Net Revenues.

THE AUTHORITY AND THE WASTEWATER SYSTEM

The Authority

The Authority is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the Cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (defined as the “**Members**” in this Official Statement), all of which are located in the northern part of Silicon Valley, between the cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in the City of Redwood City. The Authority serves over 200,000 people and businesses located in San Mateo County.

The Authority is a distinct public entity that operates under a Joint Exercise of Powers Agreement (the “**Joint Powers Agreement**”) dated November 13, 1975, as amended, among the Members. Under the Joint Powers Agreement, the Authority owns and operates certain wastewater facilities, and the Members are obligated to pay the Authority for their allocable share of the Authority’s operating, maintenance, and capital expenses. The Authority is organized and exists under the laws of the State of California.

Authority facilities include: a wastewater treatment plant located in Redwood City, wastewater pump stations in Menlo Park, Redwood City, Belmont, and San Carlos; a booster pump station located in San Carlos; an approximately nine-mile influent force main pipeline that conveys wastewater from each of the Members to the Authority’s wastewater treatment plant; and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. The Authority also provides recycled water to the City of Redwood City. The Authority operates in full compliance with its Waste Discharge Permit issued by the State of California.

The City of Redwood City, the City of San Carlos, and the West Bay Sanitary District are Participating Members and have each covenanted to pay their allocable share of debt service on the 2015 Bonds. The City of Belmont is not a Participating Member and has no obligation to pay any debt service on the 2015 Bonds.

- **City of Redwood City** - The City of Redwood City is located approximately 25 miles south of San Francisco and has a population of roughly 81,000. The City of Redwood City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, the City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **City of San Carlos** - The City of San Carlos is located approximately 22 miles south of San Francisco and has a population of roughly 29,000. The City of San Carlos owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, the City also conveys wastewater from four San Mateo County sewer maintenance districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **West Bay Sanitary District** - The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The District is located approximately 26 miles south of San Francisco and serves a

population of approximately 55,000. The West Bay Sanitary District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines ranging in size from 3 to 54 inches in diameter, and 13 sewer pump stations.

- **City of Belmont** - The City of Belmont is located approximately 20 miles south of San Francisco and has a population of roughly 27,000. The City of Belmont owns and operates a sanitary sewer collection system consisting of approximately 80 miles of sewer pipelines and 12 sewer lift stations. The City of Belmont is not a Participating Member with respect to the 2015 Bonds.

See “APPENDIX A”, “APPENDIX B” and “APPENDIX C” for additional information regarding the Participating Members.

Governance & Management

Commission. The Authority is governed by a four-member “**Commission**” consisting of one appointed member from each of the Members’ governing bodies. Current Commission Members are:

<u>Commissioner</u>	<u>Title</u>	<u>Agency Represented</u>
John Seybert	Chair	City of Redwood City
Warren Lieberman	Vice Chair	City of Belmont
Robert Grassilli	Secretary	City of San Carlos
Edward Moritz	Member	West Bay Sanitary District

Voting is proportional to the Members’ respective ownership interests in the Authority’s wastewater system. There are currently a total of 100 votes which are allocated as follows:

- City of Redwood City 42 votes
- West Bay Sanitary District 28 votes
- City of San Carlos 19 votes
- City of Belmont 11 votes

A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$75,000; to employ the manager, engineers, and certain other consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes.

Any amendment of the Joint Powers Agreement requires the concurrence of all of the Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a four-fifths vote by each of the Members’ governing bodies.

SVCW has no taxing power and therefore receives nearly all of its funding, other than interest earnings and other miscellaneous revenues, according to rules established by the Joint Powers Agreement. Combined, Members pay all expenditures associated with operations, capital repairs, capital improvements, contributions to capital improvement reserves, debt service, and debt reserves. According to the Joint Powers Agreement, capital improvement costs and contributions to capital improvement reserves are allocated as follows:

City of Belmont	9.45%
Redwood City	48.57%
City of San Carlos	15.14%
West Bay Sanitary District	26.84%

Budgets. Each year the SVCW Commission adopts a budget for the following year. The budget establishes the funding requirements for each of the Members. Operating and maintenance expenses, as well as capital reserve contributions, are paid in twelve monthly installments. Payments in respect of debt service on the SRF Loans are paid on an annual basis. After the close of the fiscal year, the annual payments made by each Member are reconciled against the actual expenditures allocated to each Member according to the Joint Powers Agreement. Any difference is applied toward fund reserves held by the Authority on behalf of each Member.

Member Residential Sewer Charges. Significant rate increases have been necessary to fund SVCW's capital improvement projects. Since 2008, Members have proactively raised sewer rates to support their allocable share of the CIP, as well as to fund their own operating and capital programs. The following table shows the single-family residential monthly sewer rate increases of each Member over the past five years.

Residential Sewer Rate % Increase

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Cumulative
Belmont	6.8%	40.5%	7.2%	7.0%	6.5%	6.5%	95.2%
Redwood City	9.0	9.0	9.0	9.0	9.0	9.0	67.7
San Carlos	7.0	7.0	6.0	25.0	20.0	10.0	100.2
West Bay Sanitary	16.1	6.1	9.0	9.0	8.9	9.0	73.7

Fund Reserves. In recent years, the Authority and each of the Participating Members have increased the amount fund reserves available for funding operating and capital expenses, and debt service. The following table shows a summary of each Participating Member's combined operating and capital fund reserves as of June 30, 2014 and 2015. The Authority can make no assurance that the Participating Members will maintain their reserves in the future at the levels shown in the following table.

Operating and Capital Fund Reserves ⁽¹⁾
(\$ in millions)

	<u>June 30, 2014</u>	<u>June 30, 2015⁽²⁾</u>
Redwood City	\$22.1	\$30.3
San Carlos	10.0	13.0
West Bay Sanitary	<u>24.4</u>	<u>34.4</u>
Subtotal	\$56.5	\$77.7
Silicon Valley Clean Water	<u>\$15.7</u>	<u>\$20.5</u>
Total	\$72.2	\$98.1

(1) Excludes debt service reserve funds for the 2008 Bonds and 2009 Bonds, and remaining project funds from the 2014 Bonds.

(2) Unaudited Financials for Fiscal Year 2014-15.

Manager. The Commission appoints a Manager who is responsible for day-to-day management of the Authority under policy guidelines set by the Commission. In 2006, the Commission appointed Daniel Child as Manager. Mr. Child has more than 30 years of experience in the management of various municipal, industrial, and public works facilities. Before joining the Authority, he served as area manager/vice president of operations for Veolia Water North America West LLC, the nation's leading water services provider for local and federal governments and business and industry. In that capacity, he managed the activities of more than 60 water treatment, wastewater treatment and public works operations throughout the western U.S. Before that, he served as an account manager for US Filter Corporation/Davis Products Division (which was acquired by Veolia), providing municipalities and consulting firms with products and engineering support to meet various wastewater treatment needs.

Mr. Child began his career in 1981, working six years as wastewater superintendent for the Price River Water Improvement District in Carbon County, Utah. He served as operations manager with the Victor Valley Wastewater Reclamation Authority in southern California, from September 1987 to February 1989 and also from February 1992 to August 1995. In between, he served as wastewater superintendent for the City of San Diego's Metropolitan Wastewater Division. He is a past president of the Desert and Mountain Section of the California Water Environment Association.

The Wastewater System

The Authority owns and operates a wastewater conveyance, treatment, and effluent disposal system for the shared benefit of the Members. The Members each own and operate their own wastewater collection systems serving their respective service areas. Wastewater is conveyed from each of the Members to the Authority's wastewater treatment plant via the Authority's conveyance system.

The wastewater treatment plant has been in operation since its construction in 1980, and major electrical, mechanical and instrumentation components are nearing the end of their useful lives. In addition, both concrete structures and the miscellaneous metal components of the facilities are in need of rehabilitation to ensure a continued useful life into SVCW's future.

Reliable and efficient operation and maintenance of the plant and conveyance system infrastructure are required to ensure the continued health and protection of the environment and for meeting the effluent quality and discharge requirements set forth in the Authority's National Pollution Discharge Eliminations System ("NPDES") Permit issued by the state (NPDES Permit No. CA0038369). Other regulatory permit requirements are also placed upon SVCW including air quality, odor control, safety, and record-keeping. The various regulatory permits under which SVCW operates require expenditure of capital to prevent fines for violations and to meet possible future, restrictive changes to the permits. It is also necessary to upgrade the facilities to improve operations in an effort to reduce costs as well as improving the facility's operational reliability. Finally, it is necessary to expend capital funds to match the capacity needs of the service area.

The Authority has evaluated the operational integrity of existing facilities and determined the extent of improvements necessary in order to address future regulatory changes, increase treatment capacity, and enhance safety. The original 2008 CIP 10-Year plan included 131 projects to be completed through 2018. The CIP was updated in 2011, 2012, 2013, and most recently in June 2015. The current CIP plan includes 104 projects, each the result of defining the project scope, estimating necessary budgets, determining the timing of implementation, and identifying specific sources of funds. While the original CIP was a 10-Year Plan, this 2015 update extends the timeframe through 2023.

Wastewater Conveyance System: Force Mains and Pump Stations. The conveyance system consists of approximately 9 miles of influent force main pipeline and five pump stations. The influent force main varies in diameter from 33 to 54 inches as the pipeline approaches the treatment plant. A portion of the influent force main originally served as the outfall for Redwood City's and San Carlos' wastewater systems and was converted into an influent force main when the Authority's treatment plant was constructed in 1980. This portion of the influent force main has been operating at a higher pressure than it was originally designed for.

Five pump stations pump raw wastewater through the influent force main including one pump station for each of the Members and a booster pump station benefiting West Bay Sanitary District and Redwood City, the two agencies whose wastewater travels furthest to the treatment plant. The Authority's pump stations are approximately 40 to 50 years old and need to be rehabilitated and/or replaced in the near future. See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program".

Wastewater Treatment Plant. The Authority's wastewater treatment plant was constructed in 1980 and is located in the Redwood Shores area of Redwood City bordering the San Francisco Bay. The treatment plant processes all wastewater conveyed from each of the Members' sewer service areas. The treatment plant is comprised of liquid and solids treatment processes. Most of the treated effluent is disposed via the Authority's effluent disposal pipeline. However, a portion of the Authority's wastewater undergoes a higher level of treatment and disinfection and is used to supply recycled water to Redwood City.

Liquid Processing. Wastewater is delivered directly to the treatment plant's primary sedimentation tanks ("PST"). The PST provides the first step of treatment to the raw sewage. By allowing heavy material to settle and light material to float and be sent to the solids processing units. The water from the PST process is then sent to biological treatment that consists of 4 fixed film reactors and aeration in 4 aeration basins to remove biological contaminants. The water in the aeration basins is then directed to the secondary sedimentation tank ("SST") for separation of solids from the liquid. The SST process generates fairly clear effluent that flows to

the dual media filters for further removal of small solids from the water. Dual media filtration followed by disinfection with sodium hypochloride concludes the treatment of the liquid stream in the treatment plant. The disinfected and dechlorinated advanced secondary treated effluent is then pumped to the bay via a 66-inch diameter outfall.

Solids Processing. The primary functions of the solids handling facilities are to stabilize the organic solids in the wastewater stream, reclaim the heat value of the organic solids for power generation, and reduce the sludge volume to minimize the cost of disposal. The treatment plant processes a solids stream that is predominantly made up of a primary sludge consisting of a slurry of settled solids and primary scum (slurry with floated oil/grease/scum) withdrawn from the primary sedimentation tanks and the waste activated sludge (“**WAS**”) derived from the aeration basins. In addition to the primary sludge, the primary scum and the WAS, the anaerobic digesters also receive grease and oily wastewater delivered to the septic receiving station at the treatment plant. With mixing and heating, the two designated primary digesters stabilize the sludge feed and generate sufficient digester gas to fire a co-generation facility that generates electricity to power much of the electrical demand within the treatment plant.

The digested solids are transferred periodically from the designated primary digesters to a third digester that currently functions as a holding tank. The stored sludge is eventually withdrawn and transferred to the dewatering centrifuge to reduce its volume. The centrifuge removes liquid from the stabilized sludge, transforming the liquid sludge into a loose sludge cake. The dewatered sludge cake is disposed off-site in accordance with government regulations.

Treatment Plant Capacity & Flow. The capacity of the Authority’s wastewater treatment plant during average dry weather and peak wet weather conditions, as measured in million gallons per day (mgd), are identified below:

- Average Dry Weather Flow, Permit Capacity 29 mgd
- Average Dry Weather Flow, Current Capacity 27 mgd
- Peak Wet Weather Capacity Rating 68 mgd

Average daily wet weather and dry weather flow is shown below for the past ten years.

	Average Dry Weather Flow (mgd) Plant Effluent	Average Wet Weather Flow (mgd) Plant Effluent
2014	11.93	14.33
2013	11.36	14.20
2012	13.03	14.17
2011	12.82	17.02
2010	16.30	17.42
2009	13.72	15.88
2008	14.45	16.81
2007	15.35	16.55
2006	16.63	20.06
2005	16.80	19.48

Wastewater influent flows to the treatment plant in fiscal year 2013-14 are as shown below:

- Fiscal year 2013-14 Average Dry Weather Flow (Jul-Oct & May-June) 11.65 mgd
- Fiscal year 2012-13 Average Wet Weather Flow (November-April) 14.26 mgd
- The peak wet weather event in fiscal year 2013-14 occurred on Feb 28, 2014 with a peak wet weather flow during that event of 21.73 mgd.

The Authority has never exceeded peak wet weather capacity and has been able to handle all flows with no spills or permit violations. The Authority anticipates that additional treatment processes will be required to provide adequate capacity to handle flows for the next 25-30 years, the improvements for which have been included in the 2015 CIP update.

Wastewater Effluent Outfall. Approximately 1.25 miles of 66-inch diameter pipeline carries treated effluent from the treatment plant for discharge to the San Francisco Bay. The outfall is reinforced concrete pipe and extends approximately one mile into the bay for a deep-water discharge.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the Authority’s wastewater conveyance, treatment and effluent disposal system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the “**Regional Board**”). The Authority is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The Authority operates pursuant to a National Pollution Discharge Eliminations System (“**NPDES**”) Permit issued by the state (NPDES Permit No. CA0038369) which establishes effluent quality and discharge requirements for the Authority’s treated wastewater. The NPDES Permit is scheduled to expire in 2016. The Authority operates in full compliance with its discharge permit.

Capital Improvement Program

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority initially developed its 10-Year Capital Improvement Program in 2008 to provide a proactive plan for addressing the Authority's near-term and long-term capital needs. The Authority's Engineering Division staff updated the CIP in June 2015.

The updated CIP identified roughly \$635 million of additional capital funding needed over approximately the next eight years (including funding from the 2015 Bonds, and accounting for future cost inflation). The Authority anticipates funding its remaining CIP costs via a combination of bonds, SRF Loans issued by the SWRCB, and cash funding.

The updated CIP identified 103 projects targeted for construction over the next several years. These projects address all known issues with the Authority's wastewater system and include:

- (i) substantial rehabilitation and replacement of aging infrastructure and equipment;
- (ii) improvements and additions to the treatment plant and conveyance system that will substantially enhance reliability and increase wet weather hydraulic capacity;
- (iii) technological upgrades and system-wide automation projects designed to improve operational efficiency and reliability, which are anticipated to help reduce future operating and maintenance expenses;
- (iv) additional electricity co-generation facilities; and
- (v) treatment plant improvements necessary to remove nitrogen and phosphorous compounds in compliance with anticipated regulations by the SWRCB.

The following table shows a summary of CIP funding requirements for the various types of capital improvements identified in the CIP with projected 4% cost inflation for large conveyance system projects.

Table 1
SILICON VALLEY CLEAN WATER
Projected CIP Funding Requirements (\$ Millions)

	<u>CIP Funding Requirements</u>
Treatment Plant Improvements	\$166.9
Conveyance System Improvements	367.7
Nutrient Removal	<u>100.0</u>
Total	634.6
Estimated Project Funding from 2015 Bonds	\$ 30.0
Anticipated Contribution from City of Belmont	4.2
Anticipated Contribution from City of Redwood City	10.0
Funding from 2014 Bonds	5.0
Funding from Outstanding SRF Loans	<u>15.0</u>
Remaining CIP Funding Needs	\$570.4

The Authority has already funded or has received funding commitments for over \$196 million to be used for capital improvements including funds from the 2008 Bonds, 2009 Bonds, 2014 Bonds, cash contributions from the City of Belmont, SRF Loans, and interest earned on project funds. The Authority projects it will need to fund an additional \$635 million of capital improvements over approximately the next eight years. The 2015 Bonds are projected to finance approximately \$30 million of these outstanding capital improvement funding needs. After issuance of the 2015 Bonds, the Authority anticipates it will need to finance approximately an additional \$570 million of capital improvements.

Financial Plan

The Authority developed a 10-Year Financial Plan (the “**Financial Plan**”) in 2008 to provide a financial roadmap for funding the CIP and ongoing operating costs. The Financial Plan was originally developed, and has been periodically updated, by Bartle Wells Associates, working in collaboration with Authority staff. The Financial Plan projects future annual revenue requirements from each Member for their share of the Authority’s operating, capital, and debt service expenses. These funding requirements have subsequently been incorporated into financial projections of each Member for purposes of determining wastewater rate increases needed to support each Member’s share of operating, capital, and debt service expenses. Based on the Financial Plan, the Members have increased their sewer rates substantially over the past five years in anticipation of future Authority debt financing needs. The Financial Plan was most-recently updated and received by the Commission in December 2013, in response to the Authority’s 2013 CIP update. Going forward, the Authority will update the Financial Plan annually, beginning December 2015.

The following table summarizes the estimated annual future funding requirements for the Authority's CIP based on a recent interim CIP update.

Table 2
SILICON VALLEY CLEAN WATER
Estimated CIP Funding Requirements by Type of Improvement
(Future \$, Millions)

Year Ending June 30	2016	2017	2018	2019	2020	2021	2022	2023	Total
Treatment Plant	\$26.5	\$18.9	\$29.5	\$38.8	\$13.3	\$13.3	\$13.3	\$13.3	\$166.9
Conveyance System	27.3	48.1	94.6	130.0	56.3	7.7	1.3	1.3	367.7
Nutrient Removal	<u>10.0</u>	<u>25.0</u>	<u>35.0</u>	<u>30.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>100.0</u>
Total	\$63.8	\$92.0	\$159.1	\$199.8	\$69.6	\$21.0	\$14.6	\$14.6	\$634.6

The following table shows estimates of the future funding requirements from each of the Authority's Members assuming all projects are completed as scheduled in the CIP.

Table 3
SILICON VALLEY CLEAN WATER
Estimated SVCW CIP Funding Requirements by Member Agency
(Future \$, Millions)

Year Ending Jun 30	Share %	2016	2017	2018	2019	2020	2021	2022	2023	Total
Belmont	9.45%	\$6.0	\$8.7	\$15.0	\$18.9	\$6.6	\$2.0	\$1.4	\$1.4	\$60.0
Redwood City	48.57	31.0	44.7	77.3	97.0	33.8	10.2	7.1	7.1	308.2
San Carlos	15.14	9.7	13.9	24.1	30.2	10.5	3.2	2.2	2.2	96.1
West Bay Sanitary	<u>26.84</u>	<u>17.1</u>	<u>24.7</u>	<u>42.7</u>	<u>53.6</u>	<u>18.7</u>	<u>5.6</u>	<u>3.9</u>	<u>3.9</u>	<u>170.3</u>
Total	100.00%	\$63.8	\$92.0	\$159.2	\$199.7	\$69.7	\$21.0	\$14.6	\$14.6	\$634.6

The Authority anticipates funding remaining CIP costs with a combination of bonds payable from SVCW Bond Payments and SRF Loans issued by the SWRCB, supplemented by the Line of Credit and potential pay-as-you-go cash funding, pending future approval by the Members.

Table 4
SILICON VALLEY CLEAN WATER
Projected Sources of Funding for the SVCW CIP
(Future \$, Millions)

Year Ending June 30	2016	2017	2018	2019	2020	2021	2022	2023	Total
Outstanding Obligations	\$15.0	\$5.0	-	-	-	-	-	-	\$20.0
2015 Bonds	15.0	15.0	-	-	-	-	-	-	30.0
Future SRF Loans	26.8	64.8	\$149.2	\$189.7	\$59.7	\$11.0	\$4.6	\$9.6	515.4
Future Bonds	-	-	10.0	10.0	10.0	10.0	10.0	10.0	60.0
Cash Contributions	<u>7.1</u>	<u>7.1</u>	-	-	-	-	-	-	<u>14.2</u>
Total	\$63.8	\$92.0	\$159.2	\$199.7	\$69.7	\$21.0	\$14.6	\$19.6	\$634.6

Member Financial Projections

Each of the Members has been proactively raising sewer rates to support its allocable share of funding requirements for the Authority's operations and CIP, as well as its own operating and capital programs. Appendices A, B, and C show long-term financial projections for each Participating Member that incorporates updated CIP cost and financing projections from the Financial Plan. See "APPENDIX A," "APPENDIX B" and "APPENDIX C".

Budget and Billing Process

Each year, the Authority's Commission adopts a budget for the upcoming fiscal year. The budget establishes the funding requirements for each of the Members. Operating and maintenance expenses, as well as capital and reserve contributions, are paid monthly in 12 monthly installments. Payments in respect of debt service on the SRF Loans are paid on an annual basis. After the close of the fiscal year, the annual payments made by each Member are reconciled against the actual expenditures allocated to each Member, and any difference is applied toward fund reserves held by the Authority on behalf of each Member.

Currently, the Authority has adopted two cash reserve policies established to mitigate the negative impact of revenue shortfalls from economic fluctuations, to fund unforeseen expense requirements, to provide stable rates for member entities, and to help fund future long-term capital needs. The operating reserve is currently at approximately \$3.3 million, which is equal to 10% of the approved operating and capital budget plus an additional \$1 million. A separate CIP program reserve is currently at approximately \$11.8 million, set at an amount equal to the annual calculated depreciation of SVCW facilities to meet the long term needs of replacing capital assets upon reaching the end of their useful life. The Authority also holds an additional reserve of \$5.5 million, which funds are available to finance projects to add capacity. If the amount of fund reserves held by the Authority on any Member's behalf falls below the target, the Authority includes a line item in its budget to bring the reserves back up to the target level. The Authority has the ability to amend its reserve policy at any time.

The Authority has no taxing power. The Authority receives almost all of its funding, other than interest earnings and other miscellaneous revenues, from payments made by the Members, which include payments for operations, capital repairs, capital reserves, SRF loans and SRF loan reserve requirements. To the best of the knowledge of Authority staff, there have never been any payment delinquencies by any of the Members.

Cost Allocation to Members

The Joint Powers Agreement sets forth how the Authority's operating and capital costs are allocated to the Members. Operating and maintenance costs are allocated to each of the Members based on a three-year average of each Member's annual pro-rata share of total wastewater flow and strength loadings, as measured by biological oxygen demand ("**BOD**") and suspended solids ("**SS**").

The Budget for fiscal year 2015-16 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City 43.5%
- West Bay Sanitary District 26.2%
- City of San Carlos 16.5%
- City of Belmont 13.8%

Capital costs are generally allocated based on each Member's share of capacity owned in various components of the wastewater system, as established in the Joint Powers Agreement. Capital improvement costs for the wastewater treatment plant and effluent disposal pipeline are allocated as follows:

- City of Redwood City 48.57%
- West Bay Sanitary District 26.84%
- City of San Carlos 15.14%
- City of Belmont 9.45%

Maximum Capacity Rights Owned by Members

Under the Joint Powers Agreement, each of the Members has rights to capacity in the treatment plant as shown on the following table.

**Table 5
SILICON VALLEY CLEAN WATER
Maximum Capacity Rights Per Member**

Member	Average Daily Dry Weather Flow (mgd)	Peak Wet Weather Flow (mgd)	BOD (lbs per day)	SS (lbs per day)
Belmont	2.3	8.8	5,204	5,678
Redwood City ⁽¹⁾	11.4	30.5	38,727	36,510
San Carlos	3.7	14.3	6,982	9,554
West Bay SD	<u>6.6</u>	<u>14.4</u>	<u>14,137</u>	<u>13,308</u>
Total	24.0	68.0	65,050	65,050

(1) Peak Wet Weather Flow shown for Redwood City is for capacity rights in treatment plant. Redwood City's Peak Wet Weather Flow capacity in the conveyance system is 25.9 mgd.

Source: SVCW Joint Powers Agreement

Under the Joint Powers Agreement, any of the Members can purchase or lease available capacity from any of the other Members subject to written approval from the Authority.

Wastewater Flow

The following table shows a history of average daily wastewater flow conveyed to the Authority's wastewater treatment plant from each Member for the last five fiscal years.

Table 6
SILICON VALLEY CLEAN WATER
Average Wastewater Flow (mgd)

Member	2010-11	2011-12	2012-13	2013-14	2014-15
Redwood City	6.8	5.9	6.4	6.6	6.1
West Bay SD	3.7	3.5	3.5	3.5	3.6
San Carlos	2.8	1.7	1.6	1.9	1.8
Belmont	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.9</u>	<u>1.9</u>
Total	15.1	13.0	13.3	13.9	13.4

Source: Silicon Valley Clean Water.

Capacity Fees for New Development

Pursuant to the Joint Powers Agreement, the Authority has established a capacity fee to recover costs for future expansion of Authority facilities. The fee is levied on new development within the Authority's service area and is collected by the Members on the Authority's behalf. The current capacity fee is \$7.91 per gallon per day of estimated wastewater flow. For example, for a new single family residence with an estimated wastewater discharge of 200 gallons per day, the Authority's capacity fee would total approximately \$1,582. The Authority is currently in the process of conducting a capacity fee study and may consider updating its capacity fees in the current fiscal year.

Outstanding Debt

The Authority has not previously issued bonds payable from the Revenues. However, the Authority previously issued the 2008 Bonds, 2009 Bonds and the 2014 Bonds, which are payable from SVCW Bond Payments under the Financing Agreements with respect to each of such bond issues.

The obligations of the Participating Members to make SVCW Bond Payments with respect to the 2008 Bonds, SVCW Bond Payments with respect to the 2009 Bonds, SVCW Bond Payments with respect to the 2014 Bonds and SVCW Bond Payments with respect to the 2015 Bonds are secured by their respective Net Revenues on a parity basis.

The Authority has obtained two SRF Loans for a combined total of \$46.7 million of capital project funding commitments. The SRF Loans constitute indebtedness of the Authority, payments of which are made to the Authority by the Participating Members pursuant to the Joint Powers Agreement, and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates obtaining additional funding through SRF Loans over the next eight years. See "SECURITY FOR THE 2015 BONDS - State Revolving Fund Loans of the Authority".

The Authority has a \$30 million Line of Credit to provide interim funding and facilitate the continued funding of capital projects prior to issuing the 2015 Bonds, payments of which are

also made to the Authority by the Participating Members pursuant to the Joint Powers Agreement. See “SECURITY FOR THE 2015 BONDS – Line of Credit.”

Comparative Residential Sewer Charges

Wastewater Rates. Each of the Participating Members’ wastewater rates has increased each year in recent history, and it is anticipated that rates will continue to increase. The following table shows the single family residential monthly sewer rates of each Participating Member in each of the past five years. See the sections entitled “Wastewater Rates” in Appendices A, B and C for information about the Participating Members’ current wastewater rates. The table below shows single family residential monthly sewer charges for each of the Participating Members for the past five years.

**Table 7
SILICON VALLEY CLEAN WATER
Single Family Residential Monthly Sewer Service Charges**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
City of Redwood City	\$48.72	\$53.10	\$57.88	\$63.09	\$68.77	\$74.95
City of San Carlos	46.82	50.10	53.10	67.29	80.75	88.82
West Bay Sanitary District	54.17	57.50	62.67	68.33	74.42	81.08

Comparative Rates. The following chart shows a comparison of regional monthly sewer service charges for a typical single family home billed as of September 1, 2015.

Table 8
SILICON VALLEY CLEAN WATER
Single Family Residential Monthly Sewer Service Charges

City of Mountain View	\$28.80
City of Palo Alto	31.95
City of Los Altos	33.81
City of Sunnyvale	39.71
Daly City*	45.92
Foster City	47.00
East Palo Alto SD	47.92
South San Francisco	47.92
San Mateo	64.64
Burlingame*	73.30
City of Redwood City	74.95
Emerald Lake Hts (Zone 2)	84.17
Millbrae*	80.98
West Bay Sanitary District	81.08
Los Altos Hills	85.00
City of San Carlos	88.82
San Bruno*	90.00
City of Belmont*	93.62
Pacifica*	97.21
Brisbane*	100.07
Montara*	104.88
Crystal Springs CSD	112.50
Burlingame Hills SMD	132.92
Hillsborough	193.75

* Based on 800 cubic feet of monthly winter water use. All others use fixed charges that do not vary with consumption.

Source: Prepared by Bartle Wells Associates based on data provided by each agency.

Participating Member Historical & Adopted Sewer Rate Increases

The Participating Members levy fixed sewer service charges for residential accounts and consumption-based charges for non-residential accounts. Sewer service charges from West Bay Sanitary District and the City of San Carlos are billed on San Mateo County’s property tax bills; San Mateo County is on the Teeter Plan, under which the County pays each agency for the full amount of sewer service charges assessed on the County’s tax rolls. The County has the option to discontinue its participation in the Teeter Plan. The City of Redwood City collects sewer charges on a combined utility bill that also includes water and garbage services.

The table below shows historical and adopted sewer rate increases for each of the Participating Members.

**Table 9
SILICON VALLEY CLEAN WATER
Historical and Adopted Sewer Rate Increases**

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Redwood City	15%	9%	9%	9%	9%	9%	9%	9%
San Carlos	12	7	7	7	6	25	20	10
West Bay Sanitary District	5	5	16	6	9	9	9	9

Source: Prepared by Bartle Wells Associates based on data provided by each agency.

Drought and Response

The State of California is currently experiencing a severe drought. On January 17, 2014, California Governor Edmund G. Brown proclaimed a drought emergency in the State and asked Californians to reduce water use by 20%. In April of 2014, the Governor formed a task force to respond to the drought. On April 1, 2015, the Governor signed an Executive Order that, among other measures, requires the SWRCB to impose mandatory restrictions on water use through February 28, 2016 to achieve a Statewide 25% reduction in potable urban water usage compared to the amount used in 2013. See also “RISK FACTORS – Natural Disasters.”

The SWRCB adopted emergency regulations and set water conservation targets for urban water suppliers throughout the State. Agencies that fail to achieve the required cutbacks could be subject to penalties or other enforcement actions. The following table shows the SWRCB’s water demand reduction targets for each of the Participating Members

The Members have begun conservation efforts in order to reduce water usage and meet their respective conservation standards. The Table below shows each Participating Members reduction target.

**Table 10
SILICON VALLEY CLEAN WATER
Conservation Measures**

Member	Conservation Target
Redwood City	8%
West Bay SD ⁽¹⁾	16
San Carlos ⁽²⁾	16

(1) Water service primarily provided by the City of Menlo Park.

(2) Water service provided by the California Water Services Company, Mid-Peninsula Service Area.

Source: Prepared by Bartle Wells Associates based on data provided by each agency.

The water agencies serving the Participating Members have initiated conservation efforts in order to reduce water usage and meet their respective conservation standards and, in June of 2015, achieved their conservation targets.

The financial impacts to each Participating Agency’s wastewater system are expected to be minimal. Each of the Participating Members levy fixed residential charges for sewer service

that do not vary with changes in water consumption. Additionally, all of the Participating Members have already adopted wastewater rate increases that provide adequate financial capacity to fund their share of payments for the Authority's operating and capital programs.

See "APPENDIX I" for additional information regarding the Authority.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS

Article XIII B Gann Limit

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Each of the Participating Members is of the opinion that its charges with respect to its wastewater system do not exceed the costs it reasonably bears in providing wastewater service and are not subject to the limits of Article XIII B.

Articles XIII C and XIII D

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as

“fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

Property-Related Fees and Charges. Under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Articles XIII C and XIII D. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three subsequent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIII D under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Articles XIIC and XIID and the Participating Members' Water Rates and Charges.

The Participating Members' current sewer rates (see Appendices A, B and C) were adopted by the governing boards of the respective Participating Members following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

The Participating Members believe their sewer rates and charges do not constitute "taxes" under Article XIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIC, they are "property-related fees imposed in accordance with the provisions of Article XIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIIC,

they are charged for sewer service, which is “a specific government service or product provided directly to the payor that is not provided to those not charged.”

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the Participating Members’ rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Financing Agreements.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for sewer service, or to call into question previously adopted sewer rate increases.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the 2015 Bonds.

Demand for the Sewer Service

There can be no assurance that the demand for sewer service provided by the Participating Members' wastewater systems will be maintained at current or historical levels. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with each Participating Member's rate covenant in their related Financing Agreement. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand.

Wastewater System Expenses

There can be no assurance that the wastewater system operating and maintenance expenses of each Participating Member or the Authority will be consistent with the levels described in this Official Statement. Increases in the cost of staffing, energy, or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Furthermore, there can be no assurance that any other entity with regulatory authority over the Participating Members' wastewater systems or the Authority's system will not adopt further restrictions on operation of those wastewater systems, leading to increased rates. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

If costs of the Project are higher than projected in the CIP, the Authority may have additional financing needs. The CIP projections are based on current engineering and construction cost estimates.

Parity Debt

The Authority will not issue bonds payable from Revenues on a parity basis with the 2015 Bonds. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments.

The Participating Members are authorized by the respective Financing Agreements to issue indebtedness with a lien on Net Revenues on a parity basis with the SVCW Bond Payments, if certain financial tests are met. See "SECURITY FOR THE 2015 BONDS – Financing Agreements – Issuance of Parity Debt" above. These financial tests may involve, to some extent, projections of Net Revenues. There can be no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the 2015 Bonds and such additional indebtedness.

Natural Disasters

General. The Authority and the Participating Members, like all northern California communities, are subject to unpredictable seismic activity, fires, floods, or other natural disasters. A severe natural disaster, such as an earthquake, fire, or flood, could result in substantial damage to the Authority and/or each of the Participating Members, including their wastewater systems. Such an event—which could increase the costs of operating and maintaining the Participating Members’ wastewater systems and could reduce revenues as a result of widespread damage—could adversely impact the Participating Members’ ability to pay their SVCW Bond Payment with which the Authority will pay principal and interest on the 2015 Bonds.

Seismic Activity. The Authority and/or each of the Participating Members could experience ground shaking, ground failure, landslides or fault creep related to major faults in the area. The San Andreas Fault runs near the western edge of each Participating Member’s respective service areas. Large earthquakes on the San Andreas Fault were recorded in 1838, 1865, 1890, 1906 and 1989.

Flooding. A portion of each of the Participating Members’ service areas is mapped within the 100-year flood plain and could be flooded during heavy rains.

Drought. Silicon Valley, like the rest of the State of California, is in the midst of one of the worst droughts in its recorded history. On January 17, 2014, Governor Brown declared a drought emergency in the State and requested a 20% reduction in water use statewide, and on April 1, 2015, the Governor signed an executive order that, among other measures, requires mandatory restrictions on water use to achieve a Statewide 25% reduction in potable urban water usage.

The Authority does not maintain insurance covering damage to the Project caused by earthquakes or flooding.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and/or any of the Participating Members may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Limited Obligations

The 2015 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture. Revenues consist primarily of the SVCW Bond Payments payable under the Financing Agreements and amounts on deposit from time to time in the funds and accounts held by the Trustee. If for any reason, the Authority does not collect sufficient Revenues to pay debt service on the 2015 Bonds, the Authority will not be obligated to utilize any other of its funds, other than certain amounts on deposit in the funds and accounts established under the Indenture, to pay debt service on the 2015 Bonds. The Authority has no taxing power. The obligation of the Authority to pay debt service on the 2015 Bonds does not constitute a debt of the Authority or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The SVCW Bond Payments are limited obligations of the Participating Members payable solely from and secured solely by the Net Revenues of their respective wastewater systems. If for any reason, any Participating Member does not have Net Revenues available in an amount sufficient to make its SVCW Bond Payments, the Participating Member will not be obligated to utilize any other of its funds to make SVCW Bond Payments. See "SECURITY FOR THE 2015 BONDS – Financing Agreements – Rate Covenants."

The obligation of the Participating Members to pay the SVCW Bond Payments does not constitute an obligation of any Participating Member for which the Participating Member is obligated to levy or pledge any form of taxation or for which the Participating Member has levied or pledged any form of taxation. Each of the Participating Members has covenanted to establish rates and charges for its wastewater system to yield Gross Revenues sufficient to make the SVCW Bond Payments. See "SECURITY FOR THE 2015 BONDS – Financing Agreements – Rate Covenants."

The obligation of each Participating Member to pay SVCW Bond Payments does not constitute a debt of that Participating Member or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Net Revenues from one Participating Member's wastewater system are pledged solely to that Participating Member's obligations under the Financing Agreement to which it is a party. No Participating Member has any liability or responsibility for the SVCW Bond Payment of another Participating Member.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional amendment, legislation, or an initiative with the effect of reducing revenues payable to or collected by the Authority and/or the Participating Members. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues of a Participating Member and adversely affecting the security of the 2015 Bonds.

See also "-Loss of Tax Exemption" below

Loss of Tax Exemption

As discussed in this Official Statement under the caption “CONCLUDING INFORMATION – Tax Matters,” interest on the 2015 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2015 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the Participating Members in violation of their covenants in the Financing Agreements.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the 2015 Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the 2015 Bonds are not subject to a special redemption and will remain outstanding until maturity.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that any 2015 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Build America Bonds

The 2009 Bonds were issued as taxable Build America Bonds, and as a result, the Authority is eligible for a Refundable Credit equal to 35% of each bond interest payment on the 2009 Bonds. However, as part of the federal budget sequestration, the Internal Revenue Service has announced that direct bond subsidy payments are being reduced by a federal fiscal year 2015 sequestration rate of 6.8%. The 2015 sequestration rate will continue through fiscal year 2020, unless Congress takes additional action to modify the sequestration reduction. Decreased Refundable Credits increases the debt service costs of the Authority and the Participating Members on the 2009 Bonds, which could adversely impact the availability of Revenues to pay debt service on the 2015 Bonds. It is expected that the 2009 Bonds will be refunded on a crossover basis from proceeds of the 2015 Bonds, as described more fully above. As a result of such crossover refunding, the 2009 Bonds will remain outstanding through August 1, 2019, and will continue to be payable from SVCW Bond Payments and from direct bond subsidy payments.

CONCLUDING INFORMATION

Continuing Disclosure

Authority. Under the Indenture, the Authority has covenanted for the benefit of the holders and beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the District (an “**Annual Report**”) to the Municipal Securities Rulemaking Board not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing March 31, 2016 with the report for the 2014-15 fiscal year, and to provide notices of the occurrence of certain enumerated events, to assist the underwriter in complying with SEC Rule 15c2-12(b)5 (the “**Rule**”). A form of the Continuing Disclosure Certificate of the Authority is attached in Appendix F.

The Authority has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance with prior undertakings in the previous five years include (i) failure to timely file the Authority’s financial statements for fiscal year 2012-13 and operating data for fiscal year 2013-14, and (ii) failure to file notice of rating changes on several occasions. The Authority has made remedial filings to address all material non-compliance in the past five years.

Identification of such instances of non-compliance does not constitute a representation that such non-compliance was material. The Authority believes it has established procedures to ensure that it will comply with all material provisions of its continuing disclosure undertakings in the future.

Participating Members. Under the Financing Agreements, each of the Participating Members has covenanted for the benefit of the holders and beneficial owners of the 2015 Bonds to provide Annual Reports to the Municipal Securities Rulemaking Board not later than nine months after the end of the Participating Member’s fiscal year (which currently would be March 31), commencing March 31, 2016 with the report for the 2014-15 fiscal year, and to provide notices of the occurrence of certain enumerated events, to assist the underwriter in complying with the Rule. A form of the Continuing Disclosure Certificate of each Participating Member is attached in Appendix F.

The City of Redwood City has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by the City of Redwood City with prior undertakings in the previous five years include: (i) failure to file certain information due in its annual reports on a timely basis on several occasions, including its audited financial statements for fiscal year 2009-10 and operating data for fiscal years 2013-14, 2011-12, 2010-11 and 2009-10 with respect to certain of its undertakings, (ii) the filing of operating data that failed to conform to its requirement for fiscal years 2012-13, 2011-12 and 2010-11 for certain of its undertakings and (iii) failure to timely file notice of information relating to its ratings on several occasions. The City of Redwood City has made remedial filings to address all material non-compliance in the past five years.

The City of San Carlos has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by the City of San Carlos with prior undertakings in the previous five years include: (i) failure to timely file operating data on a timely basis for fiscal year 2009-10 and (iii) failure to file notice of information relating to its ratings on one occasion. The City of San Carlos has made remedial filings to address all material non-compliance in the past five years.

The West Bay Sanitary District has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by the West Bay Sanitary District with prior undertakings in the previous five years include (i) failure to file on a timely basis its audited financial statements for fiscal years 2013-14, 2010-11 and 2009-10, (ii) the failure to file annual financial information and operating data due in its annual reports on a timely basis for fiscal years 2013-14, 2011-12 and 2010-11. The West Bay Sanitary District has made remedial filings to address all material non-compliance in the past five years.

Verification of Mathematical Accuracy

The Verification Agent, upon delivery of the 2015 Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the Authority, relating to (a) the sufficiency of the anticipated amount of proceeds of the 2015 Bonds and other funds available to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Refunded Bonds and (b) the “yields” on the amount of proceeds held and invested prior to redemption of the Refunded Bonds and on the 2015 Bonds considered by Bond Counsel in connection with the opinion rendered by Bond Counsel that the 2015 Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the 2015 Bonds, the Indenture, or the Financing Agreements, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Participating Members taken with respect to any of the foregoing.

Legal Matters

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render an opinion with respect to the legality and enforceability of the 2015 Bonds. The form of such legal opinion is attached in Appendix G. Jones Hall is also acting as Disclosure Counsel to the Authority. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Underwriter’s Counsel. Certain legal matters will be passed upon by the General Counsels of the Authority and the West Bay Sanitary District, and by the City Attorneys of the City of Redwood City and the City of San Carlos.

Compensation of Underwriter’s Counsel, Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2015 Bonds.

Tax Matters

Federal Tax Law. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Participating Members comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2015 Bonds. The Authority and the Participating Members have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2015 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2015 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a 2015 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2015 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2015 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2015 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2015 Bonds who purchase the 2015 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2015 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2015 Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2015 Bond (said term being the shorter of the 2015 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2015 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2015 Bond is amortized each year over the term to maturity of the 2015 Bond on the basis of a constant interest rate compounded on each interest

or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2015 Bonds.

California Law. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from California personal income taxes.

Other Consequences. Owners of the 2015 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2015 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2015 Bonds other than as expressly described above.

Form of Bond Counsel Opinion. The form of Bond Counsel's opinion is attached in Appendix G.

Ratings

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") has assigned its municipal bond rating of "AA" to the 2015 Bonds, and Moody's Investors Service ("**Moody's**") and has assigned its municipal bond rating of "Aa2" to the 2015 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Authority and the Participating Members have provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2015 Bonds may have an adverse effect on the market price or marketability of the 2015 Bonds.

Underwriting

The 2015 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, as underwriter (the "**Underwriter**"). The Underwriter has agreed, subject to certain conditions, to purchase all of the 2015 Bonds described on the inside cover page of this Official Statement at an aggregate purchase price of \$82,638,371.30 (which is equal to the \$70,200,000 par amount of the 2015 Bonds, plus an original issue premium of \$12,788,136.30, less an underwriter's discount of \$349,765.00).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2015

Bonds to certain dealers (including dealers depositing the 2015 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than such public offering prices.

Miscellaneous

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the 2015 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this official statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the Authority or any of the Participating Members since the date thereof.

Execution of the Official Statement

The Authority has duly authorized the execution and delivery of this Official Statement.

SILICON VALLEY CLEAN WATER

/s/ Daniel T. Child

Manager

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

INFORMATION ABOUT REDWOOD CITY'S WASTEWATER SYSTEM

City of Redwood City

The City of Redwood City is located in the northern part of Silicon Valley, approximately 25 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City is the county seat of San Mateo County. The City's economy is well diversified, with a strong industrial and commercial base, including many "high-tech" companies such as Oracle Corporation. The City encompasses approximately 19 square miles within its corporate limits and has a population of approximately 80,768.

Form of Government

The City was incorporated in 1867 and became a charter city in 1929, under the charter laws of the State of California. The City is governed by a seven-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The current members of the City Council are:

<u>Council Member</u>	<u>Current Term Expires</u>
Jeffrey Gee, <i>Mayor</i>	November 2017
Rosanne Foust, <i>Vice-Mayor</i>	November 2015
Alicia C. Aguirre	November 2015
Ian Bain	November 2015
Diane Howard	November 2017
Barbara Pierce	November 2015
John D. Seybert	November 2017

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The City Manager is Melissa Stevenson Diaz, and the Director of the Public Works Services Department is Ramana Chinnakotla.

City Leadership

Melissa Stevenson Diaz, City Manager. Melissa Stevenson Diaz has over 24 years of local government leadership experience in the San Francisco Bay Area. Prior to becoming City Manager of Redwood City, Ms. Diaz served as both Assistant City Manger and Interim City Manager for the City of Mountain View. She previously held various leadership roles in the cities of Fremont and Morgan Hill, and was responsible for a wide range of functions including human resources, finance and budget, policy analysis, redevelopment and economic development, information technology management, community engagement and communications. Ms. Diaz is a member of the International City/County Management Association, the California Public Employers Labor Relations Association, the Urban Land Institute and the Municipal Management Association of Northern California. She holds a Masters of Public Administration from San Jose State University and a Bachelor of Arts from Mills College, where she is also a Board Trustee.

Ramana Chinnakotla, Public Works Director. Ramana Chinnakotla has more than 22 years of experience in public works, most of which has been in the public sector. He most recently was on assignment in Sri City, India, as Director of Infrastructure and Utilities. In that role, he oversaw the planning, designing, and building of the city’s entire infrastructure including roads, recycled water and sewer systems, power, landscaping, and other elements. Mr. Chinnakotla also has extensive experience in multiple public works roles with the City of Grapevine, Texas, where he served as Assistant Director of Public Works, Transportation and Utilities Manager, Transportation Manager, and City Traffic Engineer. Mr. Chinnakotla holds an MBA in Finance and General Management, an MS in Civil Engineering, and a Bachelor of Technology in Civil Engineering.

The Sewer Utility System

The City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. The City’s wastewater is conveyed to the Authority for treatment and disposal. The City’s sewer utility is accounted for as separate enterprise fund.

The Public Works Services Department oversees management, maintenance and operation of the City’s sewer collection system. The City’s Engineering and Construction Division of the Community Development Department is responsible for the design and construction of capital improvements to the City’s sewer collection system. Financial management of the City’s Sewer Utility System is provided by the City’s Finance Department under which the Revenue Services Division is responsible for all City utility billing and collections, including processing of connection and facilities fees.

Wastewater Flows

The following table shows a six-year fiscal year history of the City’s average daily wastewater flows to the Authority.

**Table A1
Redwood City - Annual Wastewater Flow**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Average Daily Flow (mgd)	7.0	6.9	6.0	6.4	6.6	6.1

Source: Silicon Valley Clean Water

Service Area and Customer Base

The City’s sewer enterprise provides wastewater service to most of the incorporated area of the City as well as some surrounding adjacent areas. The City also provides wastewater conveyance and treatment services to five sewer districts as discussed later on in this section.

The following table shows a history of accounts by customer class for the City's sewer customers.

Table A2
Redwood City - Historical Sewer Accounts

	2012-13		2013-14		2014-15 ⁽¹⁾	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
City Sewer Accounts						
Residential	18,287	93.5%	18,308	93.6%	18,344	93.7%
Retail Commercial	1,049	5.4	1,033	5.3	1,023	5.2
Institutional	98	0.5	98	0.5	101	0.5
Restaurants	80	0.4	90	0.5	87	0.4
Hospitals	15	0.1	15	0.1	15	0.1
Supermarkets	8	0.0	8	0.0	9	0.0
Industrial	14	0.1	12	0.1	12	0.1
Flat Rate	4	0.0	4	0.0	4	0.0
Total	19,555	100.0%	19,568	100.0%	19,595	100.0%

Source: Redwood City

(1) Unaudited Financials for Fiscal Year 2014-15.

The following table shows a history of service charge revenues.

Table A3
Redwood City - Historical Sewer Service Charge Revenues

User Group	2012-13		2013-14		2014-15	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
City Sewer Accounts						
Residential	\$18,064,497	68.16%	\$19,493,403	69.26%	\$21,757,754	69.75%
Flat Rate	2,709	0.01	2,709	0.01	2,709	0.01
Hospitals	211,695	0.80	241,090	0.86	201,437	0.65
Industrial	74,361	0.28	54,048	0.19	44,040	0.14
Institutional	426,884	1.61	458,349	1.63	437,898	1.40
Restaurants	350,114	1.32	371,671	1.32	391,148	1.25
Retail Commercial	2,550,496	9.62	2,804,860	9.97	2,854,510	9.15
Supermarkets	158,952	0.60	137,395	0.54	174,879	0.56
Other	<u>62,280</u>	<u>0.24</u>	<u>151,839</u>	<u>0.54</u>	<u>16,389</u>	<u>0.05</u>
Subtotal	\$21,901,988	82.65%	\$23,715,364	84.26%	\$25,880,764	82.97%
Outside Agencies Served						
Fair Oaks SMD	\$3,354,281	12.66%	\$3,372,627	11.98%	\$3,837,926	12.30%
Emerald Lake Heights SMD	1,075,561	4.06	876,047	3.11	1,259,022	4.04
Oak Knoll SMD	86,637	0.33	74,567	0.26	99,447	0.32
Woodside Town Ctr SAD	31,325	0.12	101,704	0.36	50,233	0.16
Kensington Square SMD ⁽¹⁾	51,397	0.19	--	0.00	58,546	0.19
Edgewood SMD ⁽¹⁾	--	<u>0.00</u>	<u>6,251</u>	<u>0.02</u>	<u>6,767</u>	<u>0.02</u>
Subtotal	\$4,599,202	17.35%	\$4,431,196	15.74%	\$5,311,941	17.03%
Total	\$26,501,189	100.0%	\$28,146,560	100.0%	\$31,192,705	100.00%

(1) Sewer Service charges for Kensington Square SMD and Edgewood SMD paid bi-annually.

Note: Revenues do not include facilities and connections fees, interest income, miscellaneous income or transfers from other funds

Source: Redwood City and County of San Mateo.

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2014-15.

**Table A4
Redwood City - Largest Customers, Fiscal Year 2014-15**

	Description	2014-15 Sewer Service Charges	% of Total
<u>10 Largest City Sewer Accounts</u>			
Redwood Shores Apartments	Residential	\$247,420	0.8%
The Irvine Company LLC	Residential	238,431	0.8
County of San Mateo	Institutional/Public	207,078	0.7
Boardwalk	Residential	167,659	0.5
Ventana del Mar HOA	Residential	159,520	0.5
Shorebird HOA	Residential	146,498	0.5
Oracle USA Inc.	Retail/Commercial	144,417	0.5
M.H. Podell	Residential	138,360	0.4
Indian Creek Apartments	Residential	134,290	0.4
Harborside Apartments	Residential	<u>121,268</u>	<u>0.4</u>
		\$1,704,942	5.5%
<u>Outside Sewer Districts</u>			
Fair Oaks SMD	Predominantly Residential	\$3,837,926	12.3%
Emerald Lake Heights SMD	Predominantly Residential	1,259,022	4.0
Oak Knoll SMD	Predominantly Residential	99,447	0.3
Woodside Town Center SMD	Predominantly Residential	50,233	0.2
Kensington Square SMD	Predominantly Residential	58,546	0.2
Edgewood SMD	Predominantly Residential	<u>6,767</u>	0.0
Subtotal		\$5,311,941	17.0%
All Other Customers		<u>24,175,822</u>	77.5%
Total ⁽¹⁾		\$31,192,705	100.0%

(1) Totals may not add due to rounding.
Source: Redwood City.

Sewer Districts Served by Redwood City

The City provides sewer service to five San Mateo County sewer maintenance districts and a small sewer assessment district that is part of the Town of Woodside. Together, these districts accounted for approximately 17.0% of the City's sewer charge revenues. The City provides these services pursuant to separate legal agreements with San Mateo County for each district, and the Town of Woodside. These districts provide their own local wastewater collection services and pay Redwood City for conveyance and wastewater treatment. The Authority bills Redwood City based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the six districts. Each of the districts pays Redwood City for wastewater service pursuant to each district's legal agreement with Redwood City. The sewer districts served by Redwood City are listed below along with a brief description of each district and the basis of its payments to Redwood City.

Fair Oaks Sewer Maintenance District – This is the largest district served by the City and accounts for approximately 12.3% of the City’s total sewer service charge revenues. Under the agreement, the district is obligated to pay the City for a pro rata share of Redwood City’s payments to the Authority based on the district’s share of total wastewater flow sent to the Authority by Redwood City. Historically, the district’s annual flows were estimated by a flow meter. In recent years, by mutual consensus between Redwood City and San Mateo County, the District’s annual wastewater flow has been estimated at 27.99% of Redwood City’s total wastewater flow to the Authority. In fiscal year 2013-14, the district billed 7,106 accounts, of which 6,436, or approximately 90.6%, were residential. For fiscal year 2015-16, the district’s current annual sewer rate is \$590 per residential unit or equivalent. San Mateo County collects these charges on the County’s property tax rolls. See Table A6 for further discussion of San Mateo County’s sewer charges.

Emerald Lake Heights Sewer Maintenance District (Zone 2) – This district includes approximately 1,541 sewer accounts, of which all but 4 are residential. The district pays the City for sewer service based on the number of accounts multiplied by the City’s existing sewer rates.

Oak Knoll Sewer Maintenance District – This district includes approximately 126 accounts, of which all but 2 are residential. The district pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

Kensington Square Sewer Maintenance District – This district includes approximately 74 residential accounts and pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

Woodside Town Center Sewer Assessment District – This district includes approximately 158 accounts, of which all but 16 are residential. Under an agreement between the City of Woodside on behalf of the district and Redwood City, the district is obligated to pay the City for a pro rata share of Redwood City’s payments to the Authority based on the district’s share of total wastewater flow sent to the Authority by Redwood City. The agreement also requires the district to pay a small sewer transmission fee and capacity rental fee.

Edgewood Sewer Maintenance District - This district includes approximately 9 residential accounts, and pays the City based on the number of accounts multiplied by the City’s existing sewer rates.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the City’s sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the Regional Board. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

Recent Enforcement Actions. On August 25, 2010, a sanitary sewer overflow (“SSO”) occurred in Redwood City. The SSO was caused by a force main failure due to fatigue in the force main wall. Of the 1,058,500 gallons of sewage that could have escaped the force main, 95% of the sewage was either contained and recovered by City staff or intercepted upstream and transported to the treatment facility by City staff. The remaining 5% of the flow (or 57,107 gallons) reached the surface waters of the Redwood Shores lagoon. For violating the Clean Water Act, the California Regional Water Quality Control Board imposed a civil fine in the amount of \$95,600. The City has paid the civil fine and hired a contractor to perform a pump station evaluation City-wide to evaluate the condition of all pump stations in an effort to prevent future SSOs.

Wastewater Rates

The City’s wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Single family residential customers are billed a flat monthly rate for sewer service. Non-residential customers pay volumetric charges based on customer class and metered water use, subject to a minimum monthly charge.

The City has increased its sewer rates each year for the past 10 years. Rate increases have accounted for the anticipation of increased funding needs for the City’s capital improvement program, SVCW’s CIP, and operating cost inflation. The following table shows the City’s historical and adopted sewer rates. These rates were adopted pursuant to Article XIIID of the California Constitution. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIIC and XIIID”.

**Table A5
Redwood City - Adopted Monthly Sewer Rates**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Rate Increase %	9%	9%	9%	9%	9%	9%
Residential (monthly charge)	\$48.72	\$53.10	\$57.88	\$63.09	\$68.77	\$74.95
Non-Residential/Commercial (charge per hcf of metered water use)						
Institutional/Public	\$3.59	\$3.91	\$4.26	\$4.64	\$5.06	\$5.52
Retail/Commercial	4.00	4.36	4.75	5.18	5.65	6.15
Hospitals	4.00	4.36	4.75	5.18	5.65	6.15
Restaurants	9.71	10.58	11.53	12.57	13.70	14.93
Supermarkets	9.71	10.58	11.53	12.57	13.70	14.93
Industrial	3.19	3.48	3.79	4.14	4.51	4.91

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by Redwood City, which charges are collected on San Mateo County's property tax rolls. These rates were adopted pursuant to XIIIID of the California Constitution.

**Table A6
San Mateo County Adopted Annual Sewer Service Charges**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Sewer Districts Served by Redwood City	<u>Annual Charge per Residential Unit or Equivalent</u>					
Fair Oaks SMD	\$420	\$470	\$500	\$530	\$560	\$590
Emerald Lake Heights SMD (Zone 2)	770	810	850	890	930	970
Oak Knoll SMD	800	900	930	960	990	1,020
Kensington Square SMD	900	975	1,015	1,055	1,095	1,135
Edgewood SMD	900	950	1,025	1,100	1,175	1,250

Billing and Collection

The City issues a combined utility bill to each of its customers for water, sewer, and solid waste collection services (the City acts as the billing and collection agent for Recology of San Mateo County, a private company that performs solid waste collection services under a franchise agreement with the City). The City bills its utility customers on a bi-monthly basis for residential customers and a monthly basis for commercial customers. The utility bills are due and payable within 30 days of the bill date. If not paid within 30 days, the utility bill is delinquent, a 10 day reminder notice is mailed to the customer and assessed a 1.5% interest charge, and if still unpaid 40 days after the initial bill has been issued, a 7 day notice is mailed indicating that water will be shut off if the bill remains unpaid and another 5% interest charge is assessed. If the utility bill continues to be unpaid after the 5% interest charge, utility services will be disconnected until payment is made. The reconnection fee ranges from \$20 to \$100 if paid during business hours is \$320 if paid after business hours.

The following table shows a five-year history of sewer utility bill payment delinquencies.

**Table A7
Redwood City - Sewer Bill Allowance for Bad Debt***

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Amount	\$51,627	\$51,564	\$53,913	\$44,624	\$30,528	60,688
% of Revenue	0.26%	0.24%	0.22%	0.17%	0.12%	0.22%

* A reserve for delinquent payments, estimated and adjusted annually based on previous and outstanding delinquent payments.

Source: City of Redwood City

Issues with San Mateo County's Maguire Correctional Facility

The Authority operates and maintains a sewage pump station that is used to send the City's wastewater to the treatment plant. The City is responsible for all costs associated with the operation and maintenance of this pump station. Since approximately 2005, the City has incurred additional expense due to the impact of the San Mateo County, Maguire Correctional Facility.

This is due to the jail's inmates placing debris into the sewer that causes disruption to the pumping facility.

In 2008, the Authority sued the County to cover the cost of these extra services. Through a mediation process, in 2009, the County agreed to pay the Authority \$2.3 million for past damages and ongoing costs related to the problem. The County also agreed to implement changes to its enforcement and monitoring of what the inmates put into the sewer. These changes have resulted in significantly reduced issues, but have not completely eliminated the issue.

The Authority is in the early planning stages for replacement of the current pump station and is incorporating processes that will allow the pump station to remove the material introduced by the jail inmates. The new pump station will not be online until approximately the fourth quarter of 2016. It is estimated that the ongoing impact of the jail adds an additional cost of operating the existing pump station of approximately \$150,000 to \$200,000 per year. These costs are covered by the settlement agreement through fiscal year 2014-15. The modifications required for the new pump station are expected to add approximately \$1.0 million to the cost of building the facility and will result in those costs being covered by the City as part of the cost of constructing the pump station.

Sewer Facilities Fee for New Development

The City levies a sewer facilities fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer facilities fees are established by the city council of the City. The current sewer facilities fee for a new residential connection is \$960. New non-residential connections pay a fee equal to \$960 per each 2,000 square feet of building area.

In addition, pursuant to the Joint Powers Agreement, the City also collects the Authority's treatment capacity charges and periodically remits payment of these fees to the Authority.

Future Capital Needs

The City budgets funds annually for capital improvements to its sewer collection system including repairs, replacements, upgrades, and expansions. Historically, the City budgeted approximately \$1 million annually for capital improvements to its sewer system, excluding payments made to the Authority for improvements to the Authority's wastewater system. Starting in fiscal year 2008-09, the City began raising its sewer rates to provide increased funding for its sewer system capital needs. The City appropriated \$7.00 million for sewer system capital funding in fiscal year 2015-16 in addition to capital improvement program designations carried over from prior years, and projects to budget between \$4.0 million and \$7.0 million annually through fiscal year 2019-20. The City anticipates fully funding its sewer system capital improvements on a pay-as-you-go basis.

The City updated its 2008 Sanitary Sewer Master Plan in January 2013. The revision included a hydraulic analysis with updated flow monitoring information and land use data. These revisions resulted in an updated cost for the recommended capital improvement projects that were identified in the 2008 Sewer Master Plan. This new update identified approximately \$45,281,000 of recommended capital improvements to the City's wastewater collection system to address existing and future growth capacities. Based on priority rankings, approximately \$14,242,000 of

capital projects were ranked in the highest priority categories (1 and 2). This means that the flow model projected potential overflows under existing conditions. Despite this information, the City has not experienced any overflows as projected by the model in those locations. The City has been proactively conducting closed-circuit television inspections of the wastewater collection system to assess the conditions to identify sources of infiltration and inflow into the City's sewer system. Reductions in infiltration and inflow could reduce the potential overflow conditions and may also reduce the need for the capital improvements identified in the updated master plan.

The City currently anticipates funding its collection system capital needs on a pay-as-you-go, cash basis, and has increased its sewer rates accordingly. However, the City might consider the future use of debt financing if such financing was either needed to fund high-priority projects or if it made economic sense to construct a number of improvements in a given year rather than spread the capital improvement expenditures over a longer timeframe.

Additionally, the City could be liable for funding some additional expenditures related to the monitoring or clean-up of soil with perchloroethylene ("**PCE**") contamination located under Sequoia Station, a retail shopping center located next to a Caltrain station. Through mediation, the City has received approximately \$650,000 from the prior owner of a dry-cleaning business that used to be located near the site and was the source of the PCE. These funds are designated towards remedying the situation. The San Francisco Bay Area Regional Water Quality Control Board ("**RWQCB**") has jurisdiction over determining what actions need to be taken to remedy or monitor the situation. The RWQCB has determined that the City was partially responsible for the PCE contamination due to overflow/leaks from the City's sewer pipelines. In July 2014, the City contracted with an outside consultant to create a work plan that will propose steps to monitor the groundwater pollutant plume and develop a remedial action plan. In October 2014, the RWQCB approved the remedial action plan and required the City to submit quarterly groundwater monitoring reports. As of May 2015, the City has submitted 2 groundwater monitoring reports and is waiting for direction from the RWQCB regarding whether the proposed strategies (as outlined within the remedial action plan) can begin. The remedial action plan contains 3 strategies and if completed, the total estimated cost is \$1.4 million.

In addition, the City anticipates financing most of its allocable share of costs for the Authority's CIP, equal to approximately \$253 million over the next five years, after taking into account proceeds from the 2015 Bonds, the 2014 Bonds, outstanding SRF Loans, an anticipated \$10 million cash contribution from the City, and accounting for a projected 3% annual construction cost inflation. The City anticipates financing these costs through long-term debt issued by the Authority and/or the City.

Sewer Utility System Finances

The City's water and sewer utilities are accounted for as separate enterprise funds. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

Outstanding Sewer Utility Debt

The City incurred obligations in connection with the issuance by the Authority of the 2009 Bonds, the 2014 Bonds, SRF Loans, and the Line of Credit, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The City's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table A8
Redwood City – Sewer Utility System Outstanding Debt

Fiscal Year Ending June 30	2009 SVCW Bond Payment ⁽¹⁾	2014 SVCW Bond Payment	SRF Loan Payments (preliminary) ⁽²⁾	Line of Credit Payments (estimated)	2015 SVCW Bond Payment ⁽³⁾	Total
2016	\$2,938,048.50	\$2,072,927.91	\$398,269.52	\$50,000.00	\$121,502.64	\$5,580,748.57
2017	2,922,586.00	2,070,782.35	1,536,779.27	85,000.00	1,038,950.00	7,654,097.62
2018	2,908,052.00	2,070,514.16	1,536,779.27	85,000.00	1,016,300.00	7,616,645.43
2019	2,889,827.75	2,071,586.94	1,536,779.27	-	1,005,050.00	7,503,243.96
2020	1,831,150.00	2,071,801.49	1,536,779.27	-	1,567,650.00	7,007,380.76
2021	-	2,072,874.27	1,536,779.27	-	2,795,250.00	6,404,903.54
2022	-	2,072,337.88	1,536,779.27	-	2,789,000.00	6,398,117.15
2023	-	2,072,874.27	1,536,779.27	-	2,790,000.00	6,399,653.54
2024	-	2,071,667.40	1,536,779.27	-	2,783,125.00	6,391,571.67
2025	-	2,071,399.20	1,536,779.27	-	2,783,250.00	6,391,428.47
2026	-	2,071,935.59	1,536,779.27	-	2,780,125.00	6,388,839.86
2027	-	2,073,142.46	1,536,779.27	-	2,778,625.00	6,388,546.73
2028	-	2,072,203.78	1,536,779.27	-	2,778,500.00	6,387,483.05
2029	-	2,071,801.49	1,536,779.27	-	2,774,625.00	6,383,205.76
2030	-	2,071,801.49	1,536,779.27	-	2,762,125.00	6,370,705.76
2031	-	2,072,069.68	1,536,779.27	-	2,400,000.00	6,008,848.95
2032	-	2,072,471.98	1,536,779.27	-	2,393,375.00	6,002,626.25
2033	-	2,072,874.27	1,536,779.24	-	2,388,375.00	5,998,028.51
2034	-	2,073,142.47	1,138,509.75	-	2,384,750.00	5,596,402.22
2035	-	2,070,460.52	1,138,509.75	-	2,377,375.00	5,586,345.27
2036	-	2,072,391.52	1,138,509.80	-	2,371,125.00	5,582,026.32
2037	-	2,072,123.32	-	-	2,370,625.00	4,442,748.32
2038	-	2,071,184.65	-	-	2,360,750.00	4,431,934.65
2039	-	2,072,123.32	-	-	2,361,250.00	4,433,373.32
2040	-	2,071,989.23	-	-	2,351,875.00	4,423,864.23
2041	-	2,070,326.42	-	-	631,500.00	2,701,826.42
2042	-	2,070,996.91	-	-	631,875.00	2,702,871.91
2043	-	2,072,740.17	-	-	631,000.00	2,703,740.17
2044	-	2,072,606.07	-	-	628,875.00	2,701,481.07
2045	-	-	-	-	630,375.00	630,375.00
2046	-	-	-	-	630,375.00	630,375.00
Total:	\$13,489,664.25	\$60,087,151.21	\$29,939,046.38	\$220,000.00	\$60,107,577.64	\$163,843,439.48

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Preliminary debt service estimate shown; final amount will be determined after the project is completed

(3) Excludes debt service payments made from escrow funds.

Note: Table excludes the \$347,382.50 August 1, 2015 debt service payment previously made on the 2008 Bonds.

Pension and Other Employee Benefit Costs

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2014-15, the City allocated 2.6% of its total employee costs to the sewer utility.

Pension. Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System ("**PERS**"), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts. See Note 9 of the City's June 30, 2014 audited financial report, which is attached to this Official Statement as Appendix J, for information as of June 30, 2014 related to the City's pension and post-retirement medical benefit costs.

Three-year trend information for the City's pension plan for both miscellaneous and safety plans for fiscal years ending June 30 is set forth below:

Three-year Trend of Annual Pension Cost

Miscellaneous

Fiscal year ended <u>June 30</u>	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2012	\$4,964,308	100%	--
2013	5,362,636	100	--
2014	5,677,538	100	--

Public Safety

Fiscal year ended <u>June 30</u>	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2012	\$7,394,820	100%	--
2013	7,814,972	100	--
2014	8,887,795	100	--

**Four-year Trend of
Funded Status of the Plan**

Miscellaneous

Valuation Date (June 30)	Value of assets	Entry age normal accrued Liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2010	\$166,816,005	\$207,055,196	\$40,239,191	80.6%	\$29,303,730	137.3%
2011	176,271,009	219,035,437	42,764,428	80.5	28,015,399	152.6
2012	181,792,644	227,332,457	45,539,813	80.0	27,247,606	167.1
2013	169,943,544	242,120,498	72,176,954	70.2	27,759,758	260.0

Note: Beginning with the June 30, 2013 valuation, the actuarial value of assets equals the market value of assets due to PERS direct rate smoothing.

Public Safety

Valuation Date (June 30)	Value of assets	Entry age normal accrued Liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2010	\$178,427,592	\$234,203,845	\$55,956,253	76.1%	\$19,994,962	279.9%
2011	188,706,656	249,306,267	60,599,611	75.7	20,072,380	301.9
2012	199,093,142	265,379,700	66,286,558	75.0	19,553,357	339.0
2013	187,110,004	282,699,515	95,589,511	66.2	21,048,349	454.1

Note: Beginning with the June 30, 2013 valuation, the actuarial value of assets equals the market value of assets due to PERS direct rate smoothing.

The tables below show projected employer contribution rates (before employee cost sharing which, by 2016, will range from 5% to 12% depending on bargaining group) for the next five fiscal years assuming PERS earns 18 percent for fiscal year 2013-14 and 7.50 percent every fiscal year thereafter and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits or funding will occur between now and the beginning of fiscal year 2016-17.

Miscellaneous

	<u>New Rate</u>	<u>Projected Future Employer Contribution Rates</u>				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Contribution Rates:	24.134%	26.2%	27.8%	29.3%	30.9%	31.0%

Public Safety

	<u>New Rate</u>	<u>Projected Future Employer Contribution Rates</u>				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Contribution Rates:	42.457%	45.4%	47.4%	49.3%	51.3%	51.3%

During fiscal year 2014-15, governmental agencies are required to implement a new accounting standard, Governmental Accounting Standards Board Statement 68 (GASB 68). GASB 68 requires all governmental agencies to record the unfunded pension liability on their balance sheet (i.e. Statement of Net Position). Previously, the unfunded pension liability was required to be reported only in the notes to the financial statements. This unfunded pension liability will now be reflected on the entity-wide balance sheet, and the balance sheet of the proprietary funds, which includes the City's Sewer Utility Fund. The new balance sheet presentation of this existing obligation will create a deficit in the unrestricted portion of the City's total unrestricted equity (i.e. Unrestricted Net Position), and will negatively impact the equity of the Sewer Utility Fund. GASB 68 will also change the pension expense calculation from actual contributions made to a pension plan, to an expense based on actuarial calculations. The GASB 68 derived change in pension expense does not have an impact on operations or debt service coverage and will therefore be excluded from the debt service coverage ratio calculation.

Recent Changes by CalPERS. On March 14, 2012, the CalPERS Board of Administration voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, the amounts of CalPERS member public agency contributions will increase.

The CalPERS Board of Administration adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the City may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy were used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

According to CalPERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.
- Local agencies' plans will experience more rate volatility in normal years, but a much reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.

- There will be greater transparency about the timing and impact of future employer contribution rate changes.
- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and that also amended various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA applies to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with CalPERS).

The provisions of AB 340 went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the City, have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of AB 340 on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

Other Post Employment Benefits. The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution ("**ARC**") of the employer, 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Three-year Trend of Annual OPEB Cost

Fiscal year ended <u>June 30</u>	Annual OPEB cost (AOC)	Percentage of AOC <u>contributed</u>	OPEB obligations (Asset)
2012	\$5,018,000	98%	\$6,868,477
2013	5,172,000	98	6,962,477
2014	4,890,000	100	6,962,477

Three-year Trend of Funded Status of the Plan

Valuation Date (<u>June 30</u>)	Actuarial Value of Assets	Entry age normal accrued liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2009	\$0	\$37,264,000	\$37,264,000	0.0	\$43,764,165	85.2%
2011	4,429,000	53,083,000	48,654,000	8.3	44,961,408	108.2
2013	11,001,000	56,177,000	45,176,000	19.6	48,399,901	93.3

As of June 30, 2013, the most recent actuarial valuation date, the plan was 19.6% funded. The actuarial accrued liability for benefits was \$56,177,000, and the actuarial value of plan assets was \$11,001,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,176,000. The covered payroll (annual payroll of active employees covered by the plan) was \$48,399,901 and the ratio of UAAL to the covered payroll was 93.3%.

Historical Revenues and Expenses

The following table shows a three-year history of revenues, expenses, and net revenues based on information provided in the City's audited financial statements and by the City.

Table A9
Sewer Enterprise - Historical Revenues, Operating Expenses, and Net Revenues
Fiscal Year Ended June 30

Fiscal Year Ending June 30	2012 (audited)	2013 (audited)	2014 (audited)	2015 (unaudited)
Adopted Rate Increase (rounded)	9%	9%	9%	9%
REVENUES				
Sewer Service Charges	\$25,108,273	\$27,627,000	\$29,095,415	\$32,562,304
Investment Earnings & Other Revenues	23,750	14,735	127,201	177,602
Total Revenues	25,132,023	27,641,735	29,222,616	32,739,906
EXPENSES				
<u>Operating & Maintenance</u>				
Operating Expenses from Audit	20,017,426	19,287,430	19,989,758	22,081,105
Less Depreciation	(544,154)	(525,718)	(523,563)	(581,078)
Less SVCW Bond Debt Service	(2,598,198)	(2,598,152)	(2,869,674)	(4,819,301)
Less SVCW Non-Operating Payments	(781,863)	(753,070)	(974,433)	--
Net Operating Expenses	16,093,211	15,410,490	15,622,088	16,680,727
Net Revenues	9,038,812	12,231,245	13,600,528	16,059,179
<u>Debt Service</u>				
City Share of SVCW 2008 Bonds	450,284	452,043	360,802 ⁽¹⁾	450,194
City Share of SVCW 2009 Bonds	2,147,914	2,146,109	2,110,594	2,180,607
City Share of SVCW 2014 Bonds	--	--	--	1,790,222
Total Senior Debt Service	2,598,198	2,598,152	2,471,396	4,421,023
Senior Debt Service Coverage	3.48	4.71	5.50	3.63
City Share of SVCW SRF Loans	--	--	398,278	398,278
Total Debt Service	2,598,198	2,598,152	2,869,674	4,819,301
Total Debt Service Coverage	3.48	4.71	4.74	3.33
Net Revenues Remaining After Debt Service	6,440,614	9,633,093	10,730,854	11,239,879
Available Reserves June 30 ⁽²⁾	10,122,484	16,479,105	22,124,504	30,262,706
Days Operating Cash June 30 ⁽²⁾	230	390	517	662

(1) Net of reserve and interest credits received by the City.

(2) Includes working capital.

Projected Revenues, Expenses, and Debt Service Coverage

The following tables show cash flow assumptions and projections of the City's revenues, expenses, and net revenues. The projections include the City's estimated share of debt service for the Authority's CIP. The projections were developed by Bartle Wells Associates based on information provided by the City and the Authority, and a number of assumptions including those listed below. While the City believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

General Assumptions

1. Beginning fund balance as of June 30, 2015 is based on the City's fund balance analysis and includes rollover capital improvement funds (budgeted in prior years for projects that are not yet complete), encumbrances, and restricted reserves.
2. Growth in sewer service connections is estimated at 0.25% per year or approximately 1% every four years.

Revenues

1. Sewer Service Charges within the City are projected based on estimated revenues for fiscal year 2014-15 adjusted for annual rate increases and growth.
2. Sewer Service Charges from the contract agencies are projected based on contractual agreements with each agency and assume a 6-month lag in payments due each fiscal year.
3. Interest income is estimated based on beginning fund balances multiplied by the projected interest rate shown for each year.
4. Other revenues are projected as shown in the table.

Expense Assumptions

1. Operating expenses are based on the City's fiscal year 2015-16 budget and escalate at the annual rate of 4%.
2. SVCW wastewater treatment plant operating expenses are based on SVCW's fiscal year 2015-16 budget with operating and maintenance costs broken out separately from debt service, capital and other non-operating expenses. Future SVCW operating expenses escalate at the annual rate of 4%, with the exception that future expenses exclude the annual true-up incorporated in the 2015-16 budget.
3. Debt service includes the City's allocable share of payments on outstanding and projected SVCW debt. Debt service payments for the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 32.62% of the interest due on the 2009 Bonds. This reimbursement has temporarily been lowered and may be subject to further impact from the federal budget sequester.

4. Debt service projections assume the issuance of approximately \$14.6 million of future SVCW bonds and \$238.1 million of future SVCW SRF Loans allocable to the City over the next five years.

5. Debt service payments are rounded to the nearest \$1,000 dollars.

6. Days Operating Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.

[remainder of page intentionally left blank]

Table A10
Redwood City Sewer Enterprise Cash Flow Projections
Fiscal Year Ending June 30

	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase	Adopted 9%	Projected 4%	Projected 4%	Projected 4%	Projected 4%
Beginning Fund Reserves	\$30,263,000	\$14,345,000	\$17,092,000	\$19,606,000	\$19,854,000
REVENUES					
Sewer Service Charges	\$28,173,000	\$29,373,000	\$30,624,000	\$31,929,000	\$33,289,000
Contract Agency Charges	5,948,000	6,700,000	7,298,000	8,355,000	9,836,000
Connection Fees	750,000	250,000	250,000	250,000	250,000
Investment Earnings	236,000	72,000	171,000	294,000	397,000
Other Revenues	75,000	75,000	75,000	75,000	75,000
Total	\$35,182,000	\$36,470,000	\$38,418,000	\$40,903,000	\$43,847,000
EXPENSES					
<u>Operating & Maintenance</u>					
City Operating Expenses	\$7,752,000	\$7,988,000	\$8,233,000	\$8,488,000	\$8,753,000
SVCW Operating Expenses	9,082,000	9,660,000	10,046,000	10,448,000	10,866,000
Subtotal	\$16,834,000	\$17,648,000	\$18,279,000	\$18,936,000	\$19,619,000
Net Revenues	\$18,348,000	\$18,822,000	\$20,139,000	\$21,967,000	\$24,228,000
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
City Share of SVCW 2008 Bonds	\$347,000	\$0	\$0	\$0	\$0
City Share of SVCW 2009 Bonds (Net)	2,199,000	2,193,000	2,191,000	2,187,000	1,483,000
City Share of SVCW 2014 Bonds	2,073,000	2,071,000	2,071,000	2,072,000	2,072,000
City Share of SVCW 2015 Bonds	122,000	1,039,000	1,016,000	1,005,000	1,568,000
City Share of Future SVCW Bonds	0	0	0	984,000	984,000
Total Senior Debt Service	\$4,741,000	\$5,303,000	\$5,278,000	\$6,248,000	\$6,107,000
Senior Debt Service Coverage	3.87	3.55	3.82	3.52	3.97
<u>Subordinate Debt Service</u>					
City Share of Outstanding SVCW SRF Loans	\$398,000	\$1,537,000	\$1,537,000	\$1,537,000	\$1,537,000
City Share of Future SVCW SRF Loans	0	0	650,000	2,225,000	5,849,000
City Share of SVCW Line of Credit Payments	50,000	85,000	85,000	85,000	85,000
Total Subordinate Debt Service	448,000	1,622,000	2,272,000	3,847,000	7,471,000
Total Combined Debt Service	\$5,189,000	\$6,925,000	\$7,550,000	\$10,095,000	\$13,578,000
Total Debt Service Coverage	3.54	2.72	2.67	2.18	1.78
<u>Capital & Other Non-Operating</u>					
City Capital Improvements	\$7,090,000	\$7,000,000	\$7,000,000	\$6,500,000	\$4,250,000
City Carryover Capital Improvements	8,594,000	0	0	0	0
Cash Contribution for SVCW CIP	10,729,000	0	0	0	0
SVCW Capital Projects/Reserves	1,525,000	1,500,000	1,500,000	1,500,000	1,500,000
SVCW SRF Reserve Contributions	1,139,000	650,000	1,575,000	3,624,000	4,608,000
Subtotal	\$29,077,000	\$9,150,000	\$10,075,000	\$11,624,000	\$10,358,000
Total	\$51,100,000	\$33,723,000	\$35,904,000	\$40,655,000	\$43,555,000
Revenues Less Expenses	\$(15,918,000)	\$2,747,000	\$2,514,000	\$248,000	\$292,000
Ending Fund Reserves	\$14,345,000	\$17,092,000	\$19,606,000	\$19,854,000	\$20,146,000
Days Cash on Hand	311	354	391	383	375

Absence of Litigation

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

Financial Statements

The City's audited financial statements for the fiscal year ending June 30, 2014 are attached as Appendix J. The City's financial statements were audited by Badawi & Associates, Certified Public Accountants, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

APPENDIX B

INFORMATION ABOUT THE CITY OF SAN CARLOS' WASTEWATER SYSTEM

City of San Carlos

The City of San Carlos is located in the northern part of Silicon Valley, approximately 22 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City encompasses approximately six square miles within its corporate limits and has a population of approximately 28,931.

Form of Government

The City was incorporated in 1925 and is a general law city pursuant to the California Government Code. The City is governed by a five-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The City Treasurer is also an elected position. The current members of the City Council are:

<u>Member</u>	<u>Current Term Expires</u>
Ron Collins, <i>Mayor</i>	November 2015
Cameron Johnson, <i>Vice Mayor</i>	November 2017
Robert Grassilli*	November 2017
Matthew B. Grocott**	November 2017
Mark Olbert	November 2015

* Appointed representative to Silicon Valley Clean Water

** Appointed alternate representative to Silicon Valley Clean Water

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The current City Manager is Jeff Maltbie, and the City's Wastewater System is managed by Jay Walter, the Public Works Director.

City Leadership

- Jeff D. Maltbie began serving as the City's Interim City Manager in September of 2010 and, after a national recruitment, was selected by the Council to serve as City Manager in March 2011. During his 13 years with the City, he has served as Deputy City Manager, including five years serving as the City's Administrative Services Director. As the Administrative Services Director he was responsible for all of the City's business operations including Finance, Human Resources, Information Technology and Risk Management. Jeff joined the City of San Carlos in 2001 as a Senior Analyst. Prior to coming to San Carlos Jeff worked for the City of Daly City, Santa Clara County, and the City of Milpitas. Jeff attended San Diego State University and San Jose State University earning a Bachelor's of Art degree in Political Science/Public Administration.
- Jay Walter began serving as the City's Public Works Director/City Engineer in August of 2012, after having served the City of San Luis Obispo in the same capacity since 2001. Jay was the District Director for the California Department of Transportation District 5, which includes 5 California coastal counties from 1998 to 2001. He worked for Caltrans for nearly 20 years, serving in the Design, Traffic Engineering, Construction Management,

and Maintenance & Operations Divisions for two different Districts. Jay attended California Polytechnic State University at San Luis Obispo, earning a Bachelor's Degree in Civil Engineering. He is a registered Civil Engineer and Traffic Engineer in the State of California.

The Wastewater System

The City owns and operates a sanitary sewer collection system consisting of approximately 104 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. The City's wastewater is conveyed to the Authority for treatment and disposal. The City accounts for its sewer utility as a separate enterprise fund.

Wastewater Flow to Authority

The following table shows a five fiscal year history of the City's average daily wastewater flows to the Authority.

Table B1
City of San Carlos - Average Daily Wastewater Flow (mgd)

	2010-11	2011-12	2012-13	2013-14	2014-15
Average Daily Flow (mgd)	2.40	2.28	1.76	1.66	1.81

Source: Silicon Valley Clean Water.

Service Area & Customer Base

The City's sewer enterprise provides wastewater service to all of the incorporated area of the City as well as some surrounding adjacent County areas. The City provides wastewater conveyance services and subsequent treatment by SVCW to four San Mateo County sewer districts as discussed later in this section.

The following table shows a three-year history of the City's sewer customers.

Table B2
City of San Carlos - Sewer Accounts

	2012-13		2013-14		2014-15	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
Residential	9,948	86.59%	9,938	86.40%	9,942	84.84%
Non-Residential	1,041	9.06	1,064	9.25	1,281	10.90
Outside Agencies Served	500	4.35	500	4.35	499	4.26
Total	11,489	100.00%	11,502	100.00%	11,722	100.00%

(1) Four separate sewer districts hold the 499 accounts, on which accounts the County pays charges to the City.

Note: Utility billing database changes may have resulted in variations in number of customer accounts.

Source: City of San Carlos.

The following table shows a three-year history of service charge revenues.

**Table B3
City of San Carlos - Historical Sewer Service Charge Revenues**

	2012-13		2013-14		2014-15	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
City Sewer Accounts ⁽¹⁾						
Residential	\$7,741,191	77.69%	\$9,499,767	75.38%	\$11,121,441	73.52%
Non-Residential	<u>1,917,164</u>	<u>19.24</u>	<u>2,745,512</u>	<u>21.79</u>	<u>3,590,838</u>	<u>21.65%</u>
Subtotal	\$9,658,355	96.94%	\$12,245,279	97.17%	\$14,712,279	95.17%
Outside Agencies Served ⁽²⁾	\$305,249	3.06%	\$357,048	2.83%	414,591	2.74%
Total	\$9,963,604	100.00%	\$12,602,327	100.00%	\$15,126,870	100.00%

Source: City of San Carlos.

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2014-15.

**Table B4
City of San Carlos - Largest Customers, Fiscal Year 2014-15**

Description	FY 2014-15	
	Sewer Service Charges	% of Total
10 Largest City Sewer Accounts		
Vica Capital LLC	Industrial	\$195,732 1.29%
L-3 Communications Corporation	Industrial	82,528 0.55%
Herrick, William Et Al Lessee	Industrial	68,855 0.46%
Black Mountain Holdings LLC	Industrial	62,823 0.42%
HD Development or Maryland Inc.	Commercial	56,845 0.38%
San Carlos Retail Venture LP	Commercial	54,143 0.36%
San Carlos Development Corp	Commercial	47,115 0.31%
LSP Properties LLC	Commercial	41,827 0.28%
Levin, Zelda Et Al	Commercial	37,778 0.25%
Gregory St Clare (722 Laurel)	Commercial	<u>35,047</u> <u>0.23%</u>
Subtotal		\$682,693 4.51%
Outside Sewer Districts		
Devonshire County Sanitation District	Residential	\$231,458 1.53%
Emerald Lake Heights Sewer Maintenance District	Residential	87,593 0.58%
Scenic Heights County Sanitation District	Residential	41,858 0.28%
Harbor Industrial Sewer Maintenance District	Comm/Industrial	<u>53,681</u> <u>0.35%</u>
Subtotal		\$414,591 2.74%
All Other Customers		14,029,586 92.75%
Total		\$15,126,870 100.00%

Source: City of San Carlos utility billing data.

Sewer Districts Served by San Carlos

The City provides sewer service to four San Mateo County sewer maintenance districts pursuant to separate legal agreements with San Mateo County for each district. These districts provide their own local wastewater collection services and pay the City of San Carlos for conveyance and wastewater treatment. The Authority bills San Carlos based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the four County sewer districts. Each of the districts pays San Carlos for wastewater service pursuant to each district's legal agreement with the City. The sewer districts served by San Carlos are listed below along with a brief description of each district and the basis of its payments to the City.

Devonshire County Sanitation District – This District includes approximately 274 residential accounts, and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate. The District also includes an institution, which is charged based on water consumption multiplied by 80% of the applicable sewer rate.

Emerald Lake Heights Sewer Maintenance District (Zone 1) – This District includes approximately 113 residential accounts and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate.

Scenic Heights County Sanitation District – This District includes approximately 55 residential accounts and pays the City based on the number of accounts multiplied by 80% of the City's existing sewer rate.

Harbor Industrial Sewer Maintenance District – This District serves approximately 63 commercial and industrial customer accounts. The charges billed to this District are calculated based on district-wide loading data, City loading data and SVCW revenue.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the City's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

Recent Enforcement Actions. On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the City's wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring and these obligations have been met. The agreement also commits the City to certain actions regarding SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root

control program. An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement set forth stipulated payments for failure to file required reports. The City is on schedule to meet the SSO reduction target in 2017.

Wastewater Rates

The City's wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Residential customers are billed annually on their property tax statements. Non-residential customers pay volumetric charges based on customer class and metered water use from April 1 to March 31 preceding each new fiscal year, subject to a minimum monthly charge.

In 2013, the City adopted a series of three annual rate increases effective for fiscal years 2013-14 through 2015-16. These rate increases were adopted to support the City's allocable share of debt service for SVCW's CIP as well as SCVW operations and the City's operating and capital programs. These rates were adopted in compliance with Article XIID of the California Constitution. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID. The following table shows the City's historical and adopted sewer rates.

Table B5
City of San Carlos – Historical and Adopted Sewer Rates

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Effective Rate Increase %	7%	7%	7%	6%	25%	20%	10%
Residential (annual charge)	\$525.08	\$561.84	\$601.17	\$637.24	\$807.46	\$968.95	\$1,065.85
Monthly Equivalent	43.76	46.82	50.10	53.10	67.29	80.75	88.82
Commercial (per hcf of metered water use)							
Bakeries & Restaurants	8.35	8.93	9.56	10.13	13.05	15.66	17.23
Markets with Disposal & Mortuaries	8.20	8.77	9.38	9.94	11.14	13.37	14.71
All Others: *	5.33	5.70	6.10	6.47	8.25	9.90	10.89
*Subject to Minimum Annual Charge	525.08	561.84	601.17	637.24	605.60	726.71	799.39
Institutional (per hcf of metered water use)							
Hospital	5.33	5.70	6.10	6.47	8.47	10.16	11.18
All Others	5.03	5.38	5.76	6.12	7.90	9.48	10.43
Industrial							
Flow (\$ per hcf)	4.56	4.88	5.22	5.53	6.79	8.15	8.97
BOD (\$ per pound)	0.3188	0.3411	0.3650	0.3869	0.7543	0.9052	0.9957
SS (\$ per pound)	0.3350	0.3583	0.3834	0.4064	0.7981	0.9577	1.0535

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by the City of San Carlos. These rate increases were adopted to help support each district's share of costs for the Authority's CIP. These rates were adopted pursuant to Article XIII D of the California Constitution.

Table B6
San Mateo County Adopted Annual Sewer Service Charges

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Sewer Districts Served by San Carlos	Annual Charge per Residential Unit or Equivalent					
Emerald Lake Heights SMD (Zone 1)	\$1,100	\$1,130	\$1,160	\$1,190	\$1,220	\$1,250
Devonshire CSD	900	1,000	1,025	1,050	1075	1,100
Harbor Industrial SMD	310	320	330	340	350	360
Scenic Heights CSD	950	1,050	1,080	1,110	1,140	1,170

Source: San Mateo County.

Billing and Collection

Each year, the City calculates the wastewater charge for the upcoming fiscal year for each parcel in the City's service area. Beginning in 2009, San Carlos began contracting with a financial services firm to prepare the wastewater bills and to monitor trends. These charges are submitted to San Mateo County for collection on the County's property tax bills (except for governmental agencies which are billed directly). The City's wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County's ad valorem property taxes. The City's charges are subject to the same penalties and payment enforcement as the County's taxes, which include the potential to foreclose on properties with payment delinquencies.

San Mateo County's property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the City the full amount of all charges assessed on the County's tax rolls, and also retains any penalties due to payment delinquency. The County pays the City for 100% of its annual wastewater billings, regardless of payment delinquencies. The County has the option to discontinue its participation in the Teeter Plan.

Capacity Fees for New Development

The City levies a sewer capacity fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer capacity fees are established by the City Council. The current sewer capacity fee for a new residential connection is \$4,500. New non-residential connections pay a fee equal to \$4,500 for the first 270 gallons or any fraction of estimated daily average quantity of sewage, plus \$4,500 per subsequent 270 gallons or any fraction greater than 25 gallons of daily estimated average quantity of sewage discharge, as determined by the City Engineer.

Future Capital Needs

The City commissioned RMC Water and Environment to prepare a Sewer Collection System Master Plan, dated January 2013 (the "**Master Plan**"). The Master Plan reported that

the City has \$8,802,000 of high priority capacity improvement projects that the City submitted to Baykeeper in compliance with the consent decree (see “-Sewer Utility Regulatory Issues” above). These projects were prioritized based on relative severity of existing capacity deficiencies and the location of historical wet weather overflows. The projects that were determined to have the maximum benefit on the existing collection system capacity have been funded by a rate increase in 2012. The first project is in construction, and the second is approximately 50% complete in design. An additional rate increase was passed in 2013 to fund projects for lateral and main line replacement starting in 2014. The Master Plan created a priority plan for addressing the system deficiencies as outlined below.

In addition, the Master Plan presented a recommended 20-year collection system capital improvement program: the program would cost:

- \$20,802,000 (including the \$8,802,000 described in the previous paragraph and another \$12 million of sewer rehabilitation) in the next 6 years if the recommended program were pursued,
- \$11,802,000 (including the \$8,802,000 described in the previous paragraph and another \$3 million of sewer rehabilitation) in the next 6 years if a “minimum point repair approach” were pursued,
- \$50,756,000 in the following 14 years if the recommended program were pursued, and
- \$29,779,000 in the following 14 years if a “minimum point repair approach” were pursued.

In addition, the City anticipates financing its 15.14% allocable share of costs for the Authority’s CIP, equal to an estimated \$78.8 million (including 3% cost inflation), after taking into account proceeds from the 2015 Bonds, the 2014 Bonds and outstanding SRF Loans, over approximately the next five years, through long-term debt issued by the Authority or the City.

In 2013, the City adopted three years of rate increases to fund its allocable share of debt service for the Authority’s CIP and to help fund the City’s capital improvement needs on a pay-as-you-go, cash basis.

Wastewater System Finances

The City’s sewer utility is accounted for as a separate enterprise fund. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

Outstanding Wastewater System Debt

The City incurred obligations in connection with the issuance by the Authority of the 2009 Bonds, SRF Loans and the Line of Credit, and the 2014 Bonds, as described in “THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt”. The City’s payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table B7
City of San Carlos - Wastewater System Outstanding Debt

Fiscal Year Ending June 30	2009 SCVW Bond Payments ⁽¹⁾	2014 SCVW Bond Payments	SRF Loan Payments (preliminary) ⁽²⁾	Line of Credit Payments (estimated)	2015 SCVW Bond Payments ⁽³⁾	Total
2016	\$754,175.00	\$646,162.83	\$126,146.60	\$15,000.00	\$60,448.89	\$1,599,933.32
2017	750,112.50	645,494.03	479,037.22	25,000.00	463,400.00	2,363,043.75
2018	749,907.25	645,410.43	479,037.22	25,000.00	465,550.00	2,364,904.90
2019	743,691.00	645,744.83	479,037.22	-	471,000.00	2,339,473.05
2020	473,933.75	645,811.71	479,037.22	-	613,075.00	2,211,857.68
2021	-	646,146.10	479,037.22	-	924,750.00	2,049,933.32
2022	-	645,978.91	479,037.22	-	922,375.00	2,047,391.13
2023	-	646,146.11	479,037.22	-	924,125.00	2,049,308.33
2024	-	645,769.90	479,037.22	-	929,750.00	2,054,557.12
2025	-	645,686.31	479,037.22	-	929,250.00	2,053,973.53
2026	-	645,853.51	479,037.22	-	918,000.00	2,042,890.73
2027	-	646,229.70	479,037.22	-	916,000.00	2,041,266.92
2028	-	645,937.10	479,037.22	-	917,875.00	2,042,849.32
2029	-	645,811.71	479,037.22	-	918,500.00	2,043,348.93
2030	-	645,811.71	479,037.22	-	917,875.00	2,042,723.93
2031	-	645,895.30	479,037.22	-	818,500.00	1,943,432.52
2032	-	646,020.70	479,037.21	-	825,250.00	1,950,307.92
2033	-	646,146.11	354,890.62	-	820,750.00	1,945,933.32
2034	-	646,229.71	354,890.62	-	820,125.00	1,821,245.33
2035	-	645,393.70	354,890.64	-	818,250.00	1,818,534.32
2036	-	645,995.63	-	-	820,000.00	1,820,886.27
2037	-	645,912.03	-	-	815,375.00	1,461,287.03
2038	-	645,619.42	-	-	814,375.00	1,459,994.42
2039	-	645,912.02	-	-	811,875.00	1,457,787.02
2040	-	645,870.23	-	-	807,875.00	1,453,745.23
2041	-	645,351.90	-	-	368,500.00	1,013,851.90
2042	-	645,560.91	-	-	369,125.00	1,014,685.91
2043	-	646,104.31	-	-	369,000.00	1,015,104.31
2044	-	646,062.51	-	-	368,125.00	1,014,187.51
2045	-	-	-	-	366,500.00	366,500.00
2046	-	-	-	-	369,000.00	369,000.00
	\$3,471,819.50	\$18,730,069.37	\$9,332,451.21	\$65,000.00	\$21,674,598.89	\$53,273,938.97

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Preliminary debt service estimate shown; final amount will be determined after the project is completed.

(3) Excludes debt service payments made from escrow funds.

Note: Table excludes the \$88,753.75 August 1, 2015 debt service payment previously made on the 2008 Bonds.

Pension and Other Employee Benefit Costs

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2013-14, the City allocated approximately 10% of its total employee costs to the sewer utility. Same as 2014 bond

Pension. A significant portion of the City's employment costs are pension and post-retirement medical benefit costs. See Notes 12 and 13 of the City's June 30, 2014 audited financial report, which is attached to this Official Statement as Appendix K, for information as of June 30, 2014 related to the City's pension and post-retirement medical benefit costs.

The City contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Three-year trend information for the City's pension plan is set forth below:

Three-year Trend of Annual Pension Cost

	Contribution Amount	Contribution Rate					Safety Fire
		1 st Tier	2 nd Tier	3 rd Tier	4 th Tier	2 nd Tier	
2012	\$2,000,814	20.160%	13.817%	10.019%	N/A	19.169%	
2013	2,301,816	20.433	14.383	10.197	6.500%	19.204	
2014	1,590,218	22.167	15.133	10.773	6.500	19.900	

Three-year Trend of Funded Status of the Plan

Statewide Miscellaneous Plan Tier 1 (2.7% at 55 years)

Valuation Date	Entry Age	Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010		\$2,297,871,345	\$1,815,671,616	\$482,199,729	79.0%	\$434,023,381	111.1%
2011		2,486,708,579	1,981,073,089	505,635,490	79.7	427,300,410	118.3
2012		2,680,181,441	2,178,799,790	501,381,651	81.3	417,600,034	120.0

Statewide Miscellaneous Plan Tier 2 (2.5% at 55 years)

Valuation Date	Entry Age	Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010		\$1,972,910,641	\$1,603,482,152	\$369,428,489	81.3%	\$352,637,380	104.8%
2011		2,135,350,204	1,724,200,585	411,149,619	80.7	350,121,750	117.4
2012		2,254,622,362	1,837,489,422	417,132,940	81.5	339,228,272	123.0

Statewide Miscellaneous Plan Tier 3 (2.0% at 55 years)

Valuation <u>Date</u>	Entry Age <u>Accrued Liability</u>	<u>Value of Assets</u>	Unfunded (Overfunded) <u>Liability</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	Unfunded (Overfunded) Liability as % <u>of Payroll</u>
2010	\$3,309,064,934	\$2,946,408,106	\$362,656,828	89.0%	\$748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5	759,263,518	54.9
2012	4,175,139,166	3,686,598,343	488,540,823	88.3	757,045,663	64.5

See “APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by CalPERS” and “APPENDIX A – Pension and Other Employee Benefit Costs - Pension Reform Act of 2013 (Assembly Bill 340)” for information about CalPERS.

Other Post Employment Benefits. Three-year trend information for the City’s OPEB plan is set forth below:

Three-year Trend of Annual OPEB Cost

Fiscal year ended <u>June 30</u>	Annual OPEB cost <u>(AOC)</u>	Actual <u>Contribution</u>	Percentage of AOC <u>contributed</u>	Net OPEB obligations <u>(Asset)</u>
<u>Healthcare</u>				
2012	\$367,514	-	0%	\$(346,902)
2013	414,101	\$175,000	42	(107,801)
2014	286,796	286,000	100	(107,005)
<u>Longevity</u>				
2012	487,300	1,225,722	252%	\$768,433
2013	499,704	175,000	35	1,093,137
2014	600,355	311,000	52	1,382,492

**Trend of
Funded Status of the Plan (In Thousands)**

Valuation Date (June 30)	Ending Actuarial Value of Assets	Entry Age Normal Accrued Liability	Overfunded (Underfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	Overfunded (Underfunded) Actuarial Liability (UAAL) as a Percentage of Covered Payroll
<u>Healthcare</u>						
2009	\$1,629	\$5,356	\$(3,727)	30.41%	\$8,974	(41.53)%
2011	1,140	5,197	(4,057)	21.94	5,863	(69.20)
2013	1,073	3,895	(2,822)	27.55	4,751	(59.40)
<u>Longevity</u>						
2009	--	3,993	(3,993)	0.00%	6,380	(62.59)%
2011	1,200	4,714	(3,514)	25.46	5,863	(59.94)
2013	1,325	6,584	(5,259)	20.12	4,751	(110.69)

Historical Revenues and Expenses

The following table shows a history of revenues, expenses, and net revenues based on information provided in the City's audited financial statements and by the City.

Table B8
Sewer Enterprise - Historical Revenues, Expenses, and Fund Balances
Fiscal Year Ended June 30

	2012 (Audited)	2013 (Audited)	2014 (Audited)	2015 (Unaudited)
Adopted Rate Increase (rounded)	7%	6%	25%	20%
REVENUES				
Charges for Service	\$9,981,977	\$10,011,575	\$12,685,252	\$15,335,342
Investment Earnings & Other Revenues	45,186	45,509	93,668	104,247
Total Revenues	10,027,163	10,057,084	12,778,920	15,439,589
EXPENSES				
<u>Operating & Maintenance</u>				
Operating Expenses from Audit	6,829,477	7,072,683	8,185,512	10,244,464
Less Depreciation	(283,952)	(315,341)	(352,480)	(465,684)
Less SVCW Debt Service Payments ⁽¹⁾	--	--	(780,286)	(1,365,840)
Less SVCW Non-Operating Payments	(223,271)	(213,224)	(275,214)	--
Plus Transfer Out ⁽²⁾	595,000	510,000	520,200	541,000
Net Operating Expenses	6,917,254	7,054,118	7,297,732	8,953,940
Net Revenues	3,109,909	3,002,966	5,481,188	6,485,649
<u>Debt Service</u>				
City Share of SVCW 2008 Bonds	114,520	118,207	116,008	118,707
City Share of SVCW 2009 Bonds (Net)	552,080	549,237	540,132	564,948
City Share of SVCW 2014 Bonds	--	--	--	558,039
Total Senior Debt Service	666,600	667,444	656,140	1,241,694
Senior Debt Service Coverage	4.67	4.50	8.35	5.22
City Share of SVCW SRF Loans	--	--	124,146	124,146
Total Debt Service	666,600	667,444	780,286	1,365,840
Total Debt Service Coverage	4.67	4.50	7.02	4.75
Net Revenues Remaining After Debt Service	2,433,309	2,335,522	4,700,902	5,119,810
Cash & Equivalents June 30	6,140,412	7,769,570	10,485,167	14,772,639
Days Operating Cash June 30 ⁽³⁾	324	402	524	602

(1) Payments for SVCW debt service are included in audited Operating Expenses in fiscal years ended June 30, 2014 and 2015, but not in prior years due to a change in accounting.

(2) Transfer Out to General Fund for costs related to sewer operations that are not reported as part of audited Operating Expenses

(3) Calculated based on Cash & Equivalents divided by Net Operating & Maintenance Expenses, multiplied by 365 days.

Projected Revenues, Expenses, and Debt Service Coverage

The following tables show cash flow assumptions and projections of the City's sewer enterprise revenues, expenses, and net revenues. The projections include the City's estimated allocable share of debt service for the Authority's CIP. The projections were developed by Bartle Wells Associates based on information provided by the City and the Authority, and a number of assumptions including those listed on the following table. While the City believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

Revenues

1. Sewer Service Charges are projected based on fiscal year 2013-14 actual revenues adjusted for adopted and projected rate increases and growth, estimated at 10 new single family homes or equivalents each year.
2. Other revenues are projected as shown on the table.

Operating & Maintenance Expenses

1. City Operating and Maintenance Expenses are based on the City's Budget for fiscal year 2014-15 and are projected to escalate at the annual rate of 4%.
2. SVCW Operating Expenses are based on SVCW's fiscal year 2015-16 budget with operating and maintenance costs broken out separately from debt service, capital and other non-operating expenses. Future SVCW operating expenses escalate at the annual rate of 4%, with the exception that future expenses exclude the annual true-up incorporated in the 2015-16 budget..

Non-Operating Expenses

1. Senior Debt Service includes the City's allocable share of payments due for outstanding and projected SVCW bonds issued to help fund the Authority's CIP. Debt service due on the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 32.62% of the interest due on the 2009 Bonds. This reimbursement has temporarily been lowered and may be subject to further impact from the federal budget sequester.
2. Debt service projections assume approximately \$13 million of additional SVCW bonds allocable to the City of San Carlos over the next 2 years.
3. City Capital Improvements are projected based on the City's proposed 5-year sewer system capital improvement program budget with some minor modifications and additional contingency funding. As shown in the table below, the City also anticipates funding additional City Capacity Improvements through 2019-20. The City anticipates funding all of these projects on a pay-as-you-go, cash basis.
4. SVCW Capital & SRF Reserve Payments include the City's share of projected SVCW cash-funded capital repairs and the City's allocable share of payments for debt service reserve fund requirements for projected SVCW SRF Loans.

5. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.

6. Payments for the City's allocated share of SVCW's 2008 Bonds, 2009 Bonds and the Refundable Credits, 2014 Bonds, and 2015 Bonds are rounded to the nearest \$1,000 dollars.

Table B9
City of San Carlos - Sewer Enterprise Cash Flow Projections

	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase	Adopted 10%	Projected 5%	Projected 5%	Projected 5%	Projected 4%
Beginning Fund Reserves	\$12,974,000	\$14,607,000	\$15,400,000	\$16,130,000	\$16,139,000
REVENUES					
Sewer Service Charges	\$15,680,000	\$16,475,000	\$17,311,000	\$18,189,000	\$18,929,000
Contract Agency Charges	850,000	716,000	752,000	790,000	821,000
Connection Fees	98,000	45,000	45,000	45,000	45,000
Investment Earnings	58,000	73,000	154,000	161,000	161,000
Other Revenues	365,000	380,000	395,000	411,000	427,000
Total Revenues	\$17,051,000	\$17,689,000	\$18,657,000	\$19,596,000	\$20,383,000
EXPENSES					
<u>Operating & Maintenance</u>					
City Operating Expenses	\$5,946,000	\$6,185,000	\$6,432,000	\$6,688,000	\$6,955,000
SVCW Operating Expenses	3,704,000	3,789,000	3,941,000	4,099,000	4,263,000
Total O&M with Transfers	\$9,650,000	\$9,974,000	\$10,373,000	\$10,787,000	\$11,218,000
Net Revenues	\$7,401,000	\$7,715,000	\$8,284,000	\$8,809,000	\$9,165,000
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
City Share of SVCW 2008 Bonds	\$89,000	\$0	\$0	\$0	\$0
City Share of SVCW 2009 Bonds	564,000	562,000	566,000	563,000	385,000
City Share of SVCW 2014 Bonds	646,000	645,000	645,000	646,000	646,000
City Share of SVCW 2015 Bonds	60,000	463,000	466,000	471,000	613,000
City's Share of Future SVCW Bonds	0	0	0	307,000	307,000
Total Senior Debt Service	\$1,359,000	\$1,670,000	\$1,677,000	\$1,987,000	\$1,951,000
Senior Debt Service Coverage	5.45	4.62	4.94	4.43	4.70
<u>Subordinate Debt Service</u>					
City Share of Existing SVCW SRF Loans	\$124,000	\$479,000	\$479,000	\$479,000	\$479,000
City Share of Future SVCW SRF Loans	0	0	203,000	694,000	1,823,000
City Share of SVCW Line of Credit Pymts	15,000	25,000	25,000	25,000	25,000
Total Subordinate Debt Service	\$139,000	\$504,000	\$707,000	\$1,198,000	\$2,327,000
Total Combined Debt Service	\$1,498,000	\$2,174,000	\$2,384,000	\$3,185,000	\$4,278,000
Total Debt Service Coverage	4.94	3.55	3.47	2.77	2.14
<u>Capital & Other Non-Operating</u>					
City Capital Improvements	\$1,600,000	\$2,040,000	\$2,500,000	\$2,250,000	\$2,000,000
City Capacity Assurance Improvements	1,733,000	1,960,000	1,640,000	1,700,000	2,000,000
SVCW Capital Projects/Reserves	481,000	500,000	500,000	500,000	500,000
SVCW SRF Reserve Contributions	355,000	203,000	491,000	1,129,000	1,436,000
Subtotal	\$4,169,000	\$4,703,000	\$5,131,000	\$5,579,000	\$5,936,000
Total Expenses	\$15,317,000	\$16,851,000	\$17,888,000	\$19,551,000	\$21,432,000
Revenues Less Expenses	1,734,000	838,000	769,000	45,000	(1,049,000)
Ending Fund Reserves	14,708,000	15,445,000	16,169,000	16,175,000	15,090,000
Days Cash on Hand	556	565	569	547	491

Absence of Litigation

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

Financial Statements

The City's most recent audited financial statements for the fiscal year ending June 30, 2014 are attached as Appendix K. The City's financial statements were audited by Lance, Soll & Lunghard, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

APPENDIX C

INFORMATION ABOUT WEST BAY SANITARY DISTRICT

West Bay Sanitary District

The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park, Atherton, Portola Valley and areas of East Palo Alto, Woodside and unincorporated San Mateo and Santa Clara counties. The District is located in the northern part of Silicon Valley approximately 26 miles south of San Francisco, between San Francisco and San Jose. The District was originally formed in December 1902 as the Menlo Park Sanitary District under the Sanitary Sewer Act of 1891. The District operated as the Menlo Park Sanitary District from 1902 until 1981 when its name was changed to the West Bay Sanitary District to more accurately reflect the service area. The powers of the District are established by the State of California Health and Safety Code. The District serves a population of approximately 55,000 via approximately 19,000 predominantly residential sewer service connections.

Form of Government

The District is governed by a five-member Board of Directors whose members are elected at large from the District's service area to staggered terms of four years. The current members of the Board of Directors are:

<u>Director</u>	<u>Current Term Expires</u>
Edward P. Moritz*, <i>President</i>	November 2017
Fran Dehn, <i>Secretary</i>	November 2015
Ronald Shepherd, <i>Treasurer</i>	November 2015
David Walker	November 2015
Roy Thiele-Sardiña	November 2017

* Appointed representative to Silicon Valley Clean Water.

Day to day activities of the District are managed by a District Manager, who is appointed by the Board of Directors and oversees a staff of approximately 26 employees.

District Leadership

- Phil Scott is the District Manager and reports directly to the Board of Directors. Mr. Scott manages day to day operations of the District including more than 25 employees. Mr. Scott also serves as Chief Fiscal Officer and is responsible for budgeting, forecasting revenue requirements, long range and strategic planning, facilitating Board meetings, and negotiations. Mr. Scott has 32 years of experience in the wastewater industry and has been District Manager of the District for 5 years.
- Bill Kitajima is the Projects & IT Manager: With over 17 years at the District, Mr. Kitajima manages all capital improvement projects and Collection System Master Planning, prioritizes CIP projects, and oversees engineering, bidding and construction of all CIP projects. Mr. Kitajima also manages all databases and computer/server operations and replacements and day to day technical operations.
- John Simonetti is the Regulatory and Compliance Coordinator: Mr. Simonetti has 25 years of experience at the District and manages all commercial and industrial pretreatment

and discharge inspections and permitting. Mr. Simonetti ensures NPDES compliance with all commercial customers, monitors flows and loadings of the system, and also acts as District Liaison to the Treatment Plant and serves as Safety Officer for the District.

- Liz Bahrami is an accountant with over 12 years of service with the District. Ms. Bahrami manages all accounting operations, is responsible for deposits, AP, AR, cash flow forecasting, production of Withdrawal Orders, quarterly financial statements, annual audits, final financial statements and payroll. Ms. Bahrami also produces the annual budget and provides monthly expense reports for internal controls.
- Sergio Ramirez is the Operations Superintendent, with 4 years of experience at the District and over 20 years in the wastewater industry. Mr. Ramirez manages and oversees 15 employees and the collection system maintenance operations, including cleaning and repairing of sewer pipelines and CCTV inspection of sewer pipelines and pump station maintenance. Mr. Ramirez ensures that the system runs efficiently, safely and with minimal interruptions to convey wastewater (3.7MGD) to the treatment plant in Redwood City, and helped the District to achieve the Collection System of the Year award for the Santa Clara Valley Section of the California Water Environment Association for 2012.

The Wastewater System

The District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines ranging in size from 3 to 54 inches in diameter, and 13 sewer pump stations. The District’s wastewater collection system is in good operating condition and has an average age of approximately 50 years, with an estimated life of 90 years. The District also owns a flow equalization facility, which has the capacity to hold approximately 10 million gallons of untreated wastewater. The District’s wastewater is conveyed to the Authority for treatment and disposal.

Wastewater Flow to Authority

The following table shows a five fiscal year history of the District’s average daily wastewater flows to the Authority.

Table C1
West Bay Sanitary District - Average Daily Wastewater Flow (mgd)

	2010-11	2011-12	2012-13	2013-14	2014-15
Average Daily Flow (mgd)	3.74	3.58	3.58	3.52	3.52

Source: Silicon Valley Clean Water.

Service Area & Customer Base

The District’s sewer service area is approximately 14 square miles and includes the City of Menlo Park, portions of the Cities of East Palo Alto, Redwood City, and Atherton, portions of the Towns of Woodside and Portola Valley, and portions of unincorporated San Mateo and Santa Clara Counties.

The following table shows a history of residential and non-residential sewer accounts. Residential accounts comprised approximately 97% of the District's customer base in fiscal year 2014-15.

Table C2
West Bay Sanitary District - Historical Sewer Accounts

	2012-13		2013-14		2014-15	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
Residential	18,507	97%	18,514	97%	18,546	97%
Commercial	<u>624</u>	<u>3</u>	<u>626</u>	<u>3</u>	<u>622</u>	<u>3</u>
Total	19,131	100%	19,140	100%	19,168	100%

Source: West Bay Sanitary District.

The following table shows a history of sewer service charge revenues broken down by residential and non-residential sewer accounts. In fiscal year 2014-15, residential customers accounted for slightly less than 79% of the District's total sewer service charge revenues.

Table C3
West Bay Sanitary District - Historical Sewer Service Charge Revenues

	2012-13		2013-14		2014-15 ⁽¹⁾	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
Residential	\$13,849,708	78%	\$15,192,802	79%	\$16,537,777	78%
Commercial	<u>3,940,540</u>	<u>22</u>	<u>4,104,887</u>	<u>21</u>	<u>4,529,455</u>	<u>22</u>
Total	\$17,790,248	100%	\$19,297,689	100%	\$21,067,232	100%

Source: Based on data provided by West Bay Sanitary District.

(1) Unaudited Financials for Fiscal Year 2014-15

The following table lists the District's 10 largest commercial accounts by revenue for fiscal year 2014-15.

Table C4
West Bay Sanitary District - Largest Customers, 2014-15 Sewer Service Charges

Customer	2014-15 Sewer Service Charges	% of Total
TE Connectivity	\$647,582	14.3%
Stanford Research Institute	372,927	8.2
SLAC	282,704	6.2
BRE FMCA LLC	190,209	4.2
Rosewood Hotel	140,948	3.1
VA Hospital	138,256	3.1
Sequoias Retirement Home	107,291	2.4
Facebook	132,924	2.9
Radin Investment Co.	82,156	1.8
Stanford Park Hotel	72,185	1.6
Subtotal:	<u>\$2,167,182</u>	<u>47.8%</u>
 All Other Commercial Customers	 <u>\$2,362,273</u>	 <u>52.2%</u>
 Total	 \$4,529,455	 100%

Source: West Bay Sanitary District

T.E. Connectivity, formerly Tyco Electronics Corporation, is the District's largest customer and has operated a facility in the District's service area for more than 30 years. The company is a \$13 billion global provider of engineered electronic components for thousands of consumer and industrial products; network solutions and systems for telecommunications and energy markets; undersea telecommunication systems; and wireless systems for critical communications. Tyco purchased an entitlement from the District to discharge 518,622 gallons per day of wastewater for its Menlo Park site, but is currently discharging approximately half that capacity. The Tyco campus has recently been acquired by Facebook, but will be used by Tyco until 2017. It has not yet been determined whether the acquisition will impact the amount of discharge from the site.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the District's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The District is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The District is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its sewage to the Authority for treatment and discharge.

Recent Enforcement Actions. During fiscal year 2011-12, the District reached a settlement in a lawsuit filed under the Federal Water Pollution Control Act, in which it agreed to

pay \$1.4 million to Lawyers for Clean Water. San Francisco Baykeeper claimed that the District discharged pollutants by spilling sewage in waters tributary to the San Francisco Bay. No consent decree was required.

Wastewater Rates & Billing

The District’s wastewater rates and charges are independently established by the Board of Directors and do not require approval by any other legal entity. Single family residential customers are billed a flat annual charge for sewer service which is collected on property tax bills. Non-residential customers pay volumetric charges based on customer class and metered water use.

A five-year rate history is shown in the following table. The District adopted its rates in compliance with Article XIID of the California Constitution. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID.

Table C5
West Bay Sanitary District - Adopted Sewer Rates

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Residential (annual charge)	\$650	\$690	\$752	\$820	\$893	\$973
<i>Monthly Equivalent</i>	<i>\$54.17</i>	<i>\$57.50</i>	<i>\$62.67</i>	<i>\$68.33</i>	<i>\$74.42</i>	<i>\$81.08</i>
Non-Residential/Commercial						
Flow - \$ per hcf	\$5.60	\$5.97	\$6.51	\$7.10	\$7.74	\$8.97
BOD - \$ per pound	0.19450	0.19450	0.19450	0.21200	\$0.23	\$0.25
SS - \$ per pound	0.24440	0.24440	0.2440	0.26640	\$0.29	\$0.32

Each year, the District calculates the wastewater charge for the upcoming fiscal year for each parcel in the District’s service area. These charges are submitted to San Mateo County for collection on the County’s property tax bills (except for approximately six customers located in Santa Clara County and governmental agencies, which are billed directly). The District’s wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County’s ad valorem property taxes. The District’s charges are subject to the same penalties and payment enforcement as the County’s taxes, which includes the potential to foreclose on properties with payment delinquencies.

San Mateo County’s property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the District the full amount of all charges assessed on the County’s tax rolls, and also retains any penalties due to payment delinquency. The County pays the District for 100% of its annual wastewater billings, regardless of payment delinquencies. The County has the option to discontinue its participation in the Teeter Plan.

Connection Fees for New Development

The District levies a sewer connection charge on new applicants for wastewater service and applicants for expanded service. The purpose of the charge is to recover a proportionate share of costs of District facilities benefiting new connections to the wastewater system. The District’s connection fees are established by the Board of Directors. The District’s current residential connection charge is a fixed, one-time charge of \$5,596 per residential unit. The fee

for non-residential connections is based on the estimated wastewater discharge for each new account, as determined by the District.

In addition, pursuant to the Joint Powers Agreement, the District also collects the Authority's connection fees and periodically remits payment of these fees to the Authority. The total connection charges collected by the District from new non-residential accounts, including both the District's and Authority's connection fees, are subject to a minimum charge of \$7,336.20 per connection or \$33.35 per gallon per day of estimated wastewater discharge.

Future Capital Needs

The District anticipates spending approximately \$8 million in 2015-16 and an average of approximately \$5.5 million per year for capital improvements to the District's wastewater system in upcoming years. This level of expenditures represents an increase from the amounts spent annually in recent history. These improvements primary include repairs, replacements, and other upgrades to the District's collection system pipelines, but also include some pump station improvements. The District anticipates funding these improvements on a pay-as-you-go, cash basis.

In addition, the District anticipates financing its allocable share of costs for the Authority's CIP, equal to approximately \$113.6 million through 2019-20, after taking into account proceeds from the 2015 Bonds, the 2014 Bonds and outstanding SRF Loans, including projected 3% annual construction cost inflation. The District anticipates financing these costs through long-term debt issued by the Authority and/or the District.

Outstanding District Debt

The District incurred obligations in connection with the issuance by the Authority of the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, SRF Loans and the Line of Credit, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The District's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table C6
West Bay Sanitary District - Outstanding Debt

Fiscal Year Ending June 30	2009 SCVW Bond Payments ⁽¹⁾	2014 SCVW Bond Payments	SRF Loan Payments (Preliminary) ⁽²⁾	Line of Credit Payments (estimated)	2015 SVCW Bond Payments ⁽³⁾	Total
2016	\$1,298,487.00	\$1,145,509.26	\$220,085.52	\$30,000.00	\$106,892.92	2,800,974.70
2017	1,287,862.00	1,144,323.62	849,231.12	50,000.00	811,950.00	4,143,366.74
2018	1,285,429.75	1,144,175.41	849,231.12	50,000.00	826,950.00	4,155,786.28
2019	1,276,286.25	1,144,768.23	849,231.12	-	824,050.00	4,094,335.60
2020	810,662.50	1,144,886.80	849,231.12	-	1,069,500.00	3,874,280.42
2021	-	1,145,479.63	849,231.12	-	1,610,500.00	3,605,210.75
2022	-	1,145,183.21	849,231.12	-	1,615,125.00	3,609,539.33
2023	-	1,145,479.62	849,231.12	-	1,608,250.00	3,602,960.74
2024	-	1,144,812.70	849,231.12	-	1,605,000.00	3,599,043.82
2025	-	1,144,664.49	849,231.12	-	1,614,875.00	3,608,770.61
2026	-	1,144,960.90	849,231.12	-	1,607,875.00	3,602,067.02
2027	-	1,145,627.84	849,231.12	-	1,599,375.00	3,594,233.96
2028	-	1,145,109.12	849,231.12	-	1,604,000.00	3,598,340.24
2029	-	1,144,886.80	849,231.12	-	1,601,500.00	3,595,617.92
2030	-	1,144,886.80	849,231.12	-	1,601,875.00	3,595,992.92
2031	-	1,145,035.02	849,231.12	-	1,439,125.00	3,433,391.14
2032	-	1,145,257.32	849,231.12	-	1,433,500.00	3,427,988.44
2033	-	1,145,479.62	849,231.11	-	1,431,000.00	3,425,710.73
2034	-	1,145,627.82	629,146.60	-	1,431,375.00	3,206,148.42
2035	-	1,144,145.78	629,146.60	-	1,424,625.00	3,197,916.38
2036	-	1,145,212.85	629,146.62	-	1,425,625.00	3,199,983.47
2037	-	1,145,064.65	-	-	1,424,125.00	2,569,189.65
2038	-	1,144,545.93	-	-	1,420,125.00	2,564,670.93
2039	-	1,145,064.66	-	-	1,413,625.00	2,558,689.66
2040	-	1,144,990.54	-	-	1,409,500.00	2,554,490.54
2041	-	1,144,071.68	-	-	656,750.00	1,800,821.68
2042	-	1,144,442.18	-	-	651,250.00	1,795,692.18
2043	-	1,145,405.52	-	-	654,500.00	1,799,905.52
2044	-	1,145,331.42	-	-	651,375.00	1,796,706.42
2045	-	-	-	-	651,875.00	651,875.00
2046	-	-	-	-	650,875.00	650,875.00
Total:	\$5,958,727.50	\$33,204,429.42	\$16,544,451.37	\$130,000.00	\$37,876,967.92	\$93,714,576.21

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Preliminary debt service estimate shown; final amount will be determined after the project is completed.

(3) Excludes debt service payments made from escrow funds.

Note: Table excludes the \$154,688.75 August 1, 2015 debt service payment previously made on the 2008 Bonds.

Pension and Other Employee Benefit Costs

A significant portion of the District's operation costs are employee costs, including pension and post-retirement medical benefit costs. See Notes 10 and 11 of the District's June 30, 2014 audited financial report, which is attached to this Official Statement as Appendix L, for information as of June 30, 2014 related to the District's pension and post-retirement medical benefit costs.

The District contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Pension. Three-year trend information for the District's pension plan is set forth below:

Three-year Trend of Annual Pension Cost (Employer Portion)

Fiscal year ended <u>June 30</u>	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2012	278,152	100%	0
2013	304,062	100	0
2014	331,515	100	0

Two-year Trend of Funded Status of the Plan

Valuation Date (<u>June 30</u>)	Entry age normal accrued liability	Actuarial value of assets	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2011	\$13,702	\$10,480	\$3,222	76.5%	\$2,140	150.6%
2012	13,996	10,072	3,924	72.0	2,108	186.1

As of June 30, 2012, the most recent actuarial valuation date, the market value of the Plan's assets was \$10,071,875, resulting in a funded ratio of 72%.

See "APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by CalPERS" and "APPENDIX A – Pension and Other Employee Benefit Costs - Pension Reform Act of 2013 (Assembly Bill 340)" for information about CalPERS.

Other Post Employment Benefits. Trend information for the District's OPEB plan is set forth below:

Three-year Trend of Annual OPEB Cost

Fiscal year ended <u>June 30</u>	Annual OPEB cost (AOC)	Percentage of AOC contributed	Net OPEB obligations (Asset)
2012	\$17,000	23.88%	\$25,561
2013	17,500	32.59	57,571
2014	26,200	23.33	77,659

Three-year Trend of

Funded Status of the Plan

<u>Valuation Date (March 1)</u>	<u>Actuarial Value of Assets</u>	<u>Entry age normal accrued liability</u>	<u>Unfunded/ (overfunded) liability (UAAL)</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>UAAL as a percentage of payroll</u>
2010	\$0	\$137,900	\$137,900	0%	\$1,952,200	7.06%
2013	0	186,100	186,000	0	2,391,800	7.78

As of March 1, 2013, the most recent available actuarial valuation date, the market value of the OPEB assets was \$0, resulting in a funded ratio of 0%.

Historical Revenues and Expenses

The table on the following page shows a history of revenues, expenses, and net revenues based on information provided in the District's audited financial statements and by the District.

Table C7
Historical Revenues, Expenses, and Fund Balances
Fiscal Year Ending June 30

	2012 (Audited)	2013 (Audited)	2014 (Audited)	2015 (Unaudited)
Adopted Rate Increase (rounded)	6%	9%	9%	9%
REVENUES				
Sewer Service Charges	\$16,755,017	\$17,790,248	\$19,297,689	\$21,067,232
Investment Earnings & Other Revenues	436,999	677,695	569,081	7,020,111
Total Revenues	17,192,016	18,467,943	19,866,770	28,087,343
EXPENSES				
<u>Operating & Maintenance</u>				
Operating Expenses from Audit	12,815,678	13,119,092	13,794,828	15,160,060
Less Depreciation	(945,733)	(1,132,035)	(1,275,444)	(1,300,476)
Less SVCW Bond Debt Service	(1,145,337)	(1,124,956)	(1,579,272)	(2,495,441)
Less SVCW Non-Operating Payments	(485,628)	(456,986)	(589,116)	--
Total O&M with Transfers	10,238,980	10,405,115	10,350,996	11,364,143
Net Revenues	6,953,036	8,062,828	9,515,774	16,723,200
<u>Debt Service</u>				
District Share of SVCW 2008 Bonds	200,498	165,352	194,667	201,988
District Share of SVCW 2009 Bonds (Net)	944,838	959,604	928,782	989,153
District Share of SVCW 2014 Bonds	--	--	235,746	1,084,222
Total Senior Debt Service	1,145,336	1,124,956	1,359,195	2,275,363
Senior Debt Service Coverage	6.07	7.17	7.00	7.35
District Share of SRF Loans	--	--	220,077	220,077
Total Debt Service	1,145,337	1,124,956	1,579,272	2,495,440
Total Debt Service Coverage	6.07	7.17	6.03	6.70
Net Revenues Remaining After Debt Service	5,807,699	6,937,872	7,936,502	14,227,760
Cash & Investments June 30	14,796,198	18,287,782	24,404,817	34,797,760
Days Operating Cash June 30 ⁽¹⁾	527	509	861	1,117

(1) Calculated based on Cash & Equivalents divided by Operating & Maintenance Expenses, multiplied by 365 days

Projected Revenues, Expenses, and Debt Service Coverage

The following tables show cash flow assumptions and projections of the District's revenues, expenses, and net revenues. The projections include the District's estimated share of debt service for the Authority's CIP. The projections were developed by Bartle Wells Associates based on information provided by the District and the Authority, and a number of assumptions including those listed on the following page. While the District believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

Revenues

1. Charges for service projected based on the District's adjusted billings submitted for collection on the fiscal year 2014-15 San Mateo County property tax rolls and are adjusted by projected future rate increases. Service charge revenues do not include any additional revenues from growth.
2. Other revenues are projected as shown on the table.

Operating & Maintenance Expenses

1. District operating expenses are based on fiscal year 2015-16 estimates and escalate at the annual rate of 4%.
2. SVCW Operating Expenses are based on SVCW's fiscal year 2015-16 budget with operating and maintenance costs broken out separately from debt service, capital and other non-operating expenses. Future SVCW operating expenses escalate at the annual rate of 4%, with the exception that future expenses exclude the annual true-up incorporated in the 2015-16 budget..

Non-Operating Expenses

1. Senior Debt Service includes the District's allocable share of payments due for outstanding and projected SVCW bonds issued to help fund the Authority's CIP. Debt service due on the 2009 Bonds, which were issued as Build America Bonds, are offset by a federal reimbursement for 32.62% of the interest due on the 2009 Bonds.. This reimbursement has temporarily been lowered and may be subject to further impact from the federal budget sequester.
2. Debt service projections assume issuance of approximately \$8.1 million of future SVCW bonds and \$131.6 million of future SVCW SRF Loans allocable to the District over the next five years.
3. Capital improvement expenses are projected as shown on the table. The District anticipates funding these projects on a pay-as-you-go cash basis.
4. Debt service payments are rounded to the nearest \$1,000.
5. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.

**Table C8
West Bay Sanitary District – Cash Flow Projections**

	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase	Adopted 9%	Projected 8%	Projected 8%	Projected 5%	Projected 1%
Beginning Fund Reserves	\$34,795,000	\$34,417,000	\$37,375,000	\$40,941,000	\$42,005,000
REVENUES					
Sewer Service Charges	22,900,000	24,732,000	26,711,000	28,047,000	28,327,000
Connection Fees	50,000	50,000	50,000	50,000	50,000
Investment Earnings	125,000	125,000	125,000	125,000	125,000
Other Revenues	675,000	700,000	700,000	700,000	700,000
Total Revenues	23,750,000	25,607,000	27,586,000	28,922,000	29,202,000
EXPENSES					
<u>Operating & Maintenance</u>					
District Operating Expenses	6,613,000	6,900,000	7,176,000	7,463,000	7,762,000
SVCW Operating Expenses	5,881,000	5,845,000	6,069,000	6,341,000	6,627,000
Total O&M	12,494,000	12,745,000	13,245,000	13,804,000	14,389,000
Net Revenues	11,256,000	12,862,000	14,341,000	15,118,000	14,813,000
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
District Share of SVCW 2008 Bonds	155,000	0	0	0	0
District Share of SVCW 2009 Bonds	972,000	966,000	969,000	966,000	657,000
District Share of SVCW 2014 Bonds	1,145,000	1,145,000	1,145,000	1,145,000	1,145,000
District Share of SVCW 2015 Bonds	107,000	812,000	827,000	824,000	1,070,000
District Share of Future SVCW Bonds	-	-	-	543,000	543,000
Total Senior Debt Service	2,379,000	2,923,000	2,941,000	3,478,000	3,415,000
Senior Debt Service Coverage	4.73	4.40	4.88	4.35	4.34
<u>Subordinate Debt Service</u>					
District Share of Existing SRF Loans	220,000	849,000	849,000	849,000	849,000
District Share of Future SRF Loans	-	-	359,000	1,230,000	3,232,000
District Share of SVCW Line of Credit	30,000	50,000	50,000	50,000	50,000
Total Subordinate Debt Service	250,000	899,000	1,258,000	2,129,000	4,131,000
Total Combined Debt Service	2,629,000	3,822,000	4,199,000	5,607,000	7,546,000
Total Debt Service Coverage	4.28	3.37	3.42	2.70	1.96
<u>Capital & Other Non-Operating</u>					
District Capital Improvements	8,060,000	5,400,000	5,400,000	5,600,000	5,600,000
SVCW Capital Projects/Reserves	153,000	268,000	268,000	805,000	805,000
SVCW SRF Reserve Contributions	629,000	359,000	871,000	2,002,000	2,546,000
Subtotal	8,842,000	6,027,000	6,539,000	8,407,000	8,951,000
Total Expenses	23,965,000	22,594,000	23,983,000	27,818,000	30,886,000
Revenues Less Expenses	(215,000)	3,013,000	3,603,000	1,104,000	(1,684,000)
Ending Fund Reserves	34,580,000	37,430,000	40,978,000	42,045,000	40,321,000
Days Cash on Hand	1,010	1,072	1,129	1,112	1,023

Absence of Litigation

The District is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the District's Financing Agreement with the Authority, or materially impact the District's finances.

Financial Statements

The District's financial statements for the fiscal year ending June 30, 2014 are attached as Appendix L. The District's financial statements were audited by Chavan & Associates, LLP. The auditor has not been asked to consent to the inclusion of the District's audited financial statements in this Official Statement and has not reviewed this Official Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

GENERAL DEMOGRAPHIC AND STATISTICAL INFORMATION ABOUT THE COUNTY OF SAN MATEO

General Information

City of Redwood City. Redwood City, the County seat, is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in the County, incorporated in 1867. Redwood City combines residential, industrial, and commercial elements in a largely urban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available. Services and trade, the County's two largest industry divisions, are expected to provide close to two-thirds of anticipated growth in the next two years. Today the Redwood City is known as the home of several technology companies such as Oracle and Electronic Arts.

City of San Carlos. San Carlos is located in the County, approximately 25 miles south of San Francisco, and encompasses an area of approximately 4.5 square miles. San Carlos was incorporated in 1925 and is a general law city pursuant to the California Government Code. San Carlos has a Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. The City Council consists of a Mayor and four other Councilmembers. The Mayor is selected from among the sitting Councilmembers and serves a one-year term. Councilmembers are elected at-large for staggered four-year terms. The City Treasurer is also an elected position. The City Clerk is appointed by the City Manager.

San Mateo County. The City of Belmont, City of Redwood City, City of San Carlos, and the West Bay Sanitary District (the "Members") are all located within the County. The County was established April 19, 1856 and encompasses roughly 741 square miles including most of the San Francisco Peninsula south of the City and the County of San Francisco. The County shares its southern borders with Santa Clara County and Santa Cruz County. San Francisco International Airport is located at the northern end of the County, and Silicon Valley stretches into the southeastern end. San Mateo County ranks as the 14th most populous county in California with a January 1, 2013 population of approximately 735,678 as estimated by the California State Department of Finance. The County includes 20 incorporated cities and 17 unincorporated communities.

Population

The largest cities in the County are the cities of Daly City, Redwood City, and South San Francisco. The following table sets forth annual population figures, as of January 1, for the County and the State, for each of the years listed.

SAN MATEO COUNTY AND STATE OF CALIFORNIA Population Estimates Calendar Years 2010 through 2014

	2010	2011	2012	2013	2014
SAN MATEO COUNTY					
Atherton	6,914	6,890	6,871	6,900	6,917
Belmont	25,835	25,923	26,058	26,344	26,559
Brisbane	4,282	4,310	4,336	4,384	4,431
Burlingame	28,806	28,888	29,034	29,458	29,685
Colma	1,441	1,458	1,443	1,459	1,470
Daly City	101,072	101,442	102,286	103,458	105,076
East Palo Alto	28,155	28,247	28,395	28,706	28,934
Foster City	30,567	30,660	30,816	31,154	32,168
Half Moon Bay	11,324	11,373	11,449	11,593	11,721
Hillsborough	10,825	10,880	10,978	11,127	11,260
Menlo Park	32,026	32,201	32,433	32,715	32,896
Millbrae	21,532	21,625	22,191	22,432	22,605
Pacifica	37,234	37,367	37,562	37,988	38,292
Portola Valley	4,353	4,373	4,400	4,453	4,480
Redwood City	76,815	77,299	78,049	79,159	80,768
San Bruno	41,114	41,663	42,345	42,874	43,223
San Carlos	28,406	28,494	28,646	28,962	29,219
San Mateo	97,207	97,557	98,052	99,167	100,106
South San Francisco	63,632	63,827	64,145	65,198	65,710
Woodside	5,287	5,313	5,372	5,446	5,496
Balance Of County	61,624	62,582	62,932	63,670	64,177
Incorporated	656,827	659,790	664,861	672,977	681,016
San Mateo County Total	718,451	722,372	727,793	736,647	745,193
STATE OF CALIFORNIA	37,253,956	37,427,946	37,668,804	37,984,138	38,340,074

Source: California State Department of Finance.

[Remainder of page intentionally left blank]

Assessed Valuation

All property in San Mateo County is assessed by the County Assessor, except public property and railroads, which are assessed by the State Board of Equalization. Under the California Constitution, property is assessed at 100 percent of full cash value. Property is assessed at its market value when constructed or upon change of ownership. The value of property that does not change ownership may be adjusted annually by not more than 2 percent to account for inflation. The county assessment roll is not proportionate to market value.

The following table shows a 5-year history of assessed valuation for the County of San Mateo and each of the SVCW Members.

	2009-10	2010-11	2011-12	2012-13	2013-14
SAN MATEO COUNTY	\$142,921,792,582	\$140,930,127,456	\$142,505,805,298	\$147,256,091,428	\$156,101,044,862
Annual Change %	0.70%	(1.39)%	1.12%	3.33%	6.01%
SVCW MEMBERS					
City of Redwood City	14,973,153,793	14,724,478,604	14,737,478,812	15,149,606,839	16,243,074,154
Annual Change %	1.41	(1.66)	.09	2.80	7.22
City of San Carlos	6,731,630,814	6,784,367,951	6,880,824,986	7,082,568,072	7,629,813,187
Annual Change %	8.37	0.78	1.42	2.93	7.73
City of Belmont	4,597,890,555	4,535,727,180	4,609,050,545	4,771,022,137	5,074,811,937
Annual Change %	2.40	(1.35)	1.62	3.51	6.37
West Bay Sanitary District	16,819,875,232	16,955,956,503	17,204,594,982	18,133,160,764	N/A
Annual Change %	4.55	0.81	1.47	5.40	N/A
Total SVCW Members	\$43,122,550,394	\$43,000,530,238	\$43,431,949,325	\$45,136,357,812	N/A
Annual Change %	5.91%	(0.28)%	1.00%	3.92%	N/A

Source: County of San Mateo, Office of the Auditor-Controller; includes secured and unsecured rolls.

Employment and Industry

The Authority is in the San Francisco-Redwood City-South San Francisco Metropolitan Division (“MD”) which is comprised by San Francisco and San Mateo counties. The unemployment rate in the San Francisco-Redwood City-South San Francisco MD was 3.5 percent in March 2015, down from a revised 3.7 percent in February 2015, and below the year-ago estimate of 4.8 percent. This compares with an unadjusted unemployment rate of 6.5 percent for California and 5.6 percent for the nation during the same period. The unemployment rate was 3.6 percent in San Francisco County, and 3.4 percent in the County.

The following table summarizes the civilian labor force, employment and unemployment for the San Francisco-Redwood City-South San Francisco MD for the years 2010 through 2014. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the Counties. Annual figures are not yet available for the calendar year 2015.

SAN FRANCISCO-REDWOOD CITY-SOUTH SAN FRANCISCO MD
(San Francisco And San Mateo Counties)
Annual Average Civilian Labor Force, Employment and Unemployment, and
Unemployment by Industry
Calendar Years 2010 through 2014
(March 2014 Benchmark)

	2010	2011	2012	2013	2014
Civilian Labor Force ⁽¹⁾	878,500	894,700	923,500	940,000	963,700
Employment	802,400	824,400	862,100	889,600	922,200
Unemployment	76,200	70,300	61,400	50,400	41,400
Unemployment Rate	8.7%	7.9%	6.6%	5.4%	4.3%
Wage and Salary Employment: ⁽²⁾					
Agriculture	2,000	1,800	1,700	1,800	1,900
Manufacturing	35,000	34,400	34,000	34,700	35,700
Wholesale Trade	21,600	22,300	23,500	24,700	25,700
Retail Trade	73,400	73,800	75,900	78,000	80,500
Trans., Warehousing, Utilities	35,300	34,900	36,500	38,700	39,700
Information	36,900	40,600	46,400	49,600	54,100
Financial and Insurance	50,200	49,100	49,500	50,300	52,000
Real Estate, Rental & Leasing	16,900	17,200	18,300	19,300	19,600
Professional and Business Services	182,100	195,800	214,200	228,000	245,100
Educational and Health Services	111,400	111,300	115,700	126,600	129,900
Leisure and Hospitality	110,600	115,000	121,500	125,700	131,300
Other Services	32,800	34,100	35,800	37,600	39,900
Federal Government	19,300	18,300	17,900	17,600	17,500
State Government	33,400	33,700	33,200	32,900	32,900
Local Government	68,600	68,300	68,400	68,400	70,000
Total All Industries ⁽³⁾	856,900	879,100	922,600	966,400	1,011,600

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The following table lists the largest employers within the County as of April 2015, in alphabetical order.

SAN MATEO COUNTY Major Employers As of April 2015

Employer Name	Location	Industry
Ab Sciex Llc	Redwood City	Scientific Apparatus & Instruments-Mfrs
Caltrain	San Carlos	Transit Lines
Electronic Arts Inc	Redwood City	Game Designers (Mfrs)
Forced Dump Debris Box Svc	Burlingame	Garbage Collection
Franklin Resources Inc	San Mateo	Asset Management
Franklin Templeton Investments	San Mateo	Investments
Gate Gourmet	San Francisco	Caterers
Gilead Sciences Inc	Foster City	Biological Products (Mfrs)
Guckenheimer Inc	Redwood City	Marketing Programs & Services
Hyatt Regency-San Francisco	Burlingame	Hotels & Motels
Kaiser Permanente Medical Ctr	South San Francisco	Hospitals
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Oracle Corp	Redwood City	Computer Software-Manufacturers
Peninsula Medial Ctr	Burlingame	Hospitals
Peninsula Pathology Assoc	Burlingame	Physicians & Surgeons
San Francisco Intl Airport-Sfo	San Francisco	Airports
San Mateo County Behavior	San Mateo	Government Offices-County
San Mateo Medical Ctr	San Mateo	Hospitals
Seton Medical Ctr	Daly City	Hospitals
Sri International Inc	Menlo Park	Research Service
Stanford Linear Accelerator	Menlo Park	Research Service
US Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa Inc	Foster City	Credit Card & Other Credit Plans
Visa International Svc Assn	Foster City	Venture Capital Companies
Visa USA Inc	Foster City	Credit Card & Other Credit Plans

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2015 2nd Edition.

[Remainder of page intentionally left blank]

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for Redwood City, San Carlos, the County, the State and the United States for the period 2010 through 2014. Effective Buying Income data is not yet available for the calendar year 2015.

CITY OF REDWOOD CITY, CITY OF SAN CARLOS AND SAN MATEO COUNTY Effective Buying Income - As of January 1, 2010 through 2014

Year	Area	Total Effective Buying Income (000s Omitted)	Median Household Effective Buying Income
2010	City of Redwood City	\$2,335,918	\$62,617
	City of San Carlos	1,225,163	80,744
	San Mateo County	23,489,013	66,508
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Redwood City	\$2,351,140	\$61,892
	City of San Carlos	1,247,350	80,227
	San Mateo County	23,717,578	66,434
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Redwood City	\$2,693,878	\$62,528
	City of San Carlos	1,510,000	85,698
	San Mateo County	26,570,648	68,429
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Redwood City	\$2,802,145	\$65,351
	City of San Carlos	1,549,938	91,864
	San Mateo County	26,846,688	70,427
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Redwood City	\$2,893,518	\$66,809
	City of San Carlos	1,631,885	92,952
	San Mateo County	28,257,708	72,165
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: The Nielsen Company (US), Inc.

Commercial Activity

Summaries of historic taxable sales within Redwood City, San Carlos and the County during the past five years in which data is available are shown in the following tables. Figures are not yet available for 2014 or 2015.

Total taxable sales during calendar year 2013 in Redwood City were reported to be \$1,828,715,000, a 7.79% increase over the total taxable sales of \$1,696,509,000 reported during calendar year 2012.

CITY OF REDWOOD CITY Number of Permits and Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	1,193	\$961,033	1,987	\$1,387,335
2010	1,230	1,053,741	2,023	1,451,454
2011	1,236	1,170,101	2,023	1,551,074
2012	1,287	1,278,605	2,084	1,696,509
2013	1,315	1,363,758	2,098	1,828,715

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during calendar year 2013 in San Carlos were reported to be \$744,025,000, a 11.42% increase over the total taxable sales of \$667,790,000 reported during calendar year 2012.

CITY OF SAN CARLOS Number of Permits and Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	712	\$426,797	1,407	\$594,472
2010	707	408,356	1,399	595,583
2011	721	452,473	1,377	628,819
2012	763	482,933	1,402	667,790
2013	801	516,465	1,456	744,025

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during calendar year 2013 in the County were reported to be \$14,611,618,000, a 5.07% increase over the total taxable sales of \$13,906,978,000 reported during calendar year 2012.

SAN MATEO COUNTY
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	11,143	\$7,455,767	18,840	\$11,327,022
2010	11,340	7,846,274	18,979	11,966,338
2011	11,470	8,536,043	18,995	13,020,643
2012	11,748	9,277,144	19,189	13,906,978
2013	12,438	9,935,641	19,808	14,611,618

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

[Remainder of page intentionally left blank]

Construction and Building Activity

Provided below are the building permits and valuations for Redwood City, San Carlos and the County for calendar years 2009 through 2013. Annual figures are not yet available for calendar year 2014.

CITY OF REDWOOD CITY Total Building Permit Valuations (Valuations in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$9,249.1	\$10,002.2	\$9,184.6	\$35,516.6	\$3,399.2
New Multi-family	14,135.0	3,359.4	13,095.0	103,125.6	57,869.2
Res. Alterations/Additions	<u>17,739.0</u>	<u>19,047.3</u>	<u>22,504.6</u>	<u>10,362.8</u>	<u>28,261.4</u>
Total Residential	41,123.1	32,408.9	44,784.2	149,005.0	89,529.8
New Commercial	0.0	0.0	135.0	3,351.5	26,843.9
New Industrial	5,000.0	0.0	0.0	382.0	619.2
New Other	2,081.0	1,015.1	0.0	17.6	905.5
Com. Alterations/Additions	<u>26,760.1</u>	<u>30,631.3</u>	<u>49,043.7</u>	<u>16,037.5</u>	<u>47,256.7</u>
Total Nonresidential	33,841.1	31,646.3	49,178.7	19,788.6	75,625.3
<u>New Dwelling Units</u>					
Single Family	40	46	41	60	8
Multiple Family	<u>105</u>	<u>16</u>	<u>70</u>	<u>267</u>	<u>395</u>
Total	145	62	111	327	403

Source: Construction Industry Research Board, Building Permit Summary.

CITY OF SAN CARLOS Total Building Permit Valuations (Valuations in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$1,150.0	\$0.0	\$2,425.6	\$2,006.7	\$14,222.9
New Multi-family	0.0	0.0	0.0	585.0	2,620.2
Res. Alterations/Additions	<u>16,156.6</u>	<u>20,917.7</u>	<u>20,808.0</u>	<u>21,177.2</u>	<u>25,237.4</u>
Total Residential	17,306.6	20,917.7	23,233.6	23,768.9	42,080.5
New Commercial	0.0	0.0	2,345.0	964.3	1,860.3
New Industrial	0.0	0.0	0.0	45.0	15,100.0
New Other	1,270.3	1,152.0	0.0	0.0	797.0
Com. Alterations/Additions	<u>3,692.5</u>	<u>7,766.6</u>	<u>7,720.2</u>	<u>7,873.9</u>	<u>41,144.5</u>
Total Nonresidential	4,962.8	8,918.7	10,065.2	8,883.2	58,901.8
<u>New Dwelling Units</u>					
Single Family	2	0	2	3	22
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>8</u>
Total	2	0	2	5	30

Source: Construction Industry Research Board, Building Permit Summary.

SAN MATEO COUNTY
Total Building Permit Valuations
(Valuations in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Permit Valuation</u>					
New Single-family	\$147,515.5	\$189,296.6	\$194,950.1	\$245,163.9	\$292,893.4
New Multi-family	74,329.6	21,309.0	107,040.0	171,390.4	151,019.5
Res. Alterations/Additions	<u>204,482.0</u>	<u>262,592.1</u>	<u>289,619.5</u>	<u>201,543.1</u>	<u>299,830.5</u>
Total Residential	426,327.0	473,197.6	591,609.6	618,097.4	743,743.4
New Commercial	17,942.0	62,510.5	28,247.6	83,374.0	165,578.7
New Industrial	5,000.0	0.0	3,359.4	2,021.6	15,724.2
New Other	70,410.1	66,274.8	26,029.4	1,975.6	58,726.5
Com. Alterations/Additions	<u>235,373.3</u>	<u>283,752.5</u>	<u>244,089.0</u>	<u>167,438.8</u>	<u>263,460.8</u>
Total Nonresidential	328,725.5	412,537.8	301,725.4	254,810.0	503,490.1
<u>New Dwelling Units</u>					
Single Family	236	216	213	264	350
Multiple Family	<u>393</u>	<u>111</u>	<u>545</u>	<u>671</u>	<u>840</u>
TOTAL	629	327	758	935	1,190

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

San Francisco International Airport (“SFO”), the “gateway to the Pacific,” is a world class airport serving tens of millions of domestic and international passengers annually. One of the world’s 30 busiest airports, SFO is committed to setting the standard for our industry. SFO is one of the largest airports in the United States with more than 33 million annual passengers in 2006. This includes being a leader in safety and security, customer service and satisfaction, community relations, environmental commitment, quality of facilities, and financial and economic vitality. SFO was the first major U.S. airport to achieve 100 percent fully automated and integrated baggage screening. Today, efficient operations ensure that passenger screening wait times are among the shortest in the nation.

The Port of Redwood City is also located in the County. The Port has a deep-water channel and handles bulk cargo including lumber and scrap metal.

The County is traversed with major highways including U.S. Highway 101 and Interstate 280 (California), as well as Highway 1 along the Pacific Coast. The County is also served by two bridges spanning the San Francisco Bay including the San Mateo Bridge, part of State Route 92, and the Dumbarton Bridge, part of State Route 84.

The County is connected to downtown San Francisco, the Airport, and the East Bay by the San Francisco Bay Area Rapid Transit (“BART”) District. The County’s public bus service is SamTrans. The County is also served by Caltrain, a commuter rail service between San Jose and San Francisco, running along the Southern Pacific right-of-way.

APPENDIX E

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture of Trust under which the Bonds are issued, and a summary of the Financing Agreements between the Authority and each of the Participating Members. Such summaries are not intended to be definitive. Reference is made to the actual documents (copies of which are available from the Authority) for the complete terms thereof.

DEFINITIONS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Authority” means Silicon Valley Clean Water, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of November 13, 1975, as amended, among the cities of Belmont, Redwood City and San Carlos and the West Bay Sanitary District, and under the laws of the State of California.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year begins on the Closing Date and ends on August 1, 2016.

“Business Day” means a day of the year, other than a Saturday or Sunday, on which banks are not closed in the city in which the Trust Office of the Trustee is located.

“Closing Date” means the date of original delivery of the Bonds to the original purchaser thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority relating to the authorization, issuance, sale and delivery of the Bonds and the refunding of the 2008 Bonds and the 2009 Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding of the 2008 Bonds and the 2009 Bonds.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A., as escrow bank and as trustee for the 2008 Bonds and the 2009 Bonds.

“Escrow Agreements” means, collectively, (a) the Escrow Agreement dated the Closing Date, between the Authority and the Escrow Bank, relating to the deposit and application of the proceeds of the Bonds and other funds to defease and refund the 2008 Bonds, and (b) the Escrow Agreement dated the Closing Date, between the Authority and the Escrow Bank, relating to the deposit and application of the proceeds of the Bonds and other funds to refund the 2009 Bonds on a crossover basis.

“Event of Default” means an event of default under and as defined in the Indenture, which events are summarized below.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Financing Agreements” means, collectively, the following, in each case as originally executed and delivered together with all duly authorized and executed amendments or supplements thereto:

- (a) Financing Agreement dated as of December 1, 2008, between the Authority and the City of Redwood City, as amended by that certain First Amendment to Financing Agreement dated as of March 1, 2014, between the Authority and the City of Redwood City;
- (b) Financing Agreement dated as of November 1, 2015, between the Authority and the City of San Carlos; and
- (c) Financing Agreement dated as of December 1, 2008, between the Authority and the West Bay Sanitary District, as amended by that certain First Amendment to Financing Agreement dated as of March 1, 2014, between the Authority and the West Bay Sanitary District.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond will be registered on the Registration Books.

“Participating Members” means the City of Redwood City, the City of San Carlos and the West Bay Sanitary District, and any successors thereto.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys

proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment directions from the Authority as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association; and (iv) consolidated system-wide bonds and notes of the Farm Credit System.
- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAm-G or AAm, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.
- (e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P.
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation, issued by banks having reported capital and surplus of at least \$15 million.
- (h) Commercial paper having original maturities of not more than 27 days, rated "A-1+" or better by S&P at the time of purchase.
- (i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation

debt of which is rated at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured obligation debt is so rated.

- (j) Direct general short-term obligations of any state or state agency or subdivision or agency thereof described in paragraph (i) above and rated at least "A-1+" by S&P.
- (k) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of at least "A-1+" by S&P.
- (l) Any investment agreement (including guaranteed investment contracts, forward delivery agreements, repurchase agreements or similar obligations) with, or guaranteed by, an entity the long-term unsecured obligations or the claims paying ability of which are rated A or better by a nationally recognized rating agency (without regard to gradations or modifiers within such category) at the time of initial investment..
- (m) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

"Project" means the improvements to the wastewater collection, treatment and disposal system of the Authority which are acquired and constructed from amounts held in the Project Fund.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties

required by or consequent to the proper acquisition, construction and installation of the Project;

- (e) any sums required to reimburse the Authority for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (f) all Costs of Issuance and other financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (g) interest on the Bonds coming due during the period of acquisition, construction and installation of the Project.

“Registration Books” means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

“Revenues” means: (a) all amounts payable by the Participating Members under the respective Financing Agreements, representing the portion of debt service on the Bonds which is allocable to each Participating Member; (b) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Indenture . The term “Revenues” does not include amounts payable by the Participating Members under the Financing Agreements with respect to any bonds, notes or other obligations of the Authority other than the Bonds.

“S&P” means Standard & Poor’s Ratings Services, its successors and assigns.

“Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code will include the applicable temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

“Written Certificate”, “Written Request” or “Written Requisition” mean, respectively, a certificate, request or requisition in writing signed by the General Manager of the Authority, or by any other officer of the Authority duly authorized by the Commission of the Authority for that purpose, written notice of which authorization is given to the Trustee.

Application of Bond Proceeds

Deposit of Proceeds on Closing Date. Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows:

- (a) The Trustee will deposit an amount in the Costs of Issuance Fund which is sufficient to pay the Costs of Issuance of the Bonds.

- (b) The Trustee will transfer an amount of to the Escrow Bank to be held and administered for the purpose of defeasing and refunding all of the outstanding 2008 Bonds and for the purpose of refunding the outstanding 2009 Bonds on a cross-over basis, in accordance with the respective Escrow Agreements.
- (c) The Trustee will deposit the remainder of such proceeds in the Project Fund.

Costs of Issuance Fund. The Trustee will establish and hold in trust a separate fund designated as the “Costs of Issuance Fund” into which the Trustee. The Trustee will disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority. On February 1, 2016, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Project Fund, and shall thereupon close the Costs of Issuance Fund.

Project Fund. The Trustee will establish and maintain a separate fund to be known as the “Project Fund”. Amounts on deposit in the Project Fund shall be applied to pay Project Costs for Projects which are of benefit to all of the members of the Authority. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the Authority for payment of Project Costs) in accordance with Written Requisitions filed by the Authority with the Trustee.

Each such Written Requisition must state, with respect to each payment to be made thereby, (i) the name and address of the firm or corporation to whom payment is to be made, (ii) the amount and purpose of the payment, (iii) that each payment constitutes a Project Cost, and (iv) that each payment from a particular account is for a Project the Project Costs of which are of benefit to all of the members of the Authority. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts and has no responsibility for payments made in accordance with the foregoing provisions. The Authority shall maintain accurate records showing all disbursements from the Project Fund.

Upon the filing with the Trustee of a Written Certificate of the Authority stating that no further amounts are intended to be requisitioned from the Project Fund, the Trustee shall thereupon close the Project Fund and shall transfer all remaining amounts therein to the Interest Account or, at the election of the Authority, be applied to redeem or defease Outstanding Bonds.

Security for the Bonds

The Bonds are secured by a first lien on, pledge of and security interest in all of the Revenues, including all of the moneys in the Revenue Fund, the Interest Account and the Principal Account, and including all amounts derived from the investment of such moneys, without priority for number, date of Bonds, date of execution or date of delivery. The Authority transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements. Such lien, pledge and security interest shall be on a parity with the 2009 Bonds at all times prior to the date on which

the 2009 Bonds are redeemed in full pursuant to the Escrow Agreement relating to the cross-over refunding of the 2009 Bonds.

For the security of the Bonds, the Authority grants a first pledge of and lien on, and a security interest in, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements. Such pledge, lien and security interest are for the equal security of the Bonds without preference or priority for number, date of execution or date of delivery.

The Trustee is entitled to receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee will also be entitled to and, subject to the provisions of the Indenture, will take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Participating Members under the Financing Agreements.

Deposit and Application of Revenues

All Revenues described in clause (a) of the definition thereof will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee will establish, maintain and hold in trust.

The Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund), the following amounts at the following times in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

- (a) Interest Account. On or before each date on which the interest on the Bonds is payable, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. The Trustee will apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds when due, including accrued interest on any Bonds redeemed prior to maturity. Any amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the outstanding Bonds, will be transferred to the Revenue Fund.
- (b) Principal Account. On or before each date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit therein to equal the aggregate amount of principal coming due and payable on such date on the Bonds, or the redemption price of the Bonds (consisting of the principal amount thereof and

any applicable redemption premiums) required to be redeemed on such date. The Trustee will apply amounts in the Principal Account for the purpose of (i) paying the principal of the Bonds at the maturity thereof, (ii) paying the principal of the Bonds upon the redemption thereof, including the principal amount of the Term Bonds coming due upon the mandatory sinking fund redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any outstanding Bonds then having come due and payable, will be transferred to the Revenue Fund.

Investment of Moneys in Funds

The Trustee will invest moneys in the funds and accounts established and held by it under the Indenture in Permitted Investments as directed by the Authority in writing. For the purpose of determining the amount in any fund, the Trustee will value Permitted Investments credited to such fund at least annually at the fair market value thereof, determined in any manner deemed reasonable by the Trustee. For purposes of acquiring any investments, the Trustee may commingle funds held by it under the Indenture. The Trustee may (but is not obligated to) act as principal or agent in the acquisition or disposition of any investment. The Trustee has no liability for losses arising from any investments made under the Indenture.

Financial Covenants

Punctual Payment. The Authority will punctually pay or cause to be paid the principal, interest and premium (if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Trustee Accounting Records. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Revenues and all funds and accounts established under the Indenture. Such books of record and account will be available for inspection by the Authority during regular business hours with reasonable prior notice.

Authority Financial Statements. The Authority shall cause to be prepared annually, within 210 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Revenues and all disbursements thereof as of the end of such Fiscal Year. The Authority shall furnish a copy of such statements, upon reasonable request, to the Trustee and any Bond Owner.

Issuance of Parity Debt. Except for the Bonds, the Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part. Nothing in this covenant limits the authority of any Participating Member to issue parity obligations in accordance with the

related Financing Agreement, including parity obligations which secure additional bonds of the Authority.

Financing Agreements. The Trustee, as assignee of the Authority's rights, covenants to collect all amounts due from the Participating Members under the Financing Agreements and, subject to the provisions of the Indenture, will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Indenture and for the enforcement of all of the obligations of the Participating Members.

Refunding of 2008 Bonds and 2009 Bonds

The Authority shall cause a portion of the proceeds of the Bonds to be applied to the defeasance and refunding of the 2008 Bonds and the 2009 Bonds in accordance with the Escrow Agreements. The Authority covenants that the pledge and lien for the security of the 2008 Bonds shall be discharged in full on the Closing Date. As provided in the Escrow Agreement relating to the cross-over refunding of the 2009 Bonds, the 2009 Bonds shall remain outstanding and shall be secured by a pledge of and lien on the Revenues at all times to and including the date of redemption thereof in full.

Amendment of Indenture

Amendment With Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended by the Authority and the Trustee at any time, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Amendment Without Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements required to be observed under the Indenture, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;
- (b) to cure any ambiguity, inconsistency or omission, or correct any defective provision, contained in the Indenture, or in any other respect whatsoever, as the Authority may deem necessary or desirable, provided that such amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Authority and the Trustee;
- (c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute at any time in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or

- (d) to amend any provision relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment does not adversely affect the exclusion from gross income of interest on any of the Bonds under the Tax Code, in the opinion of Bond Counsel filed with the Authority and the Trustee

Events of Default

Events of Default Defined. Each of the following events constitutes an Event of Default under the Indenture:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment comes due and payable.
- (c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than as referred to in the preceding clauses, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee; *provided, however,* that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 30-day period, such failure will not constitute an Event of Default if corrective action is instituted by the Authority within such 30-day period and diligently pursued until such failure is corrected.
- (d) Certain events relating to the insolvency or bankruptcy of the Authority.
- (e) The failure by a Participating Member to make any payment of its pro rata share of debt service on the Bonds in full when due under the related Financing Agreement.

Remedies Upon Default

Remedies of Trustee. Whenever any Event of Default has happened and is continuing, the Trustee has the right, at its option and without any further demand upon or notice to the Authority, to take any one or more of the following actions:

- (a) *Actions at Law or in Equity.* The Trustee may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the Authority under the Indenture.

- (b) *Appointment of Receiver.* As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners, the Trustee may cause the appointment of a receiver or receivers of the Revenues and other pledged amounts, with such powers as the court making such appointment shall confer.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

Limitation on Owners' Right to Sue. No Owner of a Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless:

- (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Application of Funds Upon Event of Default

All of the Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the occurrence of an Event of Default, and all sums thereafter received by the Trustee thereunder, will be applied by the Trustee as follows and in the following order:

First, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law;

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Defeasance of Bonds

If the Authority pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, and the interest and premium (if any) on, such Bonds when due and payable;
- (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, is fully sufficient to pay such Bonds, including all principal, interest and premiums (if any); or
- (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, non-callable Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption has been duly given or provision satisfactory to the Trustee has been made for the giving of such notice, then, at the election of the Authority, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Authority under the Indenture with respect to such Bonds will terminate.

FINANCING AGREEMENTS

Definitions

The following terms have the following meanings when used in this Summary of the Financing Agreements between the Authority and each of the Participating Members, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Allocable Share” means the portion of the debt service payments on the Bonds which is allocated to the Participating Member as determined in accordance with the Joint Powers Agreement.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other 12-month period selected and designated by the Participating Member as its official fiscal year period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the Participating Member from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to investment earnings thereon and including connection or capacity charges; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the Participating Member relating to the Wastewater System, (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the Participating Member relating to the Wastewater System; and (c) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Participating Member, or contributions in aid of construction.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year by totaling the following amounts for such Fiscal Year: (a) the aggregate amount of the Member Payments coming due and payable in such Fiscal Year; and (b) the amount of principal of and interest on all outstanding Parity Debt coming due and payable by their terms in such Fiscal Year.

“Member Payments” means the amounts paid by the Participating Member under the related Financing Agreement representing payments of principal of and interest and redemption premium (if any) on an Allocable Share of the Bonds.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs coming payable during such period.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the Participating Member for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, (b) amounts payable for operation and maintenance under the Joint Powers Agreement, and (c) all administrative costs of the Participating Member that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums. “Operating and Maintenance Costs” does not include (i) payments of debt service on bonds, notes or other obligations issued by the Participating Member with respect to the Wastewater System, (ii) payments made by the Participating Member under the Joint Powers Agreement in respect of debt service on notes, bonds or other obligations issued by the Authority to finance the project, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

“Parity Debt” means any bonds, notes, leases, installment sale agreements or other obligations of the Participating Member which are payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Member Payments, entered into or issued under and in accordance with the related Financing Agreement.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement, loan agreement, installment sale agreement or other document authorizing the issuance of any Parity Debt.

“Payment Schedule” means the schedule prepared by the Authority and filed with the Participating Member showing the amount and date of each Member Payment relating to the Bonds, and setting forth the provisions relating to prepayment of the Member Payments.

“Unencumbered Fund Balance” means, for any Fiscal Year, the balance of Net Revenues remaining on deposit in any of the funds and accounts of the Participating Member (including but not limited to the Wastewater Revenue Fund and any rate stabilization fund established by the Participating Member) as of the last day of such Fiscal Year, as shown on the books of the Participating Member, which may lawfully be used to pay the Member Payments. The amount of the Unencumbered Fund Balance as of the last day of any Fiscal Year does not include any funds which the Participating Member determines will be required for payment of the Member Payments or the principal of and interest on any Parity Debt during the next six months.

“Wastewater Revenue Fund” means the fund or funds established and held by the Participating Member with respect to the Wastewater System for the receipt and deposit of Gross Revenues.

“Wastewater System” means the entire system of the Participating Member for the collection and transmission of wastewater, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the Participating Member for the collection and transmission of wastewater within the service area of the Participating Member, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the Participating Member.

Debt Service Payments

The Participating Member is solely responsible for payment of its Allocable Share of principal of and interest on the Bonds. Payment of Member Payments by the Participating Member will be made as follows:

- (a) Payment Dates and Amounts. The Participating Member will pay the Member Payments in semiannual installments in the amounts and at the times set forth in the Payment Schedule.
- (b) Payment Schedule. Upon the sale of the Bonds, the Authority will determine the Member Payments for the Participating Member. Prior to the issuance of the Bonds, the Authority will file with the Participating Member a Payment Schedule showing the amount and date of each Member Payment and setting forth the provisions relating to prepayment of such Member Payments.
- (c) Credit for Debt Service Fund Earnings. In determining the amount of the Member Payment which the Participating Member is required to pay on any semiannual payment date or prepayment date, the Participating Member will be credited for an Allocable Share of any earnings which are received from the investment of the Principal Account and Interest Account which are established for the Bonds.
- (d) Payments to Trustee. At the written direction of the Authority, the Participating Member will pay the Member Payments to the Trustee or other assignee of the Authority. Upon the closing of the Bonds, the Authority will file such written direction with the Participating Member.

Pledge of Net Revenues

The Participating Member establishes a pledge of, lien on and security interest in all of the Net Revenues to secure the Member Payments.

The Participating Member agrees to deposit all of the Gross Revenues in the Wastewater Revenue Fund immediately upon receipt. Amounts on deposit in the Wastewater Revenue Fund will be applied by the Participating Member to pay when due the following amounts in the following order of priority:

- (a) all Operation and Maintenance Costs;

- (b) the Member Payments and all payments of principal of and interest and premium (if any) on outstanding Parity Debt;
- (c) any other payments required to comply with the provisions of the Joint Powers Agreement and any Parity Debt Documents; and
- (d) any other lawful purposes of the Wastewater System.

The Participating Member will manage, conserve and apply amounts on deposit in the Wastewater Revenue Fund in such a manner that all deposits required to be made under the Financing Agreement will be made at the times and in the amounts so required. So long as the Participating Member is not in default in the payment of the Member Payments or the payment of principal of and interest and premium (if any) on outstanding Parity Debt, the Participating Member may use and apply amounts in the Wastewater Revenue Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater System, (iii) the establishment of a rate stabilization fund, or (iv) any other lawful purposes of the Participating Member.

Special Obligation of the Participating Member; Obligations Absolute

The Participating Member's obligation to pay the Member Payments and any other amounts coming due and payable under the Financing Agreement is a special obligation of the Participating Member limited solely to the Net Revenues. Under no circumstances is the Participating Member required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Financing Agreement for the payment of the Member Payments and such other amounts. The obligations of the Participating Member to pay the Member Payments from the Net Revenues and to perform and observe the other agreements contained in the Financing Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment whatsoever.

Rates and Charges.

Gross Revenue Covenant. The Participating Member covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay all obligations of the Participating Member which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues in such Fiscal Year, including all Member Payments and payments of principal of and interest on Parity Debt.

Net Revenue Covenant. In addition, the Participating Member agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 120% of the Member Payments and payments of principal of and interest on Parity Debt coming due in such Fiscal Year. The amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year will be credited towards the Participating Member's obligations under this covenant,

in an amount not to exceed 20% of the Member Payments and payments of principal of and interest on Parity Debt.

No Senior Lien Debt

So long as the Member Payments remain unpaid, the Participating Member will not issue or incur any additional bonds or other obligations which are senior to the Member Payments.

Issuance of Parity Debt

The Participating Member may issue Parity Debt which is payable from and secured by a pledge of and lien on the Net Revenues on a parity with the Member Payments, upon satisfaction of the following conditions:

- (a) The Participating Member is not then in default in the payment of the Member Payments and in the payment of principal of and interest on any Parity Debt.
- (b) The amount of Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the Participating Member for the latest Fiscal Year for which audited financial statements are available, or as shown by the books of the Participating Member for any more recent 12-month period selected by the Participating Member, are at least equal to 120% of the amount of Maximum Annual Debt Service. For purposes of determining the amount of Net Revenues under this paragraph, the following will apply:
 - (i) the amount of Net Revenues may be increased to reflect any increase in the rates and charges levied for service from the Wastewater System which has been adopted prior to the date the Parity Debt is issued, in an amount by which the Net Revenues would have been increased if such increase in charges (based on the highest adopted rate which will be in effect for any of the next three Fiscal Years) had been in effect during the whole of such Fiscal Year or other 12-month period;
 - (ii) the amount of Net Revenues may be increased (in an amount not exceeding 20% of Maximum Annual Debt Service) by the amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year; and
 - (iii) the amount of Net Revenues may be increased to take into account any additions or improvements to or extensions of the Wastewater System to be financed from the proceeds of such Parity Debt or from any other source but in any case which, during all or any part of such Fiscal Year or other 12-month period, were not in service, in an amount equal to the estimated additional average annual Net Revenues to be

derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or qualified independent financial consultant employed by the Participating Member.

- (d) The Participating Member agrees to comply with all conditions to the issuance of Parity Debt as set forth in the any Parity Debt Documents.

Issuance of Subordinate Debt

Nothing in the Financing Agreement limits or affects the ability of the Participating Member to issue or incur obligations which are unsecured or which are secured by an interest which is junior and subordinate to the pledge of and lien upon the Net Revenues established thereunder.

Operation and Insurance of the Wastewater System

The Participating Member covenants and agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order. The Participating Member will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. The Participating Member will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Participating Member, the Authority, the Trustee and the Owners of the Bonds.

Records and Accounts

The Participating Member agrees to keep proper books of record and accounts of the Wastewater System in which complete and correct entries are made of all transactions relating to the Wastewater System. Said books will, upon prior written request, be subject to the reasonable inspection of the Authority and the Trustee, or their representatives authorized in writing, upon not less than two Business Days' prior notice to the Participating Member. The Participating Member will cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant not more than nine months after the close of each Fiscal Year, and will make a copy of such report available for inspection by the Authority and the Trustee. Such report may be part of a combined financial audit or report covering all or part of the Participating Member's finances.

APPENDIX F

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by SILICON VALLEY CLEAN WATER (formerly the South Bayside System Authority) (the “Authority”) in connection with the issuance of the Silicon Valley Clean Water (San Mateo County, California) 2015 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2015 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee.

The Authority covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Authority pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Authority’s fiscal year (currently March 31 based on the Authority’s fiscal year end of June 30).

“*Dissemination Agent*” means the Authority, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 3(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Reporting of Significant Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the Authority or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or an obligated person, or the sale of all or substantially all of the assets of the Authority or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, or shall cause the Dissemination Agent (if not the Authority) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9)

above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Authority acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Authority shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the Authority obtains knowledge of the occurrence of any of these Listed Events, the Authority will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Authority will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

Section 4. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2016, with the report for the 2014-15 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Authority) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 3(c). The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder.

(b) If the Authority does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Authority, in a timely manner, shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

- (c) With respect to each Annual Report, the Dissemination Agent shall:
- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
 - (ii) if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 5. Content of Annual Reports. The Authority's Annual Report shall contain or incorporate by reference the following:

(a) The Authority's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Authority for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) remaining and anticipated sources of CIP funding, which may be provided in the same or similar form as Tables 2, 3 and 4;
- (ii) any bonds issues in the most recently completed fiscal year that are payable from SVCW Bond Payments;
- (iii) any change in the cost allocations of Members during the most recently completed fiscal year; and
- (iv) average wastewater flow for the most recently completed fiscal year, which may be provided in the same or similar form as Table 6.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Authority shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(b).

Section 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Authority. Any Dissemination Agent may resign by providing 30 days' written notice to the Authority.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 3(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Authority fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Authority hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bond holders or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: November 24, 2015

SILICON VALLEY CLEAN WATER

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2015
Wastewater Revenue Bonds

Date of Issuance: November 24, 2015

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by the Authority Continuing Disclosure Certificate, dated November 24, 2015. The Authority anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

**PARTICIPATING MEMBER
CONTINUING DISCLOSURE CERTIFICATE**

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by _____ (the “Participating Member”) in connection with the issuance of the Silicon Valley Clean Water (San Mateo County, California) 2015 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2015 (the “Indenture”), by and between Silicon Valley Clean Water and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds are payable from revenues, including payments to be made by the Participating Member under a Financing Agreement (the “Financing Agreement”), between the Authority and the Participating Member.

The Participating Member covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Participating Member for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Participating Member pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Participating Member’s fiscal year (currently March 31 based on the Participating Member’s fiscal year end of June 30).

“*Dissemination Agent*” means _____, or any successor Dissemination Agent designated in writing by the Participating Member and which has filed with the Participating Member a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Participating Member in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The Participating Member shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2016, with the report for the 2014-15 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Participating Member shall provide the Annual Report to the Dissemination Agent (if other than the Participating Member). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Participating Member) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Participating Member to determine if the Participating Member is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Participating Member may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Participating Member's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Participating Member shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Participating Member hereunder.

(b) If the Participating Member does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Participating Member, in a timely manner, shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Participating Member, file a report with the Participating Member certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Participating Member's Annual Report shall contain or incorporate by reference the following:

(a) The Participating Member's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Participating Member's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Participating Member for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) revenues by class of user for the Sewer Utility System for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A3, B3 and C3;

(ii) the largest Sewer Utility System users by revenue for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A4, B4 and C4;

(iii) a description of any revisions to the wastewater rates which were adopted or which took effect during the most recently completed fiscal year;

(iv) the Sewer Utility System's revenues and expenses and Net Revenues, including debt service and coverage ratios, for the most recently completed fiscal year, which may be provided in the same or similar form as Tables A9, B8 and C7; and

(v) a description of any additional indebtedness incurred by the Participating Member during the most recently completed fiscal year which is payable from revenues of the Sewer Utility System.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Participating Member shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participating Member or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Participating Member shall clearly identify each such other document so included by reference.

Section 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Participating Member's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Participating Member shall give notice of such termination as follows: the Participating Member shall, or shall cause the Dissemination Agent (if not the Participating Member) to, file a notice of such termination with the MSRB, in an electronic format as prescribed by the MSRB.

Section 7. Dissemination Agent. The Participating Member may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be _____.

Any Dissemination Agent may resign by providing 30 days' written notice to the Participating Member.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Participating Member may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Participating Member to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section shall be filed in the same manner as for a Listed Event under Section 6.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Participating Member from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Participating Member chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Participating Member shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. If the Participating Member fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Participating Member to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Participating Member to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Participating Member agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Participating Member hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Participating Member, the Bond holders or any other party. The obligations of the Participating Member under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Participating Member for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Participating Member, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: November 24, 2015

[PARTICIPATING MEMBER]

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:

_____,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2015
Wastewater Revenue Bonds

Date of Issuance: November 24, 2015

NOTICE IS HEREBY GIVEN that the Participating Member has not provided an Annual Report with respect to the above-named Bonds as required by the Participating Member Continuing Disclosure Certificate, dated November 24, 2015. The Participating Member anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

FORM OF BOND COUNSEL OPINION

November 24, 2015

Silicon Valley Clean Water
1400 Radio Road
Redwood Authority, California 94065

OPINION: \$70,200,000 Silicon Valley Clean Water
(San Mateo County, California)
2015 Wastewater Revenue Bonds

Members of the Authority:

We have acted as bond counsel in connection with the issuance by Silicon Valley Clean Water (the "Authority") of its \$70,200,000 aggregate principal amount of Silicon Valley Clean Water (San Mateo County, California) 2015 Wastewater Revenue Bonds (the "Bonds"). The Bonds have been issued by the Authority under the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), an Indenture of Trust dated as of November 1, 2015 (the "Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and a resolution adopted by the Commission of the Authority on September 10, 2015. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly organized and validly existing as a joint powers authority under the laws of the State of California, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. Under the Bond Law, the Indenture establishes a valid lien on and pledge of the Revenues (as that term is defined in the Indenture) for the security of the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Indenture and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX H

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the "Bonds"), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of

securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX I

**Annual Financial Report for Silicon Valley Clean Water –
Fiscal Year Ended June 30, 2014**

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annual Financial Report

For the Year Ending June 30, 2014

Silicon Valley Clean Water



This Page Intentionally Left Blank

Silicon Valley Clean Water

Table of Contents June 30, 2014

Independent Auditor’s Report	1 - 3
Management’s Discussion and Analysis	4 - 13
Basic Financial Statements:	
Statement of Net Position	14
Statement of Activities and Changes in Net Position	15
Statement of Cash Flows	16
Notes to Financial Statements.....	17 - 32
Supplementary Information:	
Combining Schedule of Net Position - Enterprise Funds	33
Combining Schedule of Activities and Changes in Net Position - Enterprise Funds...	34
Combining Schedule of Cash Flows - Enterprise Funds	35
Analysis of Net Position Schedule.....	36 - 38
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39 - 40

This Page Intentionally Left Blank



INDEPENDENT AUDITOR'S REPORT

To the Commission of the
Silicon Valley Clean Water
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Silicon Valley Clean Water ("SVCW") as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of SVCW, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SVCW's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with



auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements as a whole. The Analysis of Net Position Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2014 on our consideration of SVCW'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SVCW's internal control over financial reporting and compliance.

C & A LLP

October 11, 2014
San Jose, California

This Page Intentionally Left Blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

Silicon Valley Clean Water (the "Authority", or "SVCW") has issued its financial statements for the fiscal year ended June 30, 2014 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). The Management of SVCW presents the following narrative overview and analysis of the financial activities, with comparative data for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) section is an overview of the Authority's financial activities and is an integral part of the accompanying Basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

SVCW's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements. The Financial Statements report information about SVCW accounting using methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities, and include:

- The *Statement of Net Position* presents SVCW assets and liabilities, with the difference between the two reported as *net position*. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the SVCW. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- All of the current year's revenues and expenses are accounted for in the *Statement of Activities and Changes in Net Position*, which reflects the results of SVCW operations over the course of the fiscal year. This statement can be used as an indicator of the extent to which the Authority has successfully recovered its costs through charges.
- The final required Financial Statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about SVCW's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions about the sources and uses of cash, and describes the change in cash balance during the reporting period.

The Notes to Financial Statements provide information that is not displayed on the face of the financial statements but is essential to a reader's full understanding.

ORGANIZATION AND BUSINESS

SVCW is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members"), all of which are located in the northern part of Silicon Valley between the cities of San Francisco and San Jose. The Authority's wastewater treatment plant is located in the City of Redwood City. The Authority serves more than 200,000 people and businesses located predominantly in San Mateo County, California. SVCW has a strong customer base including large business customers such as Oracle Corporation, EA Sports, and

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

Facebook. The Bay Area economy is strong, and ratepayers are able to accommodate rate increases needed for infrastructure improvements.

The Authority owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to the Authority's treatment plant, five wastewater pump stations, and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. SVCW also provides recycled water to the City of Redwood City.

A four-member "Commission" consisting of one appointed member from each of the Members' governing bodies governs SVCW. Voting is proportional to the Members' respective ownership interests in the Authority's wastewater system. A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$50,000; to employ the manager, engineers, and certain other consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes. Any amendment of the Joint Powers Agreement requires the concurrence of all of the Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a 4/5 vote by each of the Members' governing bodies.

FINANCIAL ANALYSIS

Our analysis of SVCW begins on page 11 of the Financial Statements. One of the most important questions asked about SVCW's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about SVCW's activities in a way that will help answer this question. These two statements report the net position of SVCW and changes in them, which helps measure the financial health of the organization. Over time, increases or decreases in SVCW's net position are one indicator of whether its financial health is improving or deteriorating. However, it is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment.

Overall, fiscal year 2013-14 saw the Authority make significant progress towards its Capital Improvement Program while maintaining financial stability. The SVCW Commission proactively acted to protect public health, the environment, and SVCW facilities by authorizing debt issuance of \$60 million. These funds facilitated Commission approval of critical capital projects throughout the year. As a result of these actions the Authority was able to complete the Administration and Plant Control Building and invest into process automation solutions.

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

FINANCIAL HIGHLIGHTS

- SVCW net position remained stable during fiscal year 2013-14, decreasing \$0.2 million (0.3%) from the previous year. This nominal change is reflective of how the Authority has maintained a balanced approach to investing in infrastructure.
- Operating revenues from member agencies in fiscal year 2013-14 increased \$8.1 million (32%) from the previous year, which was primarily due to one member agency opting to pre-fund its portion of borrowing in lieu of participating in SVCW financing vehicles.
- Fiscal year 2013-14 operating expenses excluding depreciation increased \$3.7 million (20%) which included issuance costs of the 2014 bond issuance, non-recurring expenditures to remove bio-solid materials, and unanticipated maintenance and repair costs.
- Member agencies continued to contribute revenues to acquire, replace, and expand assets, as fiscal year 2013-14 capital contributions had a slight decline of \$0.2 million (7.5%).
- Unrestricted cash balances increased \$4.3 million (54%), due to timing of cash collections and project expenditures at the end of fiscal year 2013-14.

NET POSITION

To begin the analysis, a summary of SVCW's Statement of Net Position is presented in Table 1.

TABLE 1
Condensed Statement of Net Position

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percent Change
Current and other assets	\$ 19,602,360	\$ 15,375,165	\$ 4,227,195	27.49%
Restricted assets	42,489,338	6,128,364	36,360,974	593.32%
Capital assets	168,002,833	135,377,601	32,625,232	24.10%
Total Assets	230,094,531	156,881,130	73,213,401	46.67%
Total Liabilities	155,718,113	82,294,405	73,423,708	89.22%
Net investment in capital assets	58,820,409	63,159,680	(4,339,271)	-6.87%
Restricted	5,842,966	5,966,604	(123,638)	-2.07%
Unrestricted	9,713,043	5,460,441	4,252,602	77.88%
Total Net Position	\$74,376,418	\$74,586,725	\$ (210,307)	-0.28%

As can be seen from Table 1 above, SVCW's net position decreased \$0.2 million from fiscal year 2012-13 to 2013-14. Significant changes during the fiscal year included:

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

- A bond issuance of \$60 million, of which \$36.6 million in proceeds remained as of June 30, 2014.
- A \$32 million increase in capital assets, reflecting continual investment in critical infrastructure improvements.
- Total liabilities increased by \$73 million, which included new 2014 revenue bonds of \$66 million for capital construction projects, plus an \$8 million increase in State Revolving Fund Notes Payable.

Table 2 below shows the construction fund activity during the year. SVCW received \$14.3 million in payments from a member agency that chose to directly fund its portion of the Capital Improvement Program rather than participating in bond issuances or State Revolving Fund loans. SVCW recognizes these transferred payments as operating income.

Consistent with the Commission-adopted Capital Improvement Program, SVCW invested \$42 million in capital projects during fiscal year 2013-14. Specific project expenditures included wastewater treatment plant rehabilitation / improvement programs, electric cogeneration systems, and rehabilitation to anaerobic digesters.

TABLE 2
Construction Fund Activity

	New Capital	Replacement	Stage 2	Capital	
	(14 Fund)	(17 Fund)	(15 Fund)	Improvement	
	(14 Fund)	(17 Fund)	(15 Fund)	Program	Totals
	(14 Fund)	(17 Fund)	(15 Fund)	(20-22 Fund)	Totals
Member contributions	\$ 2,043,312	\$ -	\$ 724,534	\$ -	\$ 2,767,846
Operating income	26,631	-	-	14,304,050	14,330,681
Interest	422	363	404	73,526	74,715
Total Revenue	2,070,365	363	724,938	14,377,576	17,173,242
Cash to construction	<u>\$ 2,369</u>	<u>\$ 127,021</u>	<u>\$ 683,892</u>	<u>\$ 41,475,172</u>	<u>\$ 42,288,454</u>

While the Statement of Net Position shows the change in financial position from year to year, the Statement of Activities and Changes in Net Position (Table 3 below) provides answers as to the nature and source of the changes.

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

TABLE 3
Condensed Statements of Activities and Changes in Net Position

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percent Change
Operating revenues	\$ 33,530,273	\$ 25,427,682	\$ 8,102,591	31.9%
Non-operating revenues	77,283	60,636	16,647	27.5%
Capital Contributions	2,767,846	2,574,685	193,161	7.5%
Total Revenues	36,375,402	28,063,003	8,312,399	29.6%
Depreciation expense	4,775,310	3,719,713	1,055,597	28.4%
Other operating expense	22,137,001	18,454,436	3,682,565	20.0%
Non-operating expense	6,435,856	6,931,223	(495,367)	-7.1%
Total Expenses	33,348,167	29,105,372	4,242,795	14.6%
Beginning net position	74,586,725	75,629,094	(1,042,369)	-1.4%
Prior Period Adjustment	(3,237,542)	-	(3,237,542)	100.0%
Ending net position	74,376,418	74,586,725	(210,307)	-0.3%
Changes in Net Position	\$ 3,027,235	\$ (1,042,369)	\$ 4,069,604	390.4%

Table 3 shows that total revenues increased by \$8.3 million (29.6%) in fiscal year 2013-14, primarily the result of a Member Agency opting to self-finance its \$8 million portion of capital projects in lieu of participating in bond issuances or State Revolving Fund loans.

Fiscal year 2013-14 expenses increased by \$4.2 million (14.6%) over the prior year, which included a rise in several key expenditures:

- Depreciation expense increased \$1.1 million, consistent with the large number of capital assets placed into service during the fiscal year.
- Operating costs rose by \$3.7 million, which included increases in costs for utilities and solids removal. Utility costs increased significantly when the local electric provider installed a digital meter that provided more accurate, and higher, readings. The provider also raised rates by more than 10% over the previous year. Solids removal costs temporarily rose in fiscal year 2013-14, as the Authority addressed bio-solid materials that had accumulated in its drying beds. This hauling activity is now reoccurring annually as part of standard operations.
- Non-operating expenses were nearly \$0.5 million less than the prior year, due to the combination of a \$1.4 million decline in fixed asset disposals, offset by a \$0.9 million increase in interest expense.

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

SVCW also made a \$3.2 million prior-period adjustment to its beginning net position to account for depreciation associated with construction-in-progress assets that were closed and reclassified to depreciable assets in fiscal year 2013-14.

BUDGETARY HIGHLIGHTS

SVCW Commission adopts an annual budget to provide for ongoing operations and establish a short-term spending plan that is consistent with the Authority's financial goals. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects, which are derived from the ten-year Capital Improvement Program. Table 4 below compares actual and budgeted expenditures for general operations during the year ended June 30, 2014.

TABLE 4
FY 2013-2014 Actual vs Budget

	<u>Actual</u>	<u>Budget</u>	<u>Dollar Variance</u>	<u>Percent Variance</u>
Member Contributions	\$ 18,678,083	\$ 18,678,083	\$ -	0.00%
Source Control Revenue	14,108	-	14,108	100.00%
Other Revenue	373,763	275,000	98,763	35.91%
Total Operating Revenue	<u>19,065,954</u>	<u>18,953,083</u>	<u>112,871</u>	<u>0.60%</u>
Support Services	2,866,794	2,873,051	6,257	0.22%
Technical Services	1,223,517	1,523,177	299,660	19.67%
Operations	8,033,910	6,708,288	(1,325,622)	-19.76%
Maintenance	5,304,898	5,175,679	(129,219)	-2.50%
Engineering	237,853	192,893	(44,960)	-23.31%
Safety	341,535	367,162	25,627	6.98%
Informationl Services	1,298,434	1,473,164	174,730	11.86%
Environmental Services	911,206	1,012,630	101,424	10.02%
Depreciation	4,775,310	4,775,310	-	0.00%
Total Operating Expenses	<u>24,993,457</u>	<u>24,101,354</u>	<u>(892,103)</u>	<u>-3.70%</u>
Operating Income/(Loss)	<u>\$ (5,927,503)</u>	<u>\$ (5,148,271)</u>	<u>\$ (779,232)</u>	<u>15.14%</u>

The Authority reported an operating loss that was \$0.8 million worse than budget during fiscal year 2013-14. Total expenditures were \$0.9 million (3.7%) unfavorable to budget, largely caused by unanticipated costs in the Operations Division for Utilities and Contractual Services. When these unforeseen expenditures arose in fiscal year 2013-14, the Authority initiated expenditure-reducing

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

tactics to the extent possible and more importantly enacted mitigating actions to prevent their reoccurrence. The greater-than-budget expenditures included:

- A utilities expense variance of \$0.6 million, incurred after the local electricity provider replaced the treatment plant's electric meters with digital, more accurate devices. This, as well as the provider's rate adjustments, will be addressed in fiscal year 2014-15 through a new cogeneration project to reduce dependence on outside electricity.
- Contractual Services expenditures were \$0.6 million higher than budget in fiscal year 2013-14 as the result of extensive one-time hauling of sludge material from drying beds to remove accumulated bio-solids. Going forward, such hauling requirements are routinely budgeted and completed.

CAPITAL ASSETS

The Authority has a ten-year Capital Improvement Program to improve existing facilities, build new facilities, rehabilitate assets, repair or replace infrastructure, preserve assets, enhance safety and security, and perform needed maintenance. Significant investments in infrastructure included sectional replacement of influent conveyance pipes, completion of an administration and plant control building, modernization of electronic control systems for activated sludge handling, and rehabilitation of digester systems. Consistent with the Capital Improvement Program, the Commission approved these and other capital improvements in order to protect public health, the environment, and agency facilities. Table 5 below provides a summary of capital assets owned by SVCW, showing how at the end of fiscal year 2012-13 and 2013-14, Net Property Plant & Equipment (PP&E) was \$33 million and \$75 million, respectively.

Additional information about SVCW's capital acquisitions and construction is presented in note 5 to the financial statements.

TABLE 5
Capital Assets

	Balance at June 30, 2013	Additions	Retirements	Transfers	Adjustments	Balance at June 30, 2014
Land	\$ 860,965	\$ -	\$ -	\$ 421,116	\$ -	\$ 1,282,081
Buildings & Struct.	41,204,686	-	(180,916)	25,741,527	-	66,765,297
Pipelines	9,000,186	-	-	4,823,260	-	13,823,446
Pump Stations	6,683,670	-	(89,365)	192,201	-	6,786,506
Machines & Equip.	33,152,672	-	(7,375,430)	20,150,187	-	45,927,429
Total PP&E, Cost	90,902,179	-	(7,645,711)	51,328,291	-	134,584,759
Accum. Depreciation	57,897,017	4,775,310	(6,582,848)	-	3,237,542	59,327,021
Total PP&E, Net	33,005,162	(4,775,310)	(1,062,863)	51,328,291	(3,237,542)	75,257,738
Construction in Progress:						
Stage 2 Capacity	\$ 6,210,891	\$ 612,433	\$ -	\$ -	\$ -	\$ 6,823,324
General	96,161,548	41,214,336	-	(51,328,290)	(125,823)	85,921,771
Total CIP	\$ 102,372,439	\$ 41,826,769	\$ -	\$ (51,328,290)	\$ (125,823)	\$ 92,745,095

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

LONG TERM DEBT

SVCW had total long-term debt outstanding of \$146 million as of June 30, 2014, a \$72 million increase from June 30, 2013. Components of the Authority's long-term debt liability as of June 30, 2014 include \$120.5 million of Wastewater Revenue Bonds (including unamortized premiums), a Notes Payable to the California Clean Water State Revolving Fund for approximately \$20 million, and an undrawn line of credit.

During fiscal year 2013-14, Moody's and S&P affirmed their underlying credit ratings of the Authority with stable ratings outlooks. In January 2014 Moody's and Standard & Poor's Ratings Services each assigned Aa3 and an AA ratings, respectively, to SVCW's 2014 Wastewater Revenue Bonds.

Wastewater Revenue Bonds

During fiscal year 2013-14, SVCW issued \$60 million of new money Wastewater Revenue Bonds for the acquisition and construction of wastewater system improvements. The Bonds are limited obligations of the Authority which are payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Table 6 below shows the total bonds outstanding for the fiscal years ended June 30, 2013 and 2014:

TABLE 6
Wastewater Revenue Bonds

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2013	Redeemed	Bonds Outstanding June 30, 2014
2008 Revenue Bond	12/31/2008	8/1/2029	4.0 - 5.0%	\$ 10,000,000	\$ 8,975,000	\$ 370,000	\$ 8,605,000
2009 Revenue Bond	7/1/2009	8/1/2039	1.74 - 8.1%	55,855,000	52,980,000	1,065,000	51,915,000
2014 Revenue Bond	3/6/2014	2/1/2044	3.0 - 5.0%	60,000,000	-	-	60,000,000
Total Wastewater Revenue Bonds				\$125,855,000	\$61,955,000	\$1,435,000	\$120,520,000

State Water Resources Control Board Loan

The Authority financed two projects by entering into two separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, these agreements totaled \$19.6 million as of June 30, 2014. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The SWRCB reimbursed the Authority for project-related expenditures as incurred, and the outstanding liability was \$10.9 million as of June 30, 2014. This amount is scheduled to be fully repaid by June 2033.

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35.4 million for certain improvements to the wastewater treatment plant. As of June 30, 2014, the Authority had incurred \$8.7 million. This project is scheduled to be completed in fiscal year 2015-2016 and the total incurred expenditures will be repaid by September 2036.

Line of Credit

On January 26, 2012, the Authority secured a \$30 million line of credit with Bank of the West. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. The Authority did not have an outstanding balance on the line of credit at June 30, 2014.

More detailed information about the Authority's long-term debt, Notes Payable, and Line of Credit is presented in note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The approved Operating Budget for fiscal year 2014-15 recommends expenditures based on a prioritization of needs, goals and objectives; it also anticipates external cost pressures in order to provide a roadmap that provides for the ongoing needs of the community in the coming fiscal year. The Budget was developed considering the increasing costs of doing business, as well as savings associated with operational improvements. It includes changes to staffing levels and incorporates the Memorandum of Understanding between SVCW and the International Union of Operating Engineers Stationary Local 39, AFL-CIO is effective through June 30, 2018.

Each of the Member Agencies has been proactively raising sewer rates to support its allocable share of funding requirements for the Authority's operations and Capital Improvement Program, as well to meet their own operating and capital needs.

Table 7 shows a comparison of the fiscal year 2014-15 Operating Budget to the fiscal year 2013-14 actual results. The Operating Budget includes a 4.8% increase in total expenditures. It should be noted that most of the fiscal year 2013-14 budgeted operating loss results from estimated depreciation, which is a non-cash expense that is paid for through the Capital Improvement Fund.

Silicon Valley Clean Water
Management's Discussion and Analysis
June 30, 2014

TABLE 7
FY 2014-2015 Budget vs FY 2013-2014 Actual

	FY 2014-2015 Budget	FY2013-2014 Actual	Dollar Change	Percent Change
Member Contributions	\$ 20,928,609	\$ 18,678,083	\$ 2,250,526	12.0%
Source Control Revenue	-	14,108	(14,108)	-100.0%
Other Revenues	275,000	373,763	(98,763)	-26.4%
Total Operating Revenue	21,203,609	19,065,954	2,137,655	11.2%
Administration	3,151,154	2,866,794	284,360	9.9%
Laboratory	1,632,670	1,223,517	409,153	33.4%
Operations	7,515,152	8,033,910	(518,758)	-6.5%
Maintenance	5,799,592	5,304,898	494,694	9.3%
Engineering	418,731	237,853	180,878	76.0%
Safety	389,931	341,535	48,396	14.2%
Information Systems	1,450,680	1,298,434	152,246	11.7%
Environmental Services	1,050,583	911,206	139,377	15.3%
Depreciation	4,775,310	4,775,310	-	0.0%
Total Operating Expenses	26,183,803	24,993,457	1,190,346	4.8%
Operating Income/(Loss)	\$ (4,980,194)	\$ (5,927,503)	\$ 947,309	-16.0%

CONTACTING SILICON VALLEY CLEAN WATER MANAGEMENT

This financial report is designed to provide SVCW officers, investors, stakeholders, and other interested parties with a general overview of SVCW's financial condition. If you have any questions about this report or need additional financial information, please contact the offices of the General Manager or the Chief Financial Officer at Silicon Valley Clean Water, (650) 832-6224, 1400 Radio Road, Redwood City, CA, 94065.

This Page Intentionally Left Blank

BASIC FINANCIAL STATEMENTS

Silicon Valley Clean Water
Statement of Net Position
June 30, 2014
(With Comparative Totals as of June 30, 2013)

Assets	2014	2013
Current Assets:		
Cash and investments	\$ 12,294,565	\$ 8,005,274
Accounts receivable	1,810,287	150,715
Interest receivable	427,589	429,002
Employee notes receivable	11,266	10,612
Deposits	92,946	93,300
Inventory	1,401,377	1,148,079
Prepaid expenses	34,693	35,010
Total Current Assets	<u>16,072,723</u>	<u>9,871,992</u>
Noncurrent Assets:		
Investment in real estate	2,552,105	3,900,622
Cash with fiscal agent	42,489,338	6,128,364
OPEB asset	923,034	840,549
Unamortized discounts	54,498	762,002
Capital assets - net:		
Depreciable capital assets:		
Plant in service - net	73,975,657	32,144,197
Non-depreciable capital assets:		
Land	1,282,081	860,965
Construction in progress:		
Stage 2	6,823,324	6,210,891
General	85,921,771	96,161,548
Total Capital assets - net	<u>168,002,833</u>	<u>135,377,601</u>
Total Noncurrent Assets - Net	<u>214,021,808</u>	<u>147,009,138</u>
Total Assets	<u>\$ 230,094,531</u>	<u>\$ 156,881,130</u>
 Liabilities		
Current Liabilities:		
Accounts payable	\$ 5,510,940	\$ 5,851,185
Accrued payroll and employee benefits	828,551	583,987
Accrued interest payable	2,690,438	1,464,804
Unearned revenue	508	703,024
Noncurrent liabilities due within one year	2,959,381	1,984,723
Total Current Liabilities	<u>11,989,818</u>	<u>10,587,723</u>
Noncurrent liabilities due in more than one year	143,728,295	71,706,682
Total Liabilities	<u>\$ 155,718,113</u>	<u>\$ 82,294,405</u>
 Net Position		
Net Investment in Capital Assets	\$ 58,820,409	\$ 63,159,680
Restricted for:		
Debt service	5,842,966	5,966,604
Unrestricted	9,713,043	5,460,441
Total Net Position	<u>\$ 74,376,418</u>	<u>\$ 74,586,725</u>

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

Silicon Valley Clean Water
Statement of Activities and Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014	2013
Operating Revenues:		
Member contributions for services	\$ 33,115,771	\$ 24,947,253
Sources control charges	14,108	25,583
Miscellaneous revenues	400,394	454,849
Total operating revenues	<u>33,530,273</u>	<u>25,427,685</u>
Operating Expenses:		
Plant:		
Support services	4,311,095	2,049,415
Technical services	3,402,912	3,485,992
Operations	7,526,808	7,005,438
Maintenance	4,818,287	3,990,052
Pump stations	1,125,348	1,113,881
Booster station	26,883	32,643
Force main	21,554	8,445
Source control	214,530	215,178
Claims paid	33,501	30,365
Retiree health benefits	656,083	523,027
Depreciation	4,775,310	3,719,713
Total operating expenses	<u>26,912,311</u>	<u>22,174,149</u>
Operating Income (Loss)	<u>6,617,962</u>	<u>3,253,536</u>
Nonoperating Revenues (Expenses):		
Member contributions for:		
Capital improvement reserve	2,043,312	1,582,100
Stage 2 capacity fees	724,534	992,585
Interest:		
Operations reserve	2,554	21,681
Net increase (decrease) in fair value of investments	25,535	42,776
Contributions Stage 2	404	2,390
Capital improvement reserve	422	4,136
Self insurance	12	317
Equipment replacement reserve	363	6,226
Recycled water	2	(108)
Plant CIP	47,991	(16,785)
Interest expense	(5,372,993)	(4,447,447)
Gain (loss) on disposal of fixed assets	(1,062,863)	(2,483,776)
Total nonoperating revenues (expenses)	<u>(3,590,727)</u>	<u>(4,295,905)</u>
Change in Net Position	3,027,235	(1,042,369)
Beginning Net Position	74,586,725	75,629,094
Prior Period Adjustment - Depreciation on Assets Placed in Service	<u>(3,237,542)</u>	<u>-</u>
Ending Net Position	<u>\$ 74,376,418</u>	<u>\$ 74,586,725</u>

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

Silicon Valley Clean Water
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Cash received from member agencies for services	\$ 31,469,313	\$ 24,883,925
Cash paid to suppliers for goods and services and employees for services	(21,242,793)	(18,249,148)
Other cash received (paid)	400,748	361,546
Net Cash Provided (Used) by Operating Activities	<u>10,627,268</u>	<u>6,996,323</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from member agencies other than for services	2,768,187	2,574,345
Cash paid for investment in real estate	1,348,518	-
Proceeds from capital debt	73,698,409	10,360,411
Interest paid on capital debt	(4,147,359)	(4,464,234)
Principal paid on capital debt	(1,435,000)	(1,400,674)
Purchases and construction of capital assets	(42,288,454)	(26,690,836)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>29,944,301</u>	<u>(19,620,988)</u>
Cash Flows from Investing Activities:		
Investment income	78,696	106,658
Net Cash Provided (Used) by Investing Activities	<u>78,696</u>	<u>106,658</u>
Net Increase (Decrease) in Cash and Cash Equivalents	40,650,265	(12,518,007)
Cash and Cash Equivalents Beginning	<u>14,133,638</u>	<u>26,651,645</u>
Cash and Cash Equivalents Ending	<u>\$ 54,783,903</u>	<u>\$ 14,133,638</u>
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 6,617,962	\$ 3,253,533
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	4,775,310	3,719,713
Amortization of premium and issuance costs	1,329,077	47,951
Net change in:		
Accounts receivable	(1,659,912)	(102,011)
Employee notes receivable	(654)	2,600
Inventory	(253,298)	(185,881)
Prepaid expenses	314	12,999
Deposits	354	(93,300)
Net OPEB asset	(82,485)	(563,551)
Accounts payable	248,894	30,938
Accrued payroll and employee benefits	244,564	186,454
Unearned revenue	(702,516)	703,024
Accrued compensated absences	109,658	(16,146)
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,627,268</u>	<u>\$ 6,996,323</u>

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

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

Silicon Valley Clean Water (SVCW, or “the Authority”), formerly South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities constructed by the Strategic Consolidation Sewerage Plan. In addition, SVCW has constructed, and is operating sewerage treatment plant facilities. The members of SVCW are the Cities of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of SVCW are accounted for within enterprise funds. SVCW's financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of SVCW's assets (including capital assets, as well as infrastructure assets), deferred outflows of resources, liabilities, deferred inflows of resources, and long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Deferred outflow of resources is a consumption of net assets by SVCW that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by SVCW that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

SVCW applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

The statement of net position is designed to display the financial position of SVCW. SVCW's net position is classified into three categories as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. SVCW first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues in the enterprise funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Budgets and Budgetary Accounting

SVCW adopted a one year budget which provides for the general operations of SVCW. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for all capital projects.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Investments

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

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

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

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

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

SVCW participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Receivables

Receivables include amounts due from member assessments, other assessments and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2014.

Inventories

Inventories are valued using the average cost method. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets

Property, plant and equipment purchased after June 30, 1992 are stated at cost. Prior acquisitions are stated at their appraised value as of June 30, 1992. Property, plant and equipment contributed to SVCW are stated at estimated fair value at the time of contribution. SVCW policy has set the capitalization threshold for reporting capital assets at \$20,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets generally as outlined by the State Controller's Report on Fixed Assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

SVCW has assigned the useful lives listed below to plant and equipment:

Buildings and Structures	50-70
Pipelines	35
Pump Stations	7-25
Machinery and Equipment	5-10

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

Compensated Absences

SVCW has a policy whereby an employee can accumulate unused vacation. Compensated absences are recorded as a liability when accrued. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. SVCW does not offer payment for sick leave at termination or retirement.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Upcoming New Accounting Pronouncements

Summary of Statement No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on SVCW's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

NOTE 3 - CASH AND INVESTMENTS

SVCW's cash and investments consisted of the following as of June 30, 2014 and 2013:

	Fair Value		Investment Rating	Maturities
	2014	2013		
Cash and Investments:				
Demand deposits	\$ 219,250	\$ 885	N/A	Current
Cash on hand	1,000	1,000	N/A	Current
Money Market	6,568,271	1,002,614	N/A	Current
Local Agency Investment Fund	5,506,044	7,000,775	Not Rated	Current
Subtotal - Unrestricted Cash and Investments	12,294,565	8,005,274		
Noncurrent Cash and Investments - Restricted:				
Cash with fiscal agent	42,489,338	6,128,363	Not Rated	Current
Total Cash and Investments	\$54,783,903	\$ 14,133,637		

Cash Deposits

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). SVCW's cash in bank did not exceed the insured limit as of June 30, 2014. All of SVCW's deposits with financial institutions were held in collateralized accounts.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

Restricted Cash

SVCW's restricted cash consisted of \$42,489,338 in cash and investments as of June 30, 2014 held by trustees or fiscal agent, of which \$5,842,966 is pledged for the payment or security of bonds.

Investment Policy

SVCW's investment guidelines as defined by its written investment policy were approved by the Commission, who also establishes its implementation and direction. Monthly, the Board ratifies the investments that have been made.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

SVCW's investment policy follows the California Government Code which authorizes SVCW to invest in the following:

Authorized Investment Type	Maximum Maturity	Maximum Investment in One Issuer
Certificates of Deposit	1 years	\$ 2,000,000
Bankers' Acceptances	180 days	3,000,000
Commercial Paper	15 days	1,000,000
Treasury Bills, Notes and Bonds	3 years	2,000,000
Securities in U.S. Government Agencies	3 years	-
Passbook Savings Accounts	-	250,000
Local Agency Investment Fund (LAIF)	-	40,000,000

Local Agency Investment Fund

LAIF allows local agencies such as SVCW to participate in a Pooled Money Investment Account managed by the State Treasurer's Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. The Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2014, was approximately \$64.8 billion. Of that amount, 99.52% is invested in non-derivative financial products and .48% in structured notes and asset-backed securities.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments.
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, SVCW's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of SVCW's investments were subject to custodial credit risk.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

- *Concentration of Credit Risk* - See the chart on page 19 for SVCW's limitations on the amount that can be invested in any one issuer. As of June 30, 2014, 77% of SVCW's cash was invested in LAIF, 11% was invested in government securities and 12% was deposited in banks, CD's and money market accounts.

NOTE 4 - EMPLOYEE NOTES RECEIVABLE

All full-time and part-time SVCW employees are eligible to obtain an interest-free loan to purchase a computer or certain tools. All requests for loans must be approved by the Department Manager and Administrative Services Manager. Repayment of these loans is handled through payroll deductions which are spread equally over a two year period. Employees must pay off any outstanding balance of their loans upon ending employment with SVCW. As of June 30, 2014 and 2013, outstanding balances for notes receivable were \$11,266 and \$10,612, respectively.

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

SVCW's capital assets consisted of the following as of June 30, 2014:

Description	Balance					Balance June 30, 2014
	June 30, 2013	Additions	Deletions	Transfers	Adjustments	
Land	\$ 860,965	\$ -	\$ -	421,115	\$ 1	\$ 1,282,081
Construction in progress:						
Stage 2	6,210,891	612,433	-	-	-	6,823,324
General	96,161,548	41,214,336	-	(51,328,290)	(125,823)	85,921,771
Total non-depreciable capital assets	103,233,404	41,826,769	-	(50,907,175)	(125,822)	94,027,176
Buildings and structures	41,204,686	-	(180,916)	25,741,527	-	66,765,297
Pipelines	9,000,186	-	-	4,823,260	-	13,823,446
Pump stations	6,683,670	-	(89,365)	192,201	-	6,786,506
Machinery and equipment	33,152,672	-	(7,375,430)	20,150,187	-	45,927,429
Less accumulated depreciation for:						
Buildings and structures	(25,694,974)	(1,758,778)	136,620	-	(842,851)	(28,159,983)
Pipelines	(3,715,521)	(493,749)	-	-	(705,772)	(4,915,042)
Pump stations	(5,311,153)	(146,348)	89,365	313	(23,416)	(5,391,239)
Machinery and equipment	(23,175,369)	(2,376,435)	6,356,863	(313)	(1,665,503)	(20,860,757)
Total depreciable capital assets - net	32,144,197	(4,775,310)	(1,062,863)	50,907,175	(3,237,542)	73,975,657
Total capital assets - net	\$ 135,377,601	\$ 37,051,459	\$ (1,062,863)	\$ -	\$ (3,363,364)	\$ 168,002,833

Depreciation expense for the year ended June 30, 2014 and 2013 was \$4,775,310 and \$3,719,713, respectively. The methodology by which the Authority closes construction in progress was changed in fiscal year 2013-14, and resulted in a \$3,237,542 adjustment to SVCW's beginning net position. This adjustment was to record depreciation expense for assets that were reclassified from construction in progress to buildings, structures, pipelines, pump stations and other assets placed in service during prior fiscal years.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

NOTE 6 - NONCURRENT LIABILITIES

SVCW's noncurrent liabilities consisted of the following as of June 30, 2014:

Noncurrent Debt	Balance			Balance June 30, 2014	Due Within One Year
	July 01, 2013	Additions	Deductions		
Wastewater Revenue Bonds	\$ 61,955,000	\$ 60,000,000	\$ 1,435,000	\$ 120,520,000	\$ 2,300,000
Unamortized Premium	10,117	6,063,375	202,787	5,870,705	-
Note Payable	11,176,565	8,461,025	-	19,637,590	-
Compensated Absences	549,723	109,658	-	659,381	659,381
Total Noncurrent Debt	\$ 73,691,405	\$ 74,634,058	\$ 1,637,787	\$ 146,687,676	\$ 2,959,381

Wastewater Revenue Bonds

SVCW's Wastewater revenue bonds consisted of the following as of June 30, 2014:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
					Outstanding July 01, 2013	Redeemed	Outstanding June 30, 2014
2008 Wastewater Revenue Bond	12/31/2008	8/1/2029	4.0 - 5.0%	\$ 10,000,000	\$ 8,975,000	\$ 370,000	\$ 8,605,000
2009 Wastewater Revenue Bond	7/1/2009	8/1/2039	1.74 - 8.1%	55,855,000	52,980,000	1,065,000	51,915,000
2014 Wastewater Revenue Bond	3/6/2014	2/1/2044	3.0 - 5.0%	60,000,000	-	-	60,000,000
Total Wastewater Revenue Bonds				\$125,855,000	\$ 61,955,000	\$ 1,435,000	\$ 120,520,000

The implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in a one-time write-off of \$825,000 in previously-amortized debt issuance costs. This Statement amended the financial statement element classification of certain items previously reported as assets and liabilities.

2008 Wastewater Revenue Bonds

In December 2008, SVCW issued \$10,000,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system, fund the debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2009 Wastewater Revenue Bonds

In July 2009, SVCW issued \$55,855,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system; fund the debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

2014 Wastewater Revenue Bonds

In March 2014, SVCW issued \$60,000,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

Wastewater Revenue Bonds Debt Service

The debt service requirements for the bonds as of June 30, 2014 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 2,300,000	\$ 6,820,931	\$ 9,120,931
2016	2,505,000	7,123,961	9,628,961
2017	2,585,000	7,008,511	9,593,511
2018	2,700,000	6,873,939	9,573,939
2019	2,815,000	6,729,193	9,544,193
2020-2024	16,095,000	31,104,532	47,199,532
2025-2029	20,400,000	25,668,221	46,068,221
2030-2034	22,750,000	18,772,648	41,522,648
2035-2039	28,155,000	10,639,160	38,794,160
2040-2044	20,215,000	2,707,385	22,922,385
Total	\$ 120,520,000	\$ 123,448,481	\$ 243,968,481

Wastewater Revenue Bonds - Build America Bonds Refundable Credit

SVCW elected to treat the 2009 Wastewater Revenue Bonds as Build America Bonds under section 54AA of the Tax Code, which entitles it to a refundable credit from the United States Treasury equal to 35% of the interest payable on the bonds. The credit is reported as member contributions.

The following is a summary of the credit to be received over the life of the bonds:

Fiscal Year	35% Credit to Maturity
2015	\$ 1,386,293
2016	1,369,913
2017	1,351,249
2018	1,330,196
2019	1,306,686
2020-2024	6,089,820
2025-2029	5,113,212
2030-2034	3,776,593
2035-2039	2,006,259
2040-2041	194,339
Total	\$ 23,924,560

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

Note Payable

The Authority has financed two projects by entering into two separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, these agreements totaled \$19,637,590 as of June 30, 2014. The project funds together with all accrued interest are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The SWRCB reimbursed the Authority for project-related expenditures as incurred, and the outstanding liability was \$10,892,798 as of June 30, 2014. This amount is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35,385,953 for certain improvements to the wastewater treatment plant. As of June 30, 2014, the Authority had incurred \$8,744,792. This project is scheduled to be completed in fiscal year 2014-2015 and the total incurred expenditures will be repaid by September 2035.

Line of Credit

On January 26, 2012, SVCW secured a \$30,000,000 line of credit with Bank of the West. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW did not have an outstanding balance on the line of credit at June 30, 2014.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur 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 among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Due-to/from

Interfund receivables and payables as of June 30, 2014 were as follows:

	Due To (Payable-in)		
	Recycled Water Fund	Plant CIP Bond Fund	Total Due To
Due From (Receivable-in)			
Capital Improvements Fund	\$ -	\$ 5,420,146	\$ 5,420,146
Construction Stage 2 Fund	-	2,504,102	2,504,102
Self Insurance Fund	-	254,227	254,227
Equipment Replacement Fund	20,067	6,502,686	6,522,753
Operations Fund	6,000	3,136,399	3,142,399
Total Due From	\$ 26,067	\$ 17,817,560	\$ 17,843,627

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the June 30, 2014 fiscal year were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
Operations Fund	Equipment Replacement Fund	\$ 2,567,308
Operations Fund	Capital Improvements Fund	1,728,651
Operations Fund	Plant CIP Bond Fund	47,032,331
Total Transfers		\$ 51,328,290

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description

SVCW contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento CA 95814.

All full-time SVCW employees are eligible to participate in PERS with benefits vesting after five years of service. SVCW employees are covered under the "2% at 55" formula unless hired on or after July 1, 2011, then they are covered under the "2% at 60" formula. Employees hired on or after January 1, 2013 who meet the definition of new member as per the Public Employee Pension Reform Act of 2013 (PEPRA) are covered under the "2% at 62" formula. Under the "2% at 55" retirement plan, employee's retirement earnings, at age 55, are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Funding Policy

Active plan members are required by state statute to contribute 7% of their annual covered salary. SVCW makes the contributions required of pre-PEPRA employees on their behalf and for their account, which amounted to \$625,415 for the year ended June 30, 2014. SVCW is required to contribute at an actuarially determined rate for each plan noted above, which was 10.781% and 9.887% for the fiscal year ended June 30, 2014.

Annual Pension Cost

For the fiscal year ended June 30, 2014, SVCW's annual pension cost of \$894,060 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3.00% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of three years.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

Three Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	841,008	100%	0
6/30/2013	837,080	100%	0
6/30/2014	894,060	100%	0

Required Supplementary Information

CalPERS Risk Pool Miscellaneous 2% at 55

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	2,754	2,492	262	90.5%	700	37.4%
2007	2,612	2,391	221	91.5%	665	33.2%
2008	2,780	2,547	233	91.6%	689	33.8%
2009	3,105	2,759	346	88.9%	743	46.6%
2010	3,309	2,946	363	89.0%	748	48.5%
2011	3,620	3,203	417	88.5%	759	54.9%

** In Millions **

CalPERS Risk Pool Miscellaneous 2% at 60

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	478	455	23	95.2%	170	13.5%
2007	499	480	19	96.2%	171	11.1%
2008	532	513	19	96.4%	183	10.4%
2009	583	554	29	95.0%	184	15.8%
2010	624	594	30	95.2%	187	16.0%
2011	682	639	43	93.7%	194	22.2%

** In Millions **

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SVCW's Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by SVCW. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between SVCW, its management employees, and unions representing SVCW employees.

PERS (PEMHCA) Minimum	
Eligibility Age	50
Service Required	5 years
Benefit Amount	\$115 monthly in 2013, \$119 in 2014, and increasing with the healthcare component of the Consumer Price Index thereafter. For union employees, the reimbursable amount decreases when the employee reaches Medicare eligibility age, or to the Bay Area Kaiser combination rate when the employee's spouse becomes Medicare eligible before the retiree.
Benefits End	Paid for life (child benefits end at age 26)
Normal Retirement Benefit	
Eligibility Age	50
Service Required	5 years
Benefit Amount	Payment of any pre-Medicare PERS premium to a maximum of the Kaiser family premiums. With Medicare, the Kaiser Medicare premiums are the caps.
Benefits End	Paid for life (child benefits end at age 26)
Post-Retirement Death Benefit	Payment of one-party or two-party premium to eligible surviving spouse/beneficiary for the life of the survivors. Child benefits cease at age 26. Same benefit limitation as above.
Pre-Retirement Death Benefit	
Eligibility Age	50
Service Required	5 years
Benefit Amount	Same as for post-retirement death
Disability Benefit	Same as retirement benefits shown above if service requirements are met.

Note: Employees hired after January 31, 2011 receive only the PERS Minimum.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

Funding Policy

There is no statutory requirement for SVCW to prefund its OPEB obligation. SVCW has currently chosen to fund the program by depositing the Annual Required Contribution (ARC) into a trust fund administered by CalPERS. There are no employee contributions. For the fiscal year ending June 30, 2014, SVCW paid \$310,641 for retiree healthcare plan benefits and contributed \$630,000 in the OPEB trust fund. The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation

The following table, based on SVCW's actuarial valuation as of July 1, 2013, shows the components of SVCW's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in SVCW's Net OPEB obligation:

Annual required contribution	\$ 660,700
Interest on net OPEB obligation	(35,005)
Adjustment to annual required contribution	30,388
Annual OPEB cost	656,083
Adjustments	202,073
Contributions made	(940,641)
Increase in net OPEB obligation (asset)	(82,485)
Net OPEB obligation (asset) - beginning of year	(840,549)
Net OPEB obligation (asset) - end of year	\$ (923,034)

SVCW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2012	\$ 702,300	139.44%	\$ (276,998)
June 30, 2013	725,100	177.72%	(840,549)
June 30, 2014	656,083	143.37%	(923,034)

Funded Status and Funding Progress

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, 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.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

The following summarizes the funded status and progress of the plan as of June 30, 2014:

Actuarial accrued liability (AAL)	\$ 4,376,800
Value of plan assets	3,976,302
Unfunded actuarial accrued liability (UAAL)	\$ 400,498
Funded ratio (actuarial value of plan assets/AAL)	90.85%
Projected covered payroll (active Plan members)	\$ 8,696,205
UAAL as a percentage of covered payroll	4.61%

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 members) 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 members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return, which is the expected long-term investment return on SVCW investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis, beginning in 2009.

Required Supplementary Information

Actuarially Determined Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2009	\$ 1,049,589	\$ 7,613,800	\$ 6,564,211	13.79%	\$ 6,700,500	97.97%
7/1/2011	1,049,600	6,475,700	5,426,100	16.21%	\$ 7,270,000	74.64%
7/1/2013	3,976,302	4,376,800	400,498	90.85%	\$ 8,696,205	4.61%

NOTE 10 - RISK MANAGEMENT

SVCW is a member of the California Sanitation Risk Management Authority (CSRMA) which covers the general liability claims up to \$10,750,000, and provides coverage of Employment Practices Liability (EPL) up to \$10,750,000. Excess public entity general liability insurance of \$10,750,000 is obtained by CSRMA commercially, resulting in a total coverage of \$25,000,000. SVCW has a self-insured retention of \$10,000 per general liability claim and \$25,000 per EPL claim. Once SVCW's self-insured retention is met, CSRMA becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2014, SVCW's contributions were \$68,346.

SVCW also has workers' compensation insurance with CSRMA which covers workers' compensation claims up to \$750,000. Excess public entity workers' compensation and employee's liability insurance are obtained by CSRMA commercially up to statutory limit and \$25,000,000 respectively. SVCW has a self-

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2014

insured retention of \$750,000 per claim. During the fiscal year ended June 30, 2014, SVCW's contributions were \$148,456.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after retrospective rating.

SVCW did not pay any claims during fiscal year 2014.

CSRMA's audited financial statements may be obtained by writing them at c/o Alliant Insurance Services, 100 Pine Street, 11th Floor, San Francisco, CA 94111.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

SVCW is at risk to be a defendant in various lawsuits which arise in the normal course of business.

SVCW had outstanding construction contract commitments on capital projects totaling \$25,663,907 at June 30, 2014.

SUPPLEMENTARY INFORMATION

Silicon Valley Clean Water
Combining Schedule of Net Position
Enterprise Funds
June 30, 2014

Assets	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Current Assets:								
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,563,525	\$ 5,731,040	\$ 12,294,565
Accounts receivable	-	-	-	-	10,388	1,750,195	49,704	1,810,287
Interest receivable	-	-	-	-	-	426,474	1,115	427,589
Employee notes receivable	-	-	-	-	-	-	11,266	11,266
Deposits	-	-	-	-	-	92,946	-	92,946
Due from other funds	6,522,753	5,420,146	2,504,102	254,227	-	-	3,142,399	17,843,627
Inventory	-	-	-	-	-	-	1,401,377	1,401,377
Prepaid expenses	-	-	-	-	-	-	34,693	34,693
Total Current Assets	<u>6,522,753</u>	<u>5,420,146</u>	<u>2,504,102</u>	<u>254,227</u>	<u>10,388</u>	<u>8,833,140</u>	<u>10,371,594</u>	<u>33,916,350</u>
Noncurrent Assets:								
Investment in real estate	-	-	-	-	-	2,552,105	-	2,552,105
Cash with fiscal agent	-	-	-	-	-	42,489,338	-	42,489,338
OPEB asset	-	-	-	-	-	-	923,034	923,034
Unamortized discounts	-	-	-	-	-	54,498	-	54,498
Capital assets - net:								
Depreciable capital assets:								
Plant in service - net	-	-	-	-	-	-	73,975,657	73,975,657
Non depreciable capital assets:								
Land	-	-	-	-	-	-	1,282,081	1,282,081
Construction in progress:								
Stage 2	-	-	6,823,324	-	-	-	-	6,823,324
General	-	3,099,854	-	-	-	82,821,917	-	85,921,771
Total Capital assets - net	<u>-</u>	<u>3,099,854</u>	<u>6,823,324</u>	<u>-</u>	<u>-</u>	<u>82,821,917</u>	<u>75,257,738</u>	<u>168,002,833</u>
Total Noncurrent Assets - Net	<u>-</u>	<u>3,099,854</u>	<u>6,823,324</u>	<u>-</u>	<u>-</u>	<u>127,917,858</u>	<u>76,180,772</u>	<u>214,021,808</u>
Total Assets	<u>\$ 6,522,753</u>	<u>\$ 8,520,000</u>	<u>\$ 9,327,426</u>	<u>\$ 254,227</u>	<u>\$ 10,388</u>	<u>\$ 136,750,998</u>	<u>\$ 86,552,366</u>	<u>\$ 247,938,158</u>
Liabilities								
Current Liabilities:								
Accounts payable	\$ -	5,475	484	\$ -	\$ -	\$ 4,536,768	\$ 968,213	\$ 5,510,940
Accrued payroll and employee benefits	-	-	-	-	-	3,125	825,426	828,551
Accrued interest payable	-	-	-	-	-	2,690,438	-	2,690,438
Due to other funds	-	-	-	-	26,067	17,817,560	-	17,843,627
Unearned revenue	-	-	-	-	-	-	508	508
Noncurrent liabilities due within one year	-	-	-	-	-	2,300,000	659,381	2,959,381
Total Current Liabilities	<u>-</u>	<u>5,475</u>	<u>484</u>	<u>-</u>	<u>26,067</u>	<u>27,347,891</u>	<u>2,453,528</u>	<u>29,833,445</u>
Noncurrent liabilities due in more than one year	-	-	-	-	-	143,728,295	-	143,728,295
Total Liabilities	<u>\$ -</u>	<u>\$ 5,475</u>	<u>\$ 484</u>	<u>\$ -</u>	<u>\$ 26,067</u>	<u>\$ 171,076,186</u>	<u>\$ 2,453,528</u>	<u>\$ 173,561,740</u>
Net Position								
Net Investment in Capital Assets	\$ -	\$ 3,099,854	\$ 6,823,324	\$ -	\$ -	\$ (26,360,507)	\$ 75,257,738	\$ 58,820,409
Restricted for:								
Debt service	-	-	-	-	-	5,842,966	-	5,842,966
Unrestricted	6,522,753	5,414,671	2,503,618	254,227	(15,679)	(13,807,647)	8,841,100	9,713,043
Total Net Position	<u>\$ 6,522,753</u>	<u>\$ 8,514,525</u>	<u>\$ 9,326,942</u>	<u>\$ 254,227</u>	<u>\$ (15,679)</u>	<u>\$ (34,325,188)</u>	<u>\$ 84,098,838</u>	<u>\$ 74,376,418</u>

Silicon Valley Clean Water
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2014

	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Operating Revenues:								
Member contributions for services	\$ -	\$ -	\$ -	\$ -	\$ 133,638	\$ 14,304,050	\$ 18,678,083	\$ 33,115,771
Sources control charges	-	-	-	-	-	-	14,108	14,108
Miscellaneous revenues	-	26,631	-	-	-	-	373,763	400,394
Total operating revenues	-	26,631	-	-	133,638	14,304,050	19,065,954	33,530,273
Operating Expenses:								
Plant:								
Support services	-	-	-	-	-	1,331,172	2,979,923	4,311,095
Technical services	-	-	-	-	10,448	-	3,392,464	3,402,912
Operations	-	-	-	-	62,778	-	7,464,030	7,526,808
Maintenance	-	-	-	-	49,869	-	4,768,418	4,818,287
Pump stations	-	-	-	-	-	-	1,125,348	1,125,348
Booster station	-	-	-	-	-	-	26,883	26,883
Force main	-	-	-	-	-	-	21,554	21,554
Source control	-	-	-	-	-	-	214,530	214,530
Claims paid	-	-	-	33,501	-	-	-	33,501
Retiree health benefits	-	-	-	-	-	-	656,083	656,083
Depreciation	-	-	-	-	-	-	4,775,310	4,775,310
Total operating expenses	-	-	-	33,501	123,095	1,331,172	25,424,543	26,912,311
Operating Income (Loss)	-	26,631	-	(33,501)	10,543	12,972,878	(6,358,589)	6,617,962
Nonoperating Revenues (Expenses):								
Member contributions for:								
Capital improvement reserve	-	2,043,312	-	-	-	-	-	2,043,312
Stage 2 capacity fees	-	-	724,534	-	-	-	-	724,534
Interest Income:								
Operations reserve	-	-	-	-	-	-	2,554	2,554
Net increase (decrease) in fair value of investments	-	-	-	-	-	25,535	-	25,535
Contributions Stage 2	-	-	404	-	-	-	-	404
Capital improvement reserve	-	422	-	-	-	-	-	422
Self insurance	-	-	-	12	-	-	-	12
Equipment replacement reserve	363	-	-	-	-	-	-	363
Recycled water	-	-	-	-	2	-	-	2
Plant CIP	-	-	-	-	-	47,991	-	47,991
Interest expense	-	-	-	-	-	(5,372,993)	-	(5,372,993)
Gain (loss) on disposal of fixed assets	-	-	-	-	-	-	(1,062,863)	(1,062,863)
Total nonoperating revenues (expenses)	363	2,043,734	724,938	12	2	(5,299,467)	(1,060,309)	(3,590,727)
Income (Loss) Before Transfers	363	2,070,365	724,938	(33,489)	10,545	7,673,411	(7,418,898)	3,027,235
Transfers In	-	-	-	-	-	-	51,328,290	51,328,290
Transfers Out	(1,728,651)	(2,567,308)	-	-	-	(47,032,331)	-	(51,328,290)
Change in Net Position	(1,728,288)	(496,943)	724,938	(33,489)	10,545	(39,358,920)	43,909,392	3,027,235
Beginning Net Position	8,251,041	9,011,468	8,602,004	287,716	(26,224)	5,033,732	43,426,988	74,586,725
Prior Period Adjustment - Depreciation	-	-	-	-	-	-	(3,237,542)	(3,237,542)
Ending Net Position	\$ 6,522,753	\$ 8,514,525	\$ 9,326,942	\$ 254,227	\$ (15,679)	\$ (34,325,188)	\$ 84,098,838	\$ 74,376,418

Silicon Valley Clean Water
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2014

	Equipment Replacement	Capital Improvements	Construction Stage 2	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Cash Flows from Operating Activities:								
Cash received from member agencies for services	\$ -	\$ -	\$ -	\$ -	\$ 179,226	\$ 12,553,855	\$ 18,736,232	\$ 31,469,313
Cash paid to suppliers for goods and services and employees for services	-	-	-	(33,501)	(143,795)	-	(21,065,497)	(21,242,793)
Other cash received (paid)	-	26,631	-	-	-	354	373,763	400,748
Net Cash Provided (Used) by Operating Activities	-	26,631	-	(33,501)	35,431	12,554,209	(1,955,502)	10,627,268
Cash Flows from Capital and Related Financing Activities:								
Cash received from member agencies other than for services	-	2,043,653	724,534	-	-	-	-	2,768,187
Cash received from claim settlements	-	-	-	-	-	-	-	-
Contributions to (from) other funds	(640,789)	(660,700)	(41,046)	33,489	(35,433)	3,017,960	(1,673,481)	-
Cash paid for investments in real estate	-	-	-	-	-	1	1,348,517	1,348,518
Proceeds from capital debt - net	-	-	-	-	-	73,698,409	-	73,698,409
Interest paid on capital debt	-	-	-	-	-	(4,147,359)	-	(4,147,359)
Principal paid on capital debt	-	-	-	-	-	(1,435,000)	-	(1,435,000)
Purchases and construction of capital assets	(127,021)	(2,369)	(683,892)	-	-	(41,475,172)	-	(42,288,454)
Net Cash Provided (Used) by Capital and Related Financing Activities	(767,810)	1,380,584	(404)	33,489	(35,433)	29,658,839	(324,964)	29,944,301
Cash Flows from Noncapital Financing Activities:								
Transfers in	767,447	-	-	-	-	640,190	-	1,407,637
Transfers out	-	(1,407,637)	-	-	-	-	-	(1,407,637)
Net Cash Provided (Used) by Noncapital Financing Activities	767,447	(1,407,637)	-	-	-	640,190	-	-
Cash Flows from Investing Activities:								
Investment income	363	422	404	12	2	71,261	6,232	78,696
Net Cash Provided (Used) by Investing Activities	363	422	404	12	2	71,261	6,232	78,696
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	-	-	-	42,924,499	(2,274,234)	40,650,265
Cash and Cash Equivalents Beginning	-	-	-	-	-	6,128,364	8,005,274	14,133,638
Cash and Cash Equivalents Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,052,863	\$ 5,731,040	\$ 54,783,903
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:								
Operating Income (Loss)	\$ -	\$ 26,631	\$ -	\$ (33,501)	\$ 10,543	\$ 12,972,878	\$ (6,358,589)	\$ 6,617,962
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation	-	-	-	-	-	-	4,775,310	4,775,310
Amortization of premium and issuance costs	-	-	-	-	-	1,329,077	-	1,329,077
Net change in:								
Accounts receivable	-	-	-	-	45,588	(1,750,195)	44,695	(1,659,912)
Employee notes receivable	-	-	-	-	-	-	(654)	(654)
Inventory	-	-	-	-	-	-	(253,298)	(253,298)
Prepaid expenses	-	-	-	-	-	-	314	314
Deposits	-	-	-	-	-	354	-	354
Net OPEB asset	-	-	-	-	-	-	(82,485)	(82,485)
Accounts payable	-	-	-	-	(20,700)	-	269,594	248,894
Accrued payroll and employee benefits	-	-	-	-	-	2,095	242,469	244,564
Unearned revenue	-	-	-	-	-	-	(702,516)	(702,516)
Accrued compensated absences	-	-	-	-	-	-	109,658	109,658
Net Cash Provided (Used) by Operating Activities	\$ -	\$ 26,631	\$ -	\$ (33,501)	\$ 35,431	\$ 12,554,209	\$ (1,955,502)	\$ 10,627,268
Noncash Transactions:								
Noncash transfers of capital assets	\$ (2,496,098)	\$ (1,159,671)	\$ -	\$ -	\$ -	\$ (47,672,521)	\$ 51,328,290	\$ -

Silicon Valley Clean Water
Analysis of Net Position
Supplemental Schedule
For the Fiscal Year Ended June 30, 2014

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
OPERATION FUND (FUND 18):					
General reserve:					
Balance at June 30, 2013	\$ 248,557	\$ 5,336,782	\$ 720,900	\$ 1,845,984	\$ 8,152,223
Excess (deficiency) of contributions over O & M Exp.	(34,604)	59,647	(450,564)	140,776	(284,745)
Balance at June 30, 2014	<u>\$ 213,953</u>	<u>\$ 5,396,429</u>	<u>\$ 270,336</u>	<u>\$ 1,986,760</u>	<u>\$ 7,867,478</u>
Investment in Real Estate:					
Balance at June 30, 2013	\$ 88,315	\$ 721,348	\$ 257,251	\$ 281,603	\$ 1,348,517
Sold Real Estate	(88,315)	(721,348)	(257,251)	(281,603)	(1,348,517)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Plant:					
Balance at June 30, 2013	\$ 3,092,520	\$ 15,028,654	\$ 4,056,995	\$ 9,026,431	\$ 31,204,600
Prior period adjustment - depreciation	(429,945)	(1,410,473)	(554,197)	(842,926)	(3,237,541)
Depreciation	(456,431)	(2,218,108)	(598,780)	(1,332,228)	(4,605,547)
Net fixed asset disposal	(100,440)	(516,234)	(160,918)	(285,273)	(1,062,864)
Transfer from Capital Improvement Fund	235,265	1,329,862	339,359	662,822	2,567,308
Transfer from Equipment Replacement Fund (Plant)	118,777	923,787	196,405	489,683	1,728,652
Transfer from Plant CIP Fund	4,274,150	22,819,151	6,847,685	13,091,346	47,032,332
Balance at June 30, 2014	<u>\$ 6,733,896</u>	<u>\$ 35,956,639</u>	<u>\$ 10,126,549</u>	<u>\$ 20,809,855</u>	<u>\$ 73,626,940</u>
Pump Station					
Balance at June 30, 2013	\$ 295,510	\$ 569,178	\$ 640,857	\$ 295,017	\$ 1,800,562
Depreciation	(21,317)	(59,506)	(38,766)	(50,175)	(169,764)
Balance at June 30, 2014	<u>\$ 274,193</u>	<u>\$ 509,672</u>	<u>\$ 602,091</u>	<u>\$ 244,842</u>	<u>\$ 1,630,798</u>
RETIREE MEDICAL HEALTH BENEFITS RESERVE (FUND 12):					
Balance at June 30, 2013	\$ 103,015	\$ 422,347	\$ 142,750	\$ 252,974	\$ 921,086
Contributions	101,848	417,562	141,133	250,108	910,651
Interest Income	5	19	6	11	41
OPEB Asset (Obligation)	7,795	40,063	12,488	22,139	82,486
Expenses/ withdrawals	(105,202)	(431,313)	(145,781)	(258,345)	(940,641)
Balance at June 30, 2014	<u>\$ 107,460</u>	<u>\$ 448,677</u>	<u>\$ 150,597</u>	<u>\$ 266,887</u>	<u>\$ 973,622</u>
CONSTRUCTION STAGE 2 (FUND 15):					
Reserve for construction-Stage 2					
Balance at June 30, 2013	\$ 10,527	\$ 1,640,250	\$ 483,324	\$ 257,012	\$ 2,391,113
Construction in Progress	(2,696)	(420,114)	(123,793)	(65,828)	(612,431)
Purchase of Capacity	-	587,536	23,493	113,505	724,534
Interest	38	208	59	98	403
Balance at June 30, 2014	<u>\$ 7,869</u>	<u>\$ 1,807,880</u>	<u>\$ 383,083</u>	<u>\$ 304,787</u>	<u>\$ 2,503,619</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ 844,451	\$ 2,573,734	\$ 833,361	\$ 1,959,346	\$ 6,210,892
Construction in Progress	2,696	420,114	123,793	65,828	612,431
Balance at June 30, 2014	<u>\$ 847,147</u>	<u>\$ 2,993,848</u>	<u>\$ 957,154</u>	<u>\$ 2,025,174</u>	<u>\$ 6,823,323</u>
SELF INSURANCE (FUND 16):					
Reserve for self-insurance					
Balance at June 30, 2013	\$ 32,307	\$ 119,970	\$ 50,858	\$ 84,580	\$ 287,715
Interest Income	1	5	2	4	12
Expenses	(3,762)	(13,968)	(5,922)	(9,848)	(33,500)
Balance at June 30, 2014	<u>\$ 28,546</u>	<u>\$ 106,007</u>	<u>\$ 44,938</u>	<u>\$ 74,736</u>	<u>\$ 254,227</u>

The Analysis of Net Position / Supplemental Schedule represents the allocated net position across member agencies, including all accrued liabilities of the Authority. It does not represent the capacity rights nor ownership of member agencies, which are defined in the Joint Exercise of Powers Agreement.

Silicon Valley Clean Water
 Analysis of Net Position
 Supplemental Schedule
 For the Fiscal Year Ended June 30, 2014

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
EQUIPMENT REPLACEMENT (FUND 17):					
Reserve for pump station replacement					
Balance at June 30, 2013	\$ (1,186)	\$ 8,999	\$ (866)	\$ 429,817	\$ 436,764
Prior Year Adjustment	1,186	-	-	-	1,186
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ 8,999</u>	<u>\$ (866)</u>	<u>\$ 429,817</u>	<u>\$ 437,950</u>
Reserve for plant replacement					
Balance at June 30, 2013	\$ 365,417	\$ 2,842,018	\$ 604,238	\$ 1,506,506	\$ 5,318,179
Adjust Prior Year Plant	(1,186)	-	-	-	(1,186)
Construction in Progress	488,276	1,293,572	419,581	294,669	2,496,098
Interest Income	38	183	45	98	364
Transfer to Operation Fund (Plant)	(118,777)	(923,787)	(196,405)	(489,683)	(1,728,652)
Balance at June 30, 2014	<u>\$ 733,768</u>	<u>\$ 3,211,986</u>	<u>\$ 827,459</u>	<u>\$ 1,311,590</u>	<u>\$ 6,084,803</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ 488,276	\$ 1,293,572	\$ 419,581	\$ 294,669	\$ 2,496,098
Construction in Progress	(488,276)	(1,293,572)	(419,581)	(294,669)	(2,496,098)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CAPITAL IMPROVEMENTS (FUND 14):					
Capital improvements reserve					
Balance at June 30, 2013	\$ 435,461	\$ 2,461,498	\$ 628,134	\$ 1,226,849	\$ 4,751,942
Construction in Progress	304,298	500,630	111,792	242,951	1,159,671
Contributions - General Reserves	204,549	974,433	275,214	589,118	2,043,314
Contributions - Recycled Water	-	26,631	-	-	26,631
Interest Income	45	211	49	116	421
Transfer to Operation Fund	(235,265)	(1,329,862)	(339,359)	(662,822)	(2,567,308)
Balance at June 30, 2014	<u>\$ 709,088</u>	<u>\$ 2,633,541</u>	<u>\$ 675,830</u>	<u>\$ 1,396,212</u>	<u>\$ 5,414,671</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ 458,615	\$ 2,084,432	\$ 487,816	\$ 1,228,662	\$ 4,259,525
Construction in Progress	(304,298)	(500,630)	(111,792)	(242,951)	(1,159,671)
Balance at June 30, 2014	<u>\$ 154,317</u>	<u>\$ 1,583,802</u>	<u>\$ 376,024</u>	<u>\$ 985,711</u>	<u>\$ 3,099,854</u>
RECYCLED WATER FUND (FUND 19):					
Balance at June 30, 2013	\$ -	\$ (26,224)	\$ -	\$ -	\$ (26,224)
Interest Income	-	2	-	-	2
RWC Recycled Water O&M Contributions	-	133,637	-	-	133,637
RWC Recycled Water O&M Expenditures	-	(123,094)	-	-	(123,094)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ (15,679)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,679)</u>

The Analysis of Net Position / Supplemental Schedule represents the allocated net position across member agencies, including all accrued liabilities of the Authority. It does not represent the capacity rights nor ownership of member agencies, which are defined in the Joint Exercise of Powers Agreement.

Silicon Valley Clean Water
 Analysis of Net Position
 Supplemental Schedule
 For the Fiscal Year Ended June 30, 2014

	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Totals
PLANT CIP FUND (FUND 20):					
Balance at June 30, 2013	\$ (71,819)	\$ (12,154,617)	\$ (3,258,774)	\$ (5,176,985)	\$ (20,662,195)
Reclassification to fund 21	-	-	-	574,557	574,557
Reclassification to Fund 22	-	481,578	-	-	481,578
Changes in Restricted for Debt Service	-	66,319	20,672	36,646	123,638
Cash with Fiscal Agent	-	(19,648,125)	(6,124,471)	(10,857,018)	(36,629,614)
Debt Issuance Costs (Deferred Charges)	-	379,505	118,295	209,704	707,504
Debt Service Payment and other Debt Related Expenses	-	39,096,379	12,186,642	21,603,592	72,886,613
Construction in Progress	-	3,531,662	1,100,846	1,951,500	6,584,008
Contributions	8,096,388	3,621,006	948,727	1,637,930	14,304,052
Interest Income on Bond Proceeds	-	25,622	7,987	14,159	47,769
Unrealized Gain or Loss	-	13,697	4,269	7,569	25,536
Debt Service Payment and other Debt Related Expenses	-	(3,596,039)	(1,120,939)	(1,987,187)	(6,704,164)
Interest Income	574	(177)	(58)	(118)	221
Transfer to Operation Fund - Plant	(4,274,150)	(21,967,772)	(6,847,685)	(12,139,489)	(45,229,096)
Balance at June 30, 2014	<u>\$ 3,750,993</u>	<u>\$ (10,150,962)</u>	<u>\$ (2,964,489)</u>	<u>\$ (4,125,140)</u>	<u>\$ (13,489,594)</u>
Investment in Real Estate					
Balance at June 30, 2014	<u>\$ 224,585</u>	<u>\$ 1,370,480</u>	<u>\$ 352,191</u>	<u>\$ 604,849</u>	<u>\$ 2,552,105</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ 5,725,595	\$ 7,493,257	\$ 1,775,319	\$ 2,193,833	\$ 17,188,004
Reclassification to Fund 21	-	-	-	(574,557)	(574,557)
Reclassification to Fund 22	-	(481,578)	-	-	(481,578)
Construction in Progress	-	(3,531,662)	(1,100,846)	(1,951,500)	(6,584,008)
Debt issuances and debt service payments	-	(39,096,379)	(12,186,642)	(21,603,592)	(72,886,613)
Cash with Fiscal Agent	-	-	-	-	-
Debt Issuance Costs (Deferred Charges)	-	(379,505)	(118,295)	(209,704)	(707,504)
Unspent bond proceeds	-	19,648,125	6,124,471	10,857,018	36,629,614
Balance at June 30, 2014	<u>\$ 5,725,595</u>	<u>\$ (16,347,742)</u>	<u>\$ (5,505,993)</u>	<u>\$ (11,288,502)</u>	<u>\$ (27,416,642)</u>
WEST BAY SANITARY DISTRICT CIP FUND (FUND 21):					
Balance at June 30, 2013	\$ -	\$ -	\$ -	\$ (5,755)	\$ (5,755)
Reclassification from Fund 20	-	-	-	(574,557)	(574,557)
Transfer to Investment in Capital Assets Fund 18	-	-	-	(951,856)	(951,856)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,532,168)</u>	<u>\$ (1,532,168)</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification from Fund 20	-	-	-	574,557	574,557
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574,557</u>	<u>\$ 574,557</u>
REDWOOD CITY CIP FUND (FUND 22):					
Balance at June 30, 2013	\$ -	\$ (5,033)	\$ -	\$ -	\$ (5,033)
Reclassification from Fund 20	-	(481,578)	-	-	(481,578)
Transfer to Investment in Capital Assets Fund 18	-	(851,379)	-	-	(851,379)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ (1,337,990)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,337,990)</u>
Net Investment in Capital Assets					
Balance at June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification from Fund 20	-	481,578	-	-	481,578
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ 481,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 481,578</u>
Restricted for Debt Service					
Balance at June 30, 2013	\$ -	\$ 3,520,296	\$ 894,991	\$ 1,551,317	\$ 5,966,604
Changes in Restricted for Debt Service	-	(66,319)	(20,672)	(36,646)	(123,638)
Balance at June 30, 2014	<u>\$ -</u>	<u>\$ 3,453,977</u>	<u>\$ 874,319</u>	<u>\$ 1,514,671</u>	<u>\$ 5,842,966</u>
Total Net Position	<u>\$ 19,511,410</u>	<u>\$ 32,111,142</u>	<u>\$ 7,169,223</u>	<u>\$ 15,584,638</u>	<u>\$ 74,376,418</u>

The Analysis of Net Position / Supplemental Schedule represents the allocated net position across member agencies, including all accrued liabilities of the Authority. It does not represent the capacity rights nor ownership of member agencies, which are defined in the Joint Exercise of Powers Agreement.

This Page Intentionally Left Blank

OTHER INDEPENDENT AUDITOR'S REPORT



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

To the Commission
Silicon Valley Clean Water

We have audited, 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, the financial statements of the Silicon Valley Clean Water (SVCW) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements, and have issued our report thereon dated October 11, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SVCW's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SVCW's internal control. Accordingly, we do not express an opinion on the effectiveness of SVCW's internal control.

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. 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.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

October 11, 2014
San Jose, California

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX J

**Comprehensive Annual Financial Report for the City of Redwood City –
Fiscal Year Ended June 30, 2014**

[see attached]

[THIS PAGE INTENTIONALLY LEFT BLANK]



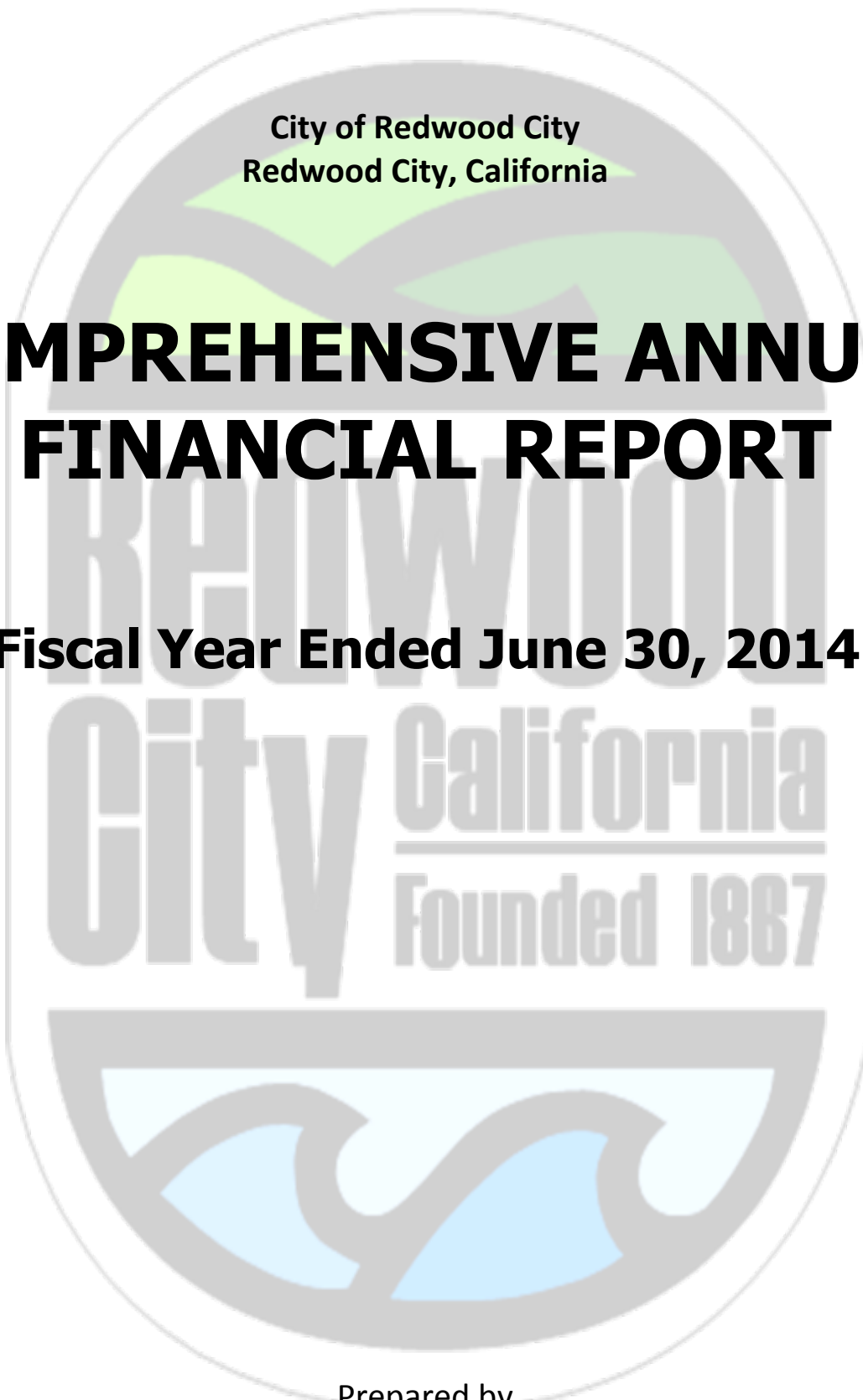
City of Redwood City
Redwood City, California

**Comprehensive
Annual
Financial
Report**

**Fiscal Year Ended
June 30, 2014**



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*



City of Redwood City
Redwood City, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2014

City California
Founded 1887

Prepared by
City of Redwood City Finance Department

**City of Redwood City
Redwood City, California
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014**

TABLE OF CONTENTS

I. <u>INTRODUCTORY SECTION</u>	<u>Page</u>
Finance Director's Letter of Transmittal.....	i
GFOA Certificate of Achievement for Excellence in Financial Reporting	viii
Name of Principal Officials.....	ix
Names of Finance Department Staff	x
Organization Charts	xi
City of Redwood City Core Purpose.....	xiii
II. <u>FINANCIAL SECTION</u>	
A. Independent Auditor’s Report on Basic Financial Statements	1
B. Management’s Discussion and Analysis	4
C. Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	20
Statement of Activities.....	21
Fund Financial Statements:	
Major Governmental Funds:	
Balance Sheet	24
Reconciliation of the Governmental Funds – Balance Sheet With the Statement of Net Position.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	26
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities	27
Major Proprietary Funds:	
Statement of Net Position.....	29
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	30
Combining Statement of Cash Flows Increase (Decrease) in Cash and Cash Equivalents	31
Fiduciary Funds:	
Statement of Net Position.....	32
Statement of Changes in Net Position	33
Notes to the Financial Statements	34

**City of Redwood City
Redwood City, California
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014
TABLE OF CONTENTS**

II. <u>FINANCIAL SECTION (Continued)</u>	<u>Page</u>
D. Required Supplementary Information:	
Budgets and Budgetary Accounting:	
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	77
Public Employees Retirement System Schedule of Funding Progress	80
Other Post Employment Benefits Schedule of Funding Progress	81
E. Supplemental Information:	
General Fund:	
Comparative Balance Sheet	84
Comparative Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget (GAAP Basis) and Actual	85
Schedule of Revenues Compared with Budget (GAAP Basis) and Actual	86
Schedule of Expenditures Compared with Budget (GAAP Basis) and Actual	87
Non-Major Governmental Funds:	
Combining Balance Sheets	90
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	94
Budgeted Non-Major Funds:	
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	98
Internal Service Funds:	
Combining Statement of Net Position	107
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	108
Combining Statement of Cash Flows Increase (Decrease) in Cash and Cash Equivalents	109
Agency Funds:	
Combining Statement of Changes in Assets and Liabilities	111

**City of Redwood City
Redwood City, California
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014**

TABLE OF CONTENTS

III. <u>STATISTICAL SECTION</u>	<u>Schedule</u>	<u>Page</u>
Statistical Category Narrative		113
Net Position by Component - Last Ten Fiscal Years	1	114
Changes in Net Position - Last Ten Fiscal Years	2	116
Fund Balances - Governmental Funds - Last Ten Fiscal Years	3	118
Changes in Fund Balances - Governmental Funds - Last Ten Fiscal Years.....	4	120
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	5	122
Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	6	123
Principal Property Tax Payers - Current Year and Nine Years Ago	7	124
Property Tax Levies and Collections - Last Ten Fiscal Years	8	125
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	9	126
Direct and Overlapping Governmental Activities Debt	10	127
Legal Debt Margin Information - Last Ten Fiscal Years	11	128
Pledged-Revenue Coverage - Last Ten Fiscal Years	12	129
Demographic and Economic Statistics - Last Ten Fiscal Years.....	13	131
Principal Employers - Current Year and Nine Years Ago	14	132
Full Time Equivalent Employees by Function - Last Ten Fiscal Years	15	133
Operating Indicators by Function/Program - Last Ten Fiscal Years.....	16	134
Capital Asset Statistics by Function/Program - Last Ten Fiscal Years.....	17	135
Construction Values - Last Ten Fiscal Years	18	136
IV. <u>COMPLIANCE AND INTERNAL CONTROL SECTION</u>		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		137



December 22, 2014

Honorable Mayor Jeff Gee
Members of the City Council,
City Manager, and Citizens of the
City of Redwood City
Redwood City, California

Submitted for your information and consideration is the Comprehensive Annual Financial Report of the City of Redwood City for the fiscal year ended June 30, 2014.

This report has been prepared by the City's Finance Department. The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the City. It is our opinion that the data presented is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activities of their various funds, and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. The financial statements have been prepared following the guidelines recommended by the Government Finance Officers Association and the standards adopted by the Governmental Accounting Standards Board.

Badawi and Associates, Certified Public Accountants, has issued an unmodified opinion of the City's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Redwood City's MD&A can be found immediately following the report of the independent auditors.

REPORTING ENTITY AND ITS SERVICES

Redwood City is a full service City, which was incorporated in 1867 and became a Charter City in 1929. The City operates under a council-manager form of government and provides a range of services that include police and fire protection, recreation and parks, libraries, street maintenance and construction, infrastructure improvements, planning and zoning, water delivery, port facilities, and storm drains. Although the City maintains sewer lines and pump stations, the sewer plant and treatment services are provided by Silicon Valley Clean Water (formerly the South Bayside System Authority), a joint powers authority of which Redwood City is an equity holder.

This report includes all funds of Redwood City. The City Council serves in separate session as the governing bodies of the Successor Agency to the Redevelopment Agency of Redwood City, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority although these agencies are legal entities apart from the City. Under the City Charter, the City Council appoints the Board of Port Commissioners who oversees the operations of the Port of Redwood City, which is considered a department of the City of Redwood City. Debt

service paid during the year is shown under debt service funds. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Financial information for separate legal entities related to the City including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Successor Agency to the Redevelopment Agency of Redwood City is blended in the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- The safeguarding of assets against loss from unauthorized use or disposition, and
- The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived, and
- The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that all of the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the program level by encumbering estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that result in an overrun of budget balances are not released until additional appropriations are made available.

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

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The local economy is recovering from the "Great Recession" more robustly than the national economy with the unemployment rate in San Mateo County decreasing to 4.2% as of June 2014 from 5.4% as of June 2013, which is consistently lower than the State's unemployment rate of 7.3% and the national rate of 6.3%. The number of employed residents in the County increased from 378,400 in June 2013 to 388,300 in June 2014.

Relatedly, the Redwood City commercial real estate market continues to exhibit signs of high demand with the citywide vacancy rate decreasing to 9.24% as of the second quarter 2014 compared to 9.95% as of the second quarter 2013. Vacancy rates in Redwood City's downtown area are notably lower, with retail vacancy at 7% and the office space vacancy rate at 5.24% as of June 2014.

The median price paid for a home in the Bay Area in July 2014 was \$617,000, up 9.8% from \$562,000 in July 2013. Within San Mateo County, the median price for a home in July 2014 increased to \$788,000, a 5.8% increase from July 2013 when the median price was \$745,000. A steady improvement in the County's real estate market is anticipated to result in higher assessed property values and property tax revenues in the future.

We believe these indicators paint a very positive picture of the local economy and provide a solid underpinning for future growth.

Sales Tax

Sales tax is an important source of general fund revenue as it accounts for about 20% of total general fund revenues. Sales tax revenue has increased 13% and 8% on a year over year basis in FY 2012-13 and FY 2013-14 respectively. Most of this increase was attributable to increased sales from new and used vehicle dealers.

The City continues to rely on sales tax generated by businesses engaged in selling software. A threat to this revenue stream is the progressive migration of businesses delivering software to their customers electronically (via internet download or over dedicated phone lines) which then, under regulations adopted by the State of California Board of Equalization, provides that such products are no longer subject to sales tax. Mitigating this downward trend are significant increases in sales tax revenues generated by the chemical products and the general retail economic categories.

Property Taxes

Property tax accounts for almost 40% of City revenue and is a key indicator of the City's economic outlook. Projections for secured taxes in Redwood City in FY 2014-15 call for a 5.5% increase over FY 2013-14 with indications that growth will continue in FY 2015-16. The housing market is strengthening and it is anticipated that assessed values will be increasing over the next several years. In addition, recent commercial real estate transactions, including the sale of several office buildings in Pacific Shores, are expected to result in an increase in the assessed value of those properties and an associated increase in property tax revenue in FY 2014-15.

Utilities User's Taxes

The Governor approved Assembly Bill 1717 on September 30, 2014. This legislation allows for cities with Utilities Users Tax to apply the voter-approved tax on prepaid wireless services starting in January 2016 and sun-setting in 2020. It is anticipated that the City could potentially receive an increase of 15 - 20% in UUT revenue once the bill is in effect in 2016.

Educational Revenue Augmentation Fund Refunds

In FY 1992-93 and FY 1993-94, the State shifted property taxes from cities, counties, and special districts to school districts to supplant funding that the State was providing to school districts. The funds shifted from these local governments are placed into the Educational Revenue Augmentation Fund (ERAF) by the county controller. The controller then disburses these funds to school districts based upon the formula prescribed by State law. Any funds remaining in ERAF (after the distribution to the school districts) are returned to the cities, county, and special districts in proportion to the amount they contributed to ERAF. The City's continued receipt of these funds, which amounted to \$4.2 million and \$4.7 million annually in FY 2012-13 and in FY 2013-14 respectively, depends upon the State's complicated school financing formula and the State legislature not redirecting these revenues elsewhere. Recent changes in school financing could result in this revenue decreasing significantly in FY 2014-15 and future years.

In Lieu Sales Tax Triple Flip

The "Triple Flip" was part of the State's 2004 budget in which sales and use taxes that previously went to cities and counties were diverted to the State to be used to repay the State's Economic Recovery Bonds. In turn, funds from the Educational Revenue Augmentation Fund (ERAF) were used to repay the cities and counties their lost sales and use taxes. There is no current statutory mechanism to fully reimburse cities and counties for these lost

revenues. For FY 2012-13, due to insufficient funds in the ERAF, Redwood City did not receive \$1.3 million of Triple Flip revenues owed. The State ultimately made the City “whole” through an appropriation in the State’s FY 2014-15 budget. Once again for FY 2013-14, there are insufficient funds in ERAF leading to a shortfall in Triple Flip revenue that is estimated to amount to \$478,000 for Redwood City. The County is requesting that the State once again include an appropriation in the FY 2015-16 budget to make the cities and counties whole.

Successor Agency to the Redevelopment Agency

As Successor Agency, the City is focused on the disposition of the \$10 million in funds that had been in the possession of the former Redevelopment Agency which were earmarked for below-market housing. The control of these funds has been in dispute with the State of California Department of Finance since the Redevelopment Agency was dissolved in FY 2011-12.

The City filed suit against the State challenging the State’s position that these funds are unencumbered and must be remitted to the County Controller. Although the State prevailed in the Superior Court trial the City’s legal team does not agree with the Court’s decision and has filed an appeal. We expect that the appellate court will render a decision in the next six to 12 months.

Long-Term Financial Planning

Economic development remains a priority of the City Council. With the State mandated demise of its Redevelopment Agency, the City continues to move private development forward through thoughtful and innovative planning, efficient use of its capital improvement program, and by enabling development of City-owned property.

Zoning changes to encourage mixed use residential/commercial and high density housing in certain areas reduce the time-to-market for these desirable projects. Additionally, through these zoning designations the City creates Priority Development Areas (PDAs), which focus on improving the linkage between jobs, housing, and transit. Most significantly, grant funding from the Metropolitan Transportation Commission is overwhelmingly provided to cities with PDAs. Redwood City has three such areas, providing the City access to valuable transportation funds for pedestrian and vehicular improvements in and around the Downtown.

Essential to the development community is surety of process and predictability of time to market. Since the adoption of the Downtown Precise Plan in 2010, the City has improved its project review efforts by better integrating Engineering, Planning, Building, and Public Works Services. Efficiencies in plan review and permitting enable the City to process development permits for large projects in the Downtown in just over three months from submittal to approval.

In August 2013 the City Council approved a Disposition and Development Agreement for the development of the City’s Block 2 property, located along Middlefield Road. The City’s sale of this property closed in October 2013 and construction of the Crossing 900 office building started shortly thereafter. The project, on schedule to be completed in June 2015 and already fully leased, will bring 900 to 1,200 new employees to support downtown retail businesses. In addition, 900 new public parking spaces will be available nights and weekends to support the evening and weekend live and movie theatre scenes.

In October 2014, the City approved a Property Disposition Agreement with Greystar for the sale of City property for inclusion in a housing project. The property was acquired in 1997 to assist in the construction of the Jefferson Street undercrossing project. The remnant parcels were jointly owned with Samtrans, whose approval for the sale was required. The City’s sale of this property was consistent with its goals of providing housing proximate to transit and other amenities (it is adjacent to the Redwood City Caltrain station, bus routes along El Camino Real, and the Sequoia Station shopping center) as envisioned in the General Plan and the Downtown Precise Plan. Additionally, the City’s share of the proceeds provide additional funds for reinvestment into other housing projects.

The first phase of development under the Downtown Precise Plan has included a number of housing developments. In 2013 permits were issued for projects at: 145 Monroe Street (305 units), 601 Main Street (196 units), 525 Middlefield Road (471 units), 735 Brewster Street (18 units), and 439 Fuller Street (133 units). The projects are currently under construction and scheduled to be completed in 2015 or early 2016. An additional 175 unit development (103 Wilson Street) was approved by the Planning Commission in October 2014 and is expected to be under construction in 2015. Recently, applications for five (5) downtown office developments have been submitted totaling approximately 500,000 square feet. City staff is currently analyzing these applications to determine what can be accommodated under the parameters for the Downtown Precise Plan and associated Environmental Impact Report.

The Inner Harbor Specific Plan Task Force completed its work in May 2014. The City Council accepted the report and directed staff to proceed with preparation of a Specific Plan and Environmental Impact Report (EIR). The Plan and EIR are anticipated to be complete for City Council review in mid 2015. Consistent with the vision of the Inner Harbor Task Force for development in the Plan Area, plans have been submitted for City review for two projects, one an office development of approximately 1.1 million square feet and the other a residential project with approximately 160 units.

The City Council approved the Stanford in Redwood City Precise Plan and Development Agreement in September 2013. These approvals set the stage for the transformation of the 1960s era Ampex corporate campus into a modern office development focused on Stanford's non-academic office needs. The development at build-out will move the 35-acre property from one containing 500,000 square feet of buildings to one with 1.5 million square feet of Class A office space. On November 17, 2014, Stanford provided \$300,000 as the first of its contributions to the community in support of the City's educational and multi-generational programs. Stanford has also provided two public speaker programs for the community and its first entrepreneur bootcamp program was started in the fall of 2014. Stanford's overall commitment to the City is \$15 million in community benefits.

Relevant Financial Policies

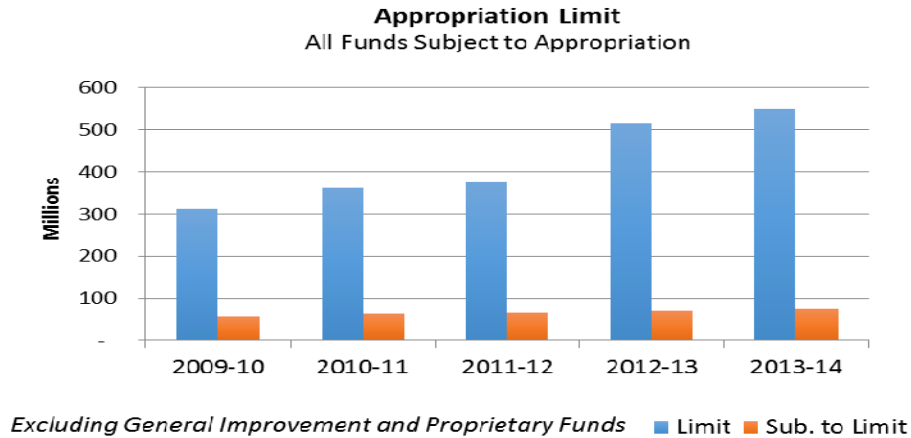
In April 1999 the City Council adopted a policy targeting the unreserved portion of the general fund's fund balance designated for subsequent year's expenditures to fall within a range from 15% to 20% of anticipated general fund revenues. As a result of implementing GASB 54 these amounts are now reported under the category "Unassigned Fund Balances" under the subcategory "City Council directed minimum balance."

Appropriation Limit

Article XIII B of the California State Constitution, which became effective in FY 1979-80, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of FY 1978-79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for FY 2013-14 was at \$548,582,152 while the actual appropriations subject to the limit amounted to \$72,200,000. The increase from FY 2012-13 is primarily due to the increase (5.12%) in per capita income, one of the factors used in calculating the change in the appropriation limit.

The following graph indicates the trend in appropriations subject to limitation:



OTHER INFORMATION

Annual Independent Audit

The annual audit of the books and financial records of Redwood City was completed by Badawi and Associates, certified public accountants appointed by the City Council. The independent auditor's report has been made a part of this report.

Awards

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the FY ended June 30, 2013. This is the 27th consecutive year that Redwood City has received this prestigious award. In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate of achievement program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been achieved without the efficient and dedicated services of the entire staff of the Finance Department. Special thanks are extended to Alison Freeman for her leadership in overseeing this process, Toni Saldou, Gita Mehirdel, Jennifer Chang, Carlyne Kerans, and Sylvia Peters for their important contributions, and to Nancy Murguia for her relentless dedication to assembling this document.

I would also like to thank and commend Mayor Jeffery Gee and the Redwood City Council, and City Manager Robert Bell for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,

Audrey Seymour Ramberg
Interim Director of Finance
City of Redwood City
Redwood City, California



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Redwood City
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

PRINCIPAL OFFICIALS

CITY COUNCIL

Jeffrey Gee, Mayor.....	November 2017
Rosanne Foust, Vice Mayor	November 2015
Alicia C. Aguirre.....	November 2015
Ian Bain	November 2015
Diane Howard	November 2017
Barbara Pierce.....	November 2015
John D. Seybert.....	November 2017

CITY MANAGER

Robert B. Bell

DEPARTMENT DIRECTORS

Assistant City Manager of Operations.....	Audrey Seymour Ramberg
Assistant City Manager of Development.....	Bill Ekern
City Clerk	Silvia Vonderlinden
Community Development	Aaron Aknin
Finance (interim).....	Audrey Seymour Ramberg
Fire Chief	James Skinner
Library	David Genesy
Parks, Recreation, and Community Services	Chris Beth
Police Chief	JR Gamez

CITY ATTORNEY

Pamela Thompson

City of Redwood City
1017 Middlefield Road
Redwood City, California 94063
Telephone: (650) 780-7070
Fax: (650) 366-2447
E-Mail: mail@redwoodcity.org
Web Site: www.redwoodcity.org

CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

FINANCE DEPARTMENT STAFF

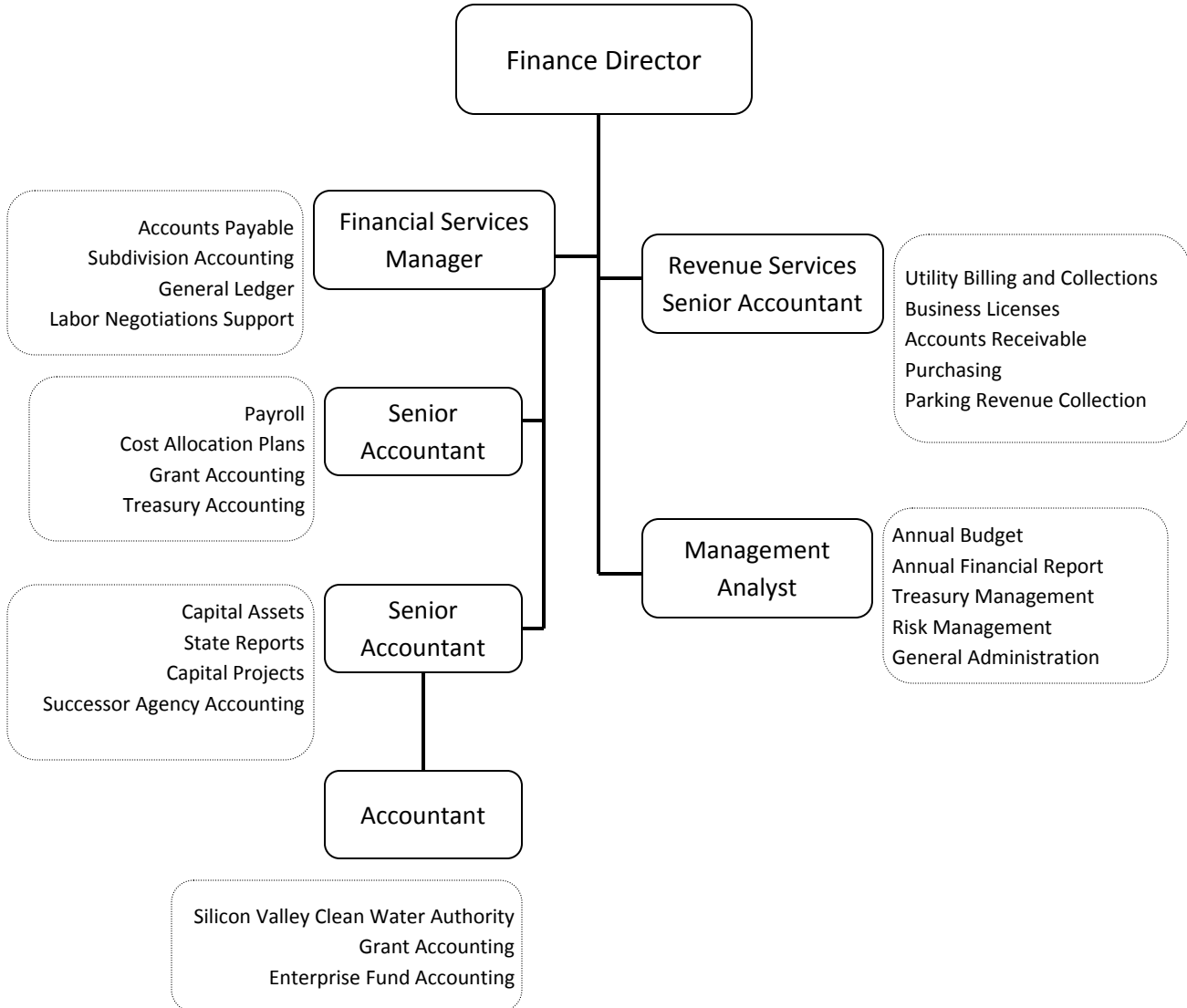
June 30, 2014

Audrey Seymour Ramberg.....Director of Finance (Interim)
Alison FreemanFinancial Services Manager
Carolyn KeransSenior Accountant
Jennifer ChangSenior Accountant
Gita MehirdelSenior Accountant
Antonia Saldou.....Accountant
Sylvia Bravo Peters.....Management Analyst



June 30, 2014

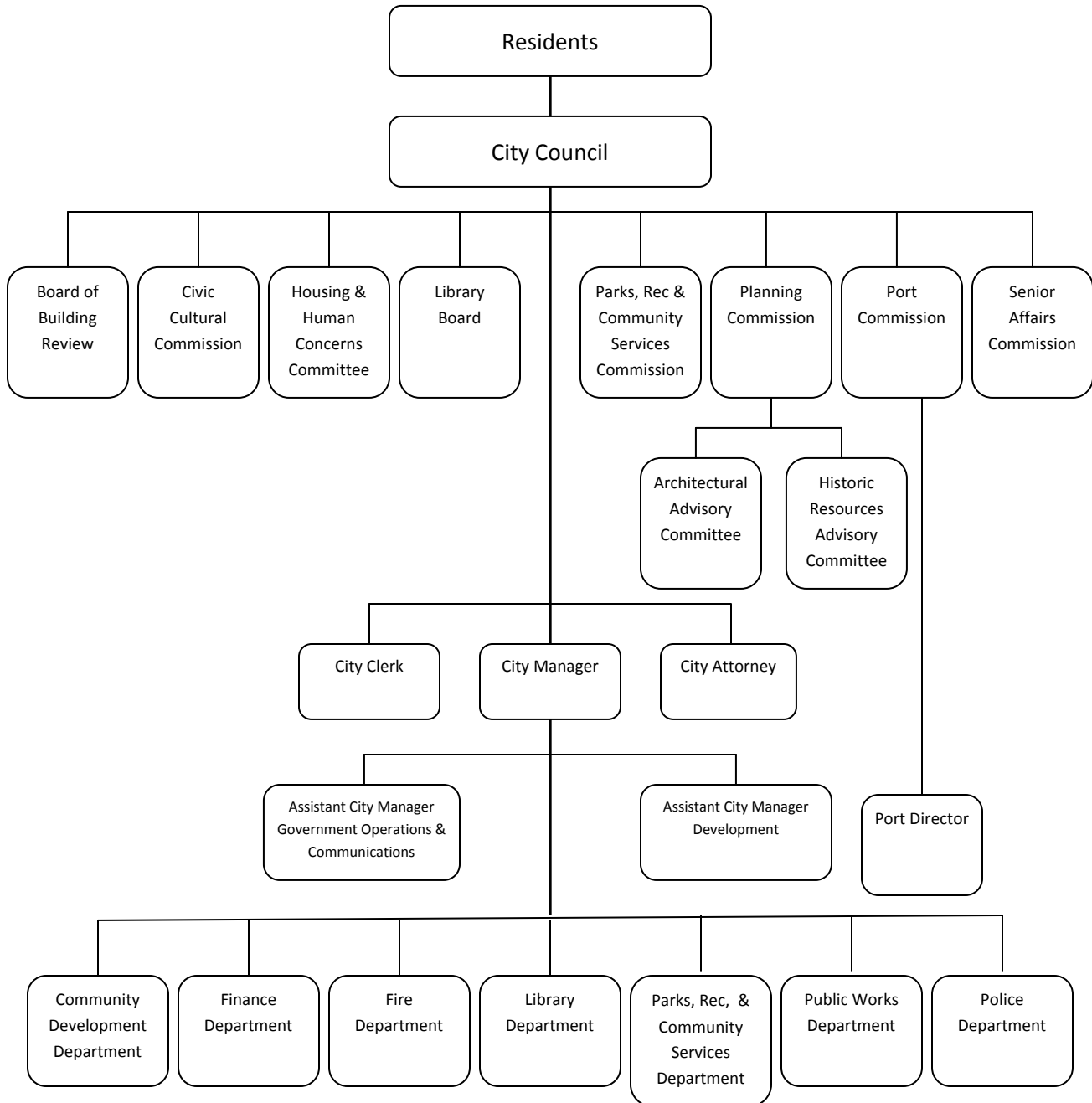
Finance Department



REDWOOD CITY



June 30, 2014



CORE PURPOSE

Build a Great Community Together

CORE VALUES

Excellence:

Passion to Do Our Best in Each Moment

Integrity:

Do the Right Thing, Not the Easy Thing

Service:

We Care and It Makes a Difference

Creativity:

Freedom to Imagine and Courage to Act



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood City, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the City's investment in the Silicon Valley Clean Water Authority, which represents 41 percent, 42 percent and 18 percent, respectively, of the City's assets, net position, and expenses of the Sewer Utility Fund and 11 percent, 15 percent, and 7 percent, respectively, of the assets, net position, and expenses of the business-type activities. The City's investment in the Silicon Valley Clean Water Authority was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the City's investment in the Silicon Valley Clean Water Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, general fund comparative statements, general fund comparative budgetary schedules on pages 85-87, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The general fund comparative statements, comparative budgetary schedules on pages 85-87, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund comparative statements, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Badawi and Associates
Certified Public Accountants
Oakland, California
December 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FISCAL YEAR 2013-14 FINANCIAL HIGHLIGHTS

During fiscal year 2013-14, the City experienced growth in revenues as the local economy continued to recover from the recent recession. Financial highlights of the year include the following:

- The City's total net position increased \$35.9 million in FY 2013-14, after a \$20.7 million increase in the preceding year. At June 30, 2014, net position totaled \$510.8 million.
- Total City revenues, including program and general revenues, were \$207 million, an increase of \$24.3 million over the prior year, while total expenses were \$171 million, an increase of \$9 million from FY 2012-13.
- Net position in governmental activities increased \$11.8 million, while net position in business activities increased \$24.1 million.
- Governmental program revenues were \$38.8 million, which reflected an increase of \$5.2 million over FY 2012-13.
- Governmental program expenses increased to \$112.2 million in FY 2013-14, up \$9 million from the prior year.
- Revenues from business-type activities increased to \$85.3 million in FY 2013-14, up \$15.6 million over the prior year.
- Expenses of business-type activities increased to \$58.8 million in FY 2013-14, a \$.1 million increase from the prior year.
- General fund revenues of \$105 million increased by \$12.6 million over the prior year.
- General fund balance of \$23.8 million at the fiscal year end increased by \$2 million from the prior year.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in seven parts:

1. Introductory section, which includes the transmittal letter and general information
2. Management's Discussion and Analysis (this part)
3. The Basic Financial Statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements
4. Required supplementary information
5. Combining statements for non-major governmental funds and fiduciary funds
6. Statistical information
7. Internal Controls

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements, which are prepared using the modified accrual basis of accounting, measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

The Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the following:

Governmental Activities — All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

Business-type Activities — All the City's enterprise activities are reported here, including water, sewer, parking, the Port of Redwood City, and Docketown Marina. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the full accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The government-wide financial statements may be found on pages 20-21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Redwood City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Redwood City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City of Redwood City maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the Housing Legal Aid Society Fund, and the capital outlay fund, which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Redwood City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund.

The governmental fund financial statements may be found on pages 24-27 of this report.

Proprietary funds are maintained in two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer, parking, Port, and Docketown Marina operations. Internal services funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements may be found on pages 29-31 of this report.

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds.

Comparisons of budget and actual financial information are presented only for the general fund and other major funds that are special revenue funds. As the Housing Legal Aid Society Fund was created after the dissolution of the Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

Fiduciary Funds

The City maintains fiduciary funds that consist of a Private Purpose Trust Fund and Agency Funds. The Private Purpose Trust Fund accounts for the activity of the former Redevelopment Agency of Redwood City, while the Agency Funds account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), and for transactions involving the Pacific Shores Community Facilities District, the Shores Transportation Improvement District, and the One Marina Community Facilities District. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the Agency Funds Statement of Changes in Assets and Liabilities. The accounting used for fiduciary funds is much like that used for proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

The fiduciary fund financial statements may be found on pages 32-33 of this report.

Notes to the Financial Statements

Notes to the 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 Notes to the Financial Statements may be found on pages 34-75 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may over time serve as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$510.8 million at June 30, 2014.

City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Cash and investments	132.376	112.195	79.290	63.422	211.666	175.617	20.527%
Other assets	37.339	35.741	37.218	41.070	74.557	76.811	-2.934%
Capital assets	187.660	193.550	191.219	183.989	378.879	377.539	0.355%
Total assets	<u>357.375</u>	<u>341.486</u>	<u>307.727</u>	<u>288.481</u>	<u>665.102</u>	<u>629.967</u>	5.577%
Total deferred outflows of resources			1.611	1.691	1.611	1.691	-4.731%
Long-term debt outstanding	13.015	12.896	81.619	85.764	94.634	98.660	-4.081%
Other liabilities	50.428	46.484	10.898	11.690	61.326	58.174	5.418%
Total liabilities	<u>63.443</u>	<u>59.380</u>	<u>92.517</u>	<u>97.454</u>	<u>155.960</u>	<u>156.834</u>	-0.557%
Net Position:							
Net investment in capital assets	184.625	190.191	117.928	110.901	302.553	301.092	0.485%
Restricted	49.269	43.957	6.553	6.638	55.822	50.595	10.331%
Unrestricted	60.038	47.958	92.340	75.179	152.378	123.137	23.747%
Total net position	<u>293.932</u>	<u>282.106</u>	<u>216.821</u>	<u>192.718</u>	<u>510.753</u>	<u>474.824</u>	7.567%

The largest portion (59%) of the City's net position reflects its capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (10.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$152.4 million) may be used to meet the government's ongoing obligations (although portions of these unrestricted net assets may by law or contract be only used for specified purposes and may not necessarily be used for any general governmental purpose) to residents and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net position increased by \$35.9 million during the current fiscal year.

City of Redwood City
Management's Discussion and Analysis
For the year ended June 30, 2014

Changes in City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program revenues:							
Community development	10.570	6.004			10.570	6.004	76.049%
Human Services	0.508	0.511			0.508	0.511	-0.587%
Public safety	8.237	6.051			8.237	6.051	36.126%
Transportation	8.176	5.589			8.176	5.589	46.287%
Environmental support and protection	1.680	1.357			1.680	1.357	23.803%
Leisure, cultural and information services	7.683	12.282			7.683	12.282	-37.445%
Policy development and implementation	1.937	1.855			1.937	1.855	4.420%
Water			36.272	33.202	36.272	33.202	9.246%
Sewer			25.692	28.100	25.692	28.100	-8.569%
Parking			1.504	1.367	1.504	1.367	10.022%
Port of Redwood City			6.824	6.263	6.824	6.263	8.957%
Docktown Marina			0.666	0.493	0.666	0.493	35.091%
General revenues:							
Taxes/special assessments	84.102	77.956	0.105	0.104	84.207	78.060	7.875%
Investment earnings	0.992	0.301	0.499	0.151	1.491	0.452	229.867%
Gain (loss) on sale of capital assets	(3.359)		13.700		10.341		
Other	1.206	1.070	0.004	0.004	1.210	1.074	12.663%
Total revenues	121.732	112.976	85.266	69.684	206.998	182.660	13.324%
Expenses							
Community development	8.151	9.090			8.151	9.090	-10.330%
Human services	1.462	1.562			1.462	1.562	-6.402%
Public safety	59.435	51.355			59.435	51.355	15.734%
Transportation	11.573	11.332			11.573	11.332	2.127%
Environmental support and protection	2.746	1.996			2.746	1.996	37.575%
Leisure, cultural and information services	22.823	21.550			22.823	21.550	5.907%
Policy development and implementation	5.982	6.031			5.982	6.031	-0.812%
Interest on long term debt	0.048	0.314			0.048	0.314	-84.713%
Water			30.592	31.124	30.592	31.124	-1.709%
Sewer			19.990	19.287	19.990	19.287	3.645%
Parking			2.471	2.430	2.471	2.430	1.687%
Port of Redwood City			5.091	5.628	5.091	5.628	-9.542%
Docktown Marina			0.705	0.243	0.705	0.243	190.123%
Total expenses	112.220	103.230	58.849	58.712	171.069	161.942	5.636%
Change in net position before transfers	9.512	9.746	26.417	10.972	35.929	20.718	73.419%
Transfers	2.314	(0.473)	(2.314)	0.473			
Change in net position	11.826	9.273	24.103	11.445	35.929	20.718	73.419%
Net position - July 1, as restated	282.106	272.833	192.718	181.273	474.824	454.106	4.562%
Net position - June 30	<u>293.932</u>	<u>282.106</u>	<u>216.821</u>	<u>192.718</u>	<u>510.753</u>	<u>474.824</u>	7.567%

GOVERNMENTAL ACTIVITIES

Governmental activities prior to transfers and extraordinary items increased the City's net position by \$9.5 million. Including transfers, governmental activities increased \$11.8 million. Transfers in FY 2013-14 consisted primarily of the transfer out of the general fund to the parking fund to cover parking operations

in the amount of \$0.4 million, and \$2.7 million transfer from the parking fund to the capital outlay fund to reimburse expenses related to the culvert realignment for the Block 2 development project.

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

General governmental revenues increased by 8.8%, or \$6.9 million from FY 2012-13 as all broad categories of general revenues increased, net of a loss on disposal of capital assets of \$3.3 million. Within the broad categories, property taxes increased \$3.3 million, sales taxes increased \$1.5 million, transient occupancy taxes increased by \$.7 million and investment earnings increased by \$.7 million.

Community development revenues increased due to developer contributions received pursuant to development agreements and increased building permit and plan checking revenue related to increased building activity in the City. Human services revenues decreased slightly due to a decrease in grant funded programs for Fair Oaks Community Center. Public safety revenues increased due to fees collected for fire services provided to the City of San Carlos through a new agreement implemented in the current fiscal year in which the City provides full fire services to the City of San Carlos. This increase was offset by a decrease in lease payments to refund bonds issued for construction of public safety facilities in the prior fiscal year. Transportation revenues increased due to the increase in traffic mitigation fees related to the Crossing 900 project, increased Measure A transportation grant revenue and an increase in gas tax revenues resulting from a one-time payment. Environmental support and protection revenues increased due to the receipt of contributions related to the exterior levee certification in Redwood Shores and increased assessments related to storm water collection and disposal in Redwood Shores. Leisure, cultural and information services decreased primarily due to the receipt of Parks Impact Fees in the prior year from the three large apartment construction projects. Policy, development and implementation revenue increased slightly due to reimbursement received from city of San Carlos for payroll processing services.

Key elements of the increase/decrease in expenses for governmental activities are as follows:

Total governmental activities expenses were up \$8.9 million or 8.7% due to increases in public safety, transportation, environmental support and protection and leisure, cultural and information services offset by decrease in community development, human services, policy development and implementation and interest on long-term debt.

Public safety expenses increased \$8 million primarily due to the net added expense related to the fire services provided to the City of San Carlos in the amount of \$4.6 million, \$.9 million increase in workers' compensation costs, the reorganization in the police department in the amount of \$.5 million, and increased employee costs. Transportation expenses increased slightly (\$.2 million) due to increased street system maintenance expenses in the special gas tax fund. Environmental support and protection expenses increased \$.75 million due to increased expenses related to street cleaning and storm drains. Leisure, cultural and information services increased by \$1.2 million primarily due to a one-time payment of \$.3 million for Bair Island Public Access for a bridge, increased library program expenses related to full staffing levels and increased costs associated with new technology (\$.3 million), increased parks, recreation and community services expenses (\$.3 million) related to middle school sports and increased community services program expenses related to the Special Needs program, and Red Morton playground improvement expenses (\$.1 million).

The aforementioned increases in governmental activities expenses were offset by a \$.9 million decrease in community development expenses primarily related to a decrease in the Community Development

Block Grant program and planning cost recovery, along with a \$.1 million decrease in human services expenses. Policy development and implementation expenses decreased slightly by net \$.05 million due to a decrease in lease payments for the Public Financing Authority as the bonds were refunded in the prior year, offset by programmatic increases, employee payout upon retirement, and increased workers' compensation costs. Interest on long-term debt decreased \$.3 million due to the prior year refunding of the Public Financing Authority bonds which were replaced with a lower interest lease.

BUSINESS-TYPE ACTIVITIES

Business-type activities prior to transfers increased the City's net position by \$26.4 million in FY 2013-14.

Key elements accounting for increases or decreases in revenues and expenses are as follows:

Business-type revenues increased primarily due to the gain on the sale of Block 2 to the Crossing 900 developer and an increase in utility rates. Port revenues increased \$.5 million due to the higher maritime revenue from higher tonnage and a 2% increase in the tariff rate.

The water utility's expenses were lower in FY 2013-14 primarily due to a decrease in the amount paid for water to the San Francisco Public Utilities Commission resulting from decreased water consumption, and decreased expenses related to the water meter replacement program.

Sewer utility expenses increased slightly due to an increase in payments to Silicon Valley Clean Water (formerly South Bayside System Authority) for wastewater treatment, and an increase in expenses related to closed circuit television inspection of sewer lines.

The expenses of the parking fund remained flat at \$2.4 million.

The Port of Redwood City experienced a decrease in expenses due to the prior year loss of \$0.575 million on disposal of assets associated with the Wharves 1 & 2 replacement project, net of increased interest expense associated with the 2012 revenue bonds.

During fiscal year 2013-14 the first full year of operations of the Docketown Marina by the City expenses increased from partial year of \$.24 to \$.7 million for one full year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The general government functions are contained in the general, special revenue, debt service, and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources by using the modified accrual basis of accounting. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2014, the City's governmental funds reported combined fund balances of \$111 million, which reflects an increase of \$15 million from the beginning year balance.

Governmental fund revenues increased \$11.8 million this year to \$123.4 million. Significant increases occurred in the general fund, the capital outlay fund, and the traffic mitigation fees fund, offset by decreases in the Public Financing Authority bonds fund and the parks impact and in lieu fee fund. Expenditures, including capital outlay, decreased \$5.2 million this year to \$104.7 million. Most of the decrease was attributable to the \$5.8 million expenditure in the prior year for the payoff of the Public Financing authority bonds, and decreased expenditures in the capital outlay fund partially offset by increased expenditures in the general fund.

The general fund is the primary operating fund of the City. At June 30, 2014, unassigned fund balance of the general fund was \$21.5 million, while total fund balance increased to \$23.8 million from a beginning fund balance of \$21.8 million primarily due to an increase in revenues. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 24.8% of total fund expenditures, while total fund balance represents 27.6% of that same amount.

The following are the major funds that qualified under the reporting criteria for major funds selection:

General Fund – General fund revenues increased approximately \$12.7 million this fiscal year primarily due to increases in property taxes, sales and other taxes, and building permits, and charges for current services. Sales taxes increased \$1.5 million and transient occupancy tax increased \$0.7 million due to the continued recovery from the recession. Property taxes increased \$3.3 million. The increase in property tax resulted primarily from an increase in assessed value along with an increase in revenue received in the general fund from the county as its share of the Education Revenue Augmentation Fund (ERAF) refund in FY 2013-14. ERAF increased by \$428,790 to a total of \$4.7 million.

ERAF, which was created by state law in the early 1990's, allowed the state to shift on an ongoing basis a portion of each city, county, and special district's property taxes to school districts. This shift allowed the state to decrease the state's general fund support to schools throughout the state and concomitantly reduced state funding of schools. Within each county, ERAF revenues are allocated to schools based upon a formula that considers, among several factors, the average daily attendance and the amount of each school district's own property tax revenue. Within San Mateo County, the outcome of applying this formula was that the school districts did not require all of the funds shifted from the cities, county, and special districts. Consequently, these funds were returned to each entity in proportion to the amount that was initially collected.

Licenses and permits increased \$0.66 million due to an increase in building permits related to increased building activity.

Charges for current services increased \$5.3 million primarily due to revenue received from City of San Carlos for fire services provided.

General fund expenditures increased \$5.1 million over the prior fiscal year. The increase primarily resulted from the net added expenditure related to the fire services provided to the City of San Carlos.

Additionally, there was an increase in public safety expenditures related to the first full year of the reorganization of the police department, along with increased workers' compensation cost.

General fund expenditures increase was offset by a decrease in one-time prior year payments related to reimbursement to the employee benefits internal service fund for prior fire employee retirement costs, and lease payments related to the prior year refunding of the Public Financing Authority 2003 Refunding Bonds.

Transfers out of the general fund increased \$7.4 million in FY 2013-14 due to the \$6 million transfer to the self insurance fund to cover increased workers' compensation costs, along with an increase in the transfer out to the capital outlay fund, as greater net utility users tax was available in the current fiscal year after a greater portion was used in the prior year to refund the Public Financing Authority 2003 Bonds.

Housing Legal Aid Society Fund – This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance. At June 30, 2014, a \$10.3 million liability is reflected as due to other governmental agencies as the City and Legal Aid Society have sued the State of California over the City's right to retain this money for housing purposes.

Capital Outlay Fund – This fund accounts for resources provided to finance general governmental capital projects. In FY 2013-14, the capital outlay fund generated \$3 million in revenue, most of which was from developer contributions. This fund was also the recipient of \$9.2 million of transfers from the general fund and \$2.7 million from the Parking fund. Total outlays were \$7.1 million of which \$2.8 million met with City's criteria for capitalization. The balance (\$4.3 million) was expended in FY 2013-14. Total outlays in the prior year (FY 2012-13) were \$10.2 million. Of the capital outlay fund's \$30.4 million fund balance, \$23.4 million was committed, and \$7 million was assigned.

Proprietary Funds – Enterprise fund net position totaled \$216.8 million at the end of the fiscal year, an increase of \$24.1 million over the prior year restated balance of \$192.7 million. Enterprise operating revenues were \$73.7 million this year, an increase of \$5 million over last year, while net non-operating revenues (expenses) were \$6.6 million compared to (\$4.2) million the prior year. Net non-operating revenues (expenses) experienced a \$10.8 million increase due to the gain on sale from Block 2 net of the decrease in investment in sewer authority.

Enterprise fund operating expenses were \$55.4 million this year, up \$.2 million from the prior year, most of which was due to higher operating expenses in the sewer utility fund, and the first full year of expenses for the Docktown Marina, net of a decrease in expenses of the water utility fund.

Water Utility – The water utility fund realized operating income of \$7.7 million in the current year, up from the operating income of \$4.3 million in the prior year. Revenues increased by \$2.5 million, while expenses decreased by \$.9 million.

Sewer Utility – The sewer utility fund realized operating income of \$9.1 million in the current year, up from the operating income of \$8.3 million in the prior year. Revenues increased by \$1.5 million, while expenses increased \$0.7 million from the prior year.

Parking Fund – Operating revenues increased by \$86 thousand this year to \$1.45 million, while operating expenses increased slightly to \$2.468 million. The general fund transferred \$426 thousand into the parking fund to cover the operating deficit. The net position of the parking fund increased by \$10.6 million due to proceeds from the sale of Block 2 net of a transfer out to the capital outlay fund for reimbursement of Block 2 culvert realignment costs.

Port Fund – Operating revenues were up \$.5 million while operating expenses were down \$.06 million from FY 2012-13. Overall, net position increased from restated \$31.8 million to \$33.5 million, or 5.6%.

Docktown Marina – This fund's activity began in March 2013. During this first full year of operations it had \$.665 million in operating revenues and \$.705 in operating expenses, resulting in net assets of \$.210 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Property taxes exceeded budget by \$4.9 million primarily due to the receipt of a \$4.7 million payment from the County of San Mateo due to the over-deduction of education revenue augmentation fund amounts from the City in prior years, which exceeded the estimated amount by \$2.7 million, the receipt of residual property tax distribution attributable to the former Redevelopment Agency in the amount of \$2.5 million which exceeded the estimated amount by \$.8 million, and the overall increase in property taxes as the housing market strengthened.

Sales and other taxes were greater than budget by \$3 million mostly due to an unanticipated increase in sales tax revenue (\$2.0 million), transient occupancy tax (\$.4 million), property transfer tax (\$.3 million), and utility users' tax (\$.1 million). Additionally, there were slight increases in business license tax and franchise fees.

Licenses and permits were greater than budget by \$0.7 million due to construction activity during the year exceeding expectations.

Use of money and property tax revenue was greater than budget by \$0.1 million due to greater investment earnings than expected as interest rates began to rise.

Intergovernmental revenue was greater than budget by \$.08 million primarily due to receipt of unbudgeted State Mandated program reimbursement and slight increases in the Port contribution and abandoned vehicle fees.

Charges for current services were less than budget by \$.06 million primarily due to fire services fees and other current service charges falling below budget, offset by plan checking fees which exceeded budget as building activity exceeded expectations.

Fire Services fees were below budget due to a delay in the invoicing of fire inspection fees and less revenue related to a fire services contract with the City of San Carlos due to an unused contingency for supplies and services that were not provided.

Other service charges related to building activity were below budget but adequately covered the fee based programs for which customers are charged. Garbage collection fees were below budget due to unbudgeted refunds paid to a commercial account.

Other revenue was less than budget by \$.2 million due to actual contributions falling below original estimates.

Expenditures, overall, were \$1.8 million less than budgeted primarily due to vacancies and an increased credit resulting from the prepayment of pension contributions to CalPERS, net of unbudgeted expenditures related to the activities of parks and recreation and information services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2013-14, the City had \$378.9 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the table below. Additional information on the City's capital assets can be found in Note 4 and Note 16 of this report.

Capital Assets at Year-end (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Land	30.978	30.978	3.180	3.448	34.158	34.426	-0.778%
Streets	111.036	109.082			111.036	109.082	1.791%
Construction in progress	10.881	20.252	21.004	14.890	31.885	35.142	-9.268%
Buildings	83.309	83.309	61.213	61.213	144.522	144.522	0.000%
Equipment	23.445	20.964	1.661	1.645	25.106	22.609	11.044%
Improvements	6.274	4.118	167.808	161.302	174.082	165.420	5.236%
Harbor improvements			4.045	4.045	4.045	4.045	0.000%
Parks, bridges, etc.	30.619	29.184			30.619	29.184	4.917%
Traffic signals	2.607	2.607			2.607	2.607	0.000%
Storm drains	11.627	7.326			11.627	7.326	58.709%
Less accumulated depreciation	(123.116)	(114.270)	(67.692)	(62.554)	(190.808)	(176.824)	7.908%
Total capital assets	<u>187.660</u>	<u>193.550</u>	<u>191.219</u>	<u>183.989</u>	<u>378.879</u>	<u>377.539</u>	0.355%

Governmental Activities – Streets increased primarily due to the completion of the Rubber Chip Sealing and Brewster Overlay projects. Equipment increased due to the completion of the grant funded fire boat and the addition of numerous vehicles through the equipment replacement program. Improvements increased mainly due to the completion of the City Hall remodel project and the installation of synthetic play fields at Fair Oaks Elementary School. Parks increased primarily due to various park improvement projects, and storm drains increased due to completion of Friendly Acres storm drain along with the realignment of the storm culvert at Middlefield Road. The completion of the aforementioned projects decreased construction in progress along with the retirement of Woodside Road widening costs for which the project will not be moving forward.

Business-Type Activities – Land decreased due to the sale of Block 2 to the Crossing 900 developer. Construction in progress increased due to the Port construction related to wharves 1 & 2. Improvements increased due to the completion of water and sewer system replacement projects, water seismic improvements, along with sewer and pump station rehabilitation projects. Equipment increased due to equipment purchased for the sewer utility.

Long-Term Debt

Issues described in detail in Notes 6 and 7 to Financial Statements.

Outstanding Debt (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Revenue bonds			80.392	83.038	80.392	83.038	-3.186%
Refunding lease	3.035	3.360			3.035	3.360	-9.673%
Loans			0.425	1.758	0.425	1.758	-75.825%
Accrued sick leave and vacation	9.980	9.536	0.802	0.968	10.782	10.504	2.647%
Total long term debt	<u>13.015</u>	<u>12.896</u>	<u>81.619</u>	<u>85.764</u>	<u>94.634</u>	<u>98.660</u>	-4.081%

SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts.

At June 30, 2014, a total of \$19.675 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

PRIVATE PURPOSE TRUST FUND DEBT

On February 1, 2012, the Redevelopment Agency of the City of Redwood City was dissolved pursuant to California State law, and as of that date, the long-term debt associated with the former Redevelopment Agency was transferred to a private purpose trust fund for the Successor Agency. At June 30, 2014, the Successor Agency had tax allocation bonds outstanding in the amount of \$42,385,210 including unamortized premium and accreted interest payable.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Redwood City, like many cities, relies heavily upon property taxes and sales taxes to finance general governmental activities with these two revenues accounting for 40% and 20% of general fund revenues respectively. In FY 2013-14 the City experienced significant gains in these revenues with property taxes increasing 8.7% and sales taxes increasing 8%. We see the increases in each of these revenues, both of which are sensitive to consumer confidence, reflecting the strength of the local job market. Given the

continued increase in the number of local residents employed and the low unemployment rate we are hopeful that these revenues, along with other revenues that reflect strong consumer demand, will continue to grow.

The adopted FY 2014-15 general fund budget projects a surplus of \$1.4 million, or about 1.5% of anticipated revenues. A small deficit of approximately .20% of revenues is projected in FY 2015-16, largely due to the reduction in Educational Revenue Augmentation Fund refund, a source of property tax revenue tied to K-14 education funding. This revenue may be further reduced or eliminated in future years due to the changes in the school funding formulas. In FY 2016-17, contributions to retirement system will increase \$1.6 million due to changes in the actuarial assumptions and methodologies used by the California Public Employees Retirement System. City staff is monitoring each of these factors very closely and is keeping the City Council apprised of significant developments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department, at 1017 Middlefield Road, Redwood City, CA 94063.



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting — the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of the City's governmental activities in a single column, and the financial position of all City business-type activities in a single column; these columns are followed by a total column that presents the financial position of the entire City.

The City's governmental activities include the activities of its general fund, along with all its special revenue, capital projects and debt service funds. Since the City's internal service funds service these funds, their activities are consolidated with governmental activities, after eliminating inter-fund transactions and balances. The City's business-type activities include all its enterprise fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues — that is, revenues which are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each governmental and business-type activity. The City's general revenues are then listed in the governmental activities or business-type activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
ASSETS			
Cash and investments available for operations	126,898,699	71,821,704	198,720,403
Cash and investments, restricted	5,477,181	7,467,946	12,945,127
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	8,135,667		8,135,667
Accounts	1,709,705	4,945,180	6,654,885
Loans	9,269,332		9,269,332
Accrued interest	1,024,089	22,806	1,046,895
Due from other governmental agencies	4,290,213	1,632,575	5,922,788
Internal balances	2,700,000	(2,700,000)	
Advances to RDA successor agency	3,957,246		3,957,246
Inventory of supplies at cost	152,106		152,106
Deposits	275,000	330,843	605,843
Prepaid items and other assets	84,443	476,209	560,652
Investment in land held for redevelopment	5,741,208		5,741,208
Investment in sewer authority		32,511,141	32,511,141
Capital assets:			
Nondepreciable	41,858,589	24,184,132	66,042,721
Depreciable buildings, property, equipment and infrastructure, net	145,801,258	167,034,910	312,836,168
Total assets	<u>357,374,736</u>	<u>307,727,446</u>	<u>665,102,182</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refundings		1,610,648	1,610,648
Total deferred outflows of resources		<u>1,610,648</u>	<u>1,610,648</u>
LIABILITIES			
Accounts payable	4,543,428	4,884,212	9,427,640
Accrued interest payable	21,017	1,182,313	1,203,330
Accrued payroll	3,248,659		3,248,659
Deposits payable	5,321,031	1,476,361	6,797,392
Due to other governmental agencies	10,305,220		10,305,220
Unearned revenue	2,044,718	2,708,935	4,753,653
Insurance claims payable:			
Due in one year	3,922,579		3,922,579
Due in more than one year	14,532,144		14,532,144
Accrued sick leave and vacation:			
Due in one year	346,856	394,505	741,361
Due in more than one year	9,633,123	408,026	10,041,149
Net OPEB obligation due in more than one year	6,488,784	645,825	7,134,609
Long-Term Debt:			
Due in one year	656,858	2,615,341	3,272,199
Due in more than one year	2,378,400	78,202,019	80,580,419
Total liabilities	<u>63,442,817</u>	<u>92,517,537</u>	<u>155,960,354</u>
NET POSITION			
Net investment in capital assets	184,624,589	117,927,502	302,552,091
Restricted for:			
Capital projects	27,531,183	429,961	27,961,144
Debt service		6,123,047	6,123,047
Community development projects	16,367,817		16,367,817
Maintenance	5,258,017		5,258,017
Public safety	111,793		111,793
Total restricted	<u>49,268,810</u>	<u>6,553,008</u>	<u>55,821,818</u>
Unrestricted	60,038,520	92,340,047	152,378,567
Total net position	<u><u>293,931,919</u></u>	<u><u>216,820,557</u></u>	<u><u>510,752,476</u></u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Overhead Charges	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
			Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	
				Grants and Contributions	Grants and Contributions			
	\$	\$	\$	\$	\$	\$	\$	\$
Governmental Activities:								
Community development	8,060,359	90,521	8,553,508	984,214	1,033,277	2,420,119		\$2,420,119
Human services	1,462,300			508,321		(953,979)		(953,979)
Public safety	59,435,400		6,922,702	1,218,280	95,702	(51,198,716)		(51,198,716)
Transportation	11,572,619		374,859	2,576,308	5,225,094	(3,396,358)		(3,396,358)
Environmental support and protection	2,728,477	18,123	1,417,353	78,351	184,748	(1,066,148)		(1,066,148)
Leisure, cultural and information services	22,799,101	24,427	3,074,537	1,652,920	2,955,958	(15,140,113)		(15,140,113)
Policy development and implementation	6,859,116	(876,770)	1,871,774	54,378	10,578	(4,045,616)		(4,045,616)
Interest on long term debt	48,341					(48,341)		(48,341)
Total Governmental Activities	112,965,713	(743,699)	22,214,733	7,072,772	9,505,357	(73,429,152)		(73,429,152)
Business-Type Activities:								
Water Utility Fund	30,153,640	438,254	35,655,559	58,535	557,012		5,679,212	5,679,212
Sewer Utility Fund	19,709,272	280,486	24,733,329		958,929		5,702,500	5,702,500
Parking Fund	2,446,263	24,959	1,453,519	50,000			(967,703)	(967,703)
Port of Redwood City	5,091,265		6,824,474				1,733,209	1,733,209
Docktown Marina	705,388		665,819				(39,569)	(39,569)
Total Business-Type Activities	58,105,828	743,699	69,332,700	108,535	1,515,941		12,107,649	12,107,649
Total	171,071,541		91,547,433	7,181,307	11,021,298	(73,429,152)	12,107,649	(61,321,503)
General revenues:								
Taxes:								
Property taxes						41,708,668	104,814	41,813,482
Sales taxes						20,781,613		20,781,613
Franchise taxes						4,100,511		4,100,511
Property transfer taxes						729,522		729,522
Business license taxes						1,925,660		1,925,660
Utility users taxes						9,594,403		9,594,403
Transient occupancy taxes						5,262,280		5,262,280
Investment Earnings						992,221	499,586	1,491,807
Gain (loss) on retirement of capital assets						(3,359,063)	13,700,440	10,341,377
Other						1,205,727	4,132	1,209,859
Transfers						2,314,350	(2,314,350)	
Total general revenues and transfers						85,255,892	11,994,622	97,250,514
Change in Net Position						11,826,740	24,102,271	35,929,011
Net position-Beginning, as restated (Note 1N)						282,105,179	192,718,286	474,823,465
Net position-Ending						293,931,919	216,820,557	510,752,476

See accompanying notes to financial statements



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The governmental funds described below were determined to be major funds by the City in fiscal year 2013-14.

GENERAL FUND

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

HOUSING LEGAL AID SOCIETY FUND

This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance.

CAPITAL OUTLAY FUND

This fund accounts for all miscellaneous capital improvement projects that are financed by the general fund.

CITY OF REDWOOD CITY, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund \$	Housing Legal Aid Society Fund \$	Capital Outlay Fund \$	Non-Major Governmental Funds \$	Total Governmental Funds \$
ASSETS					
Cash and investments available for operations	22,932,368	10,345,123	27,920,646	36,172,735	97,370,872
Cash and investments, restricted				5,477,181	5,477,181
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current	7,781,376			354,291	8,135,667
Accounts	1,570,988			40,014	1,611,002
Loans	1,534,452		221,429	7,513,451	9,269,332
Accrued interest	155,289			787,701	942,990
Due from other governmental agencies	2,579,041		4,079	1,439,277	4,022,397
Due from other funds			833,946	7,474	841,420
Inventory of supplies at cost	1,288				1,288
Advances to RDA successor agency			2,269,543	1,687,703	3,957,246
Prepaid items	72,993				72,993
Investment in land held for redevelopment				5,741,208	5,741,208
Total Assets	36,627,795	10,345,123	31,249,643	59,221,035	137,443,596
LIABILITIES					
Accounts payable	1,945,002	4,209	483,139	1,467,680	3,900,030
Accrued payroll	3,248,659				3,248,659
Deposits payable	4,749,155		299,636	272,240	5,321,031
Due to other funds	833,946			7,474	841,420
Due to other governmental agencies		10,305,220			10,305,220
Unearned revenue	2,002,191				2,002,191
Accrued sick leave and vacation			2,772		2,772
Total Liabilities	12,778,953	10,309,429	785,547	1,747,394	25,621,323
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - interest				787,701	787,701
Total Deferred Inflows of Resources				787,701	787,701
FUND BALANCES					
Nonspendable:					
Loans	1,534,452				1,534,452
Inventory	1,288				1,288
Prepaid items	72,993				72,993
Restricted for:					
Community development		35,694		16,332,122	16,367,816
Public safety				111,793	111,793
Transportation				7,384,562	7,384,562
Environmental support and protection				2,956,068	2,956,068
Leisure, cultural and information services				9,732,155	9,732,155
Capital projects				12,409,017	12,409,017
Other purposes				307,399	307,399
Committed to:					
General plan	536,108				536,108
Capital projects			23,420,847	6,368,041	29,788,888
Assigned to:					
Community development				550,000	550,000
Transportation				41,138	41,138
Capital projects			7,043,249	493,645	7,536,894
Other purposes	223,061				223,061
Unassigned:	21,480,940				21,480,940
TOTAL FUND BALANCES	23,848,842	35,694	30,464,096	56,685,940	111,034,572
Total Liabilities, Deferred Inflows of Resources and Fund Balances	36,627,795	10,345,123	31,249,643	59,221,035	137,443,596

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
RECONCILIATION OF THE
GOVERNMENTAL FUNDS - BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2014

	\$
TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	111,034,572
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	178,271,670
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The assets and liabilities of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.	21,867,508
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
The amounts below are revenues in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the Funds:	
Interest revenue	865,854
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Unamortized bond issuance costs	
Long-term debt	(3,035,258)
Interest payable	(21,017)
Accrued sick leave and vacation	(9,053,948)
Net OPEB obligation	(5,997,462)
	293,931,919
NET POSITION OF GOVERNMENTAL ACTIVITIES	293,931,919

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Housing Legal Aid Society Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
REVENUES					
Property taxes/special assessments	41,708,668			1,383,709	43,092,377
Sales and other taxes	39,970,312				39,970,312
Licenses and permits	2,559,720		1,922		2,561,642
Fines, forfeitures and penalties	629,017			258,292	887,309
Use of money and property	793,967	86,144	193,417	698,301	1,771,829
Intergovernmental	3,646,694		332,523	6,856,544	10,835,761
Charges for current services	14,668,911		30,012	646,083	15,345,006
Contributions	486,673		2,478,658	5,336,529	8,301,860
Other	618,057			5,185	623,242
Total Revenues	105,082,019	86,144	3,036,532	15,184,643	123,389,338
EXPENDITURES					
Current Operations:					
Community development	6,398,202	51,471	221,450	1,193,665	7,864,788
Human services	1,347,136				1,347,136
Public safety	55,728,476		231,398	155,372	56,115,246
Transportation	264,489		1,535,300	4,914,581	6,714,370
Environmental support and protection	147,394		537,863	1,916,023	2,601,280
Leisure, cultural and information services	20,060,371		647,127	82,149	20,789,647
Policy development and implementation	2,480,985		1,117,468		3,598,453
Capital outlay	99,025		2,809,518	2,401,749	5,310,292
Debt service:					
Principal retirement				324,742	324,742
Interest and fiscal charges				31,755	31,755
Total Expenditures	86,526,078	51,471	7,100,124	11,020,036	104,697,709
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,555,941	34,673	(4,063,592)	4,164,607	18,691,629
OTHER FINANCING SOURCES (USES)					
Transfers in	426,479		11,884,268	1,322,039	13,632,786
Transfers (out)	(16,887,320)		(150,503)	(287,684)	(17,325,507)
Total Other Financing Sources (Uses)	(16,460,841)		11,733,765	1,034,355	(3,692,721)
NET CHANGE IN FUND BALANCES	2,095,100	34,673	7,670,173	5,198,962	14,998,908
Fund balances - beginning	21,753,742	1,021	22,793,923	51,486,978	96,035,664
FUND BALANCES - ENDING	23,848,842	35,694	30,464,096	56,685,940	111,034,572

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

	\$
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	14,998,908
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance.	5,310,292
Depreciation expense is deducted from the fund balance.	
(Depreciation expense is net of internal service fund depreciation of \$1,203,181 which has already been allocated to serviced funds.)	(7,758,552)
Loss on retirements of capital assets	(3,359,063)
Transfer of capital assets to Internal Service Funds	(1,113,481)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balance.	324,742
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Change in compensated absences	(506,806)
Change in interest payable	74,191
Interest receivable and intergovernmental revenue	129,295
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Position - All Internal Service Funds	3,727,214
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	11,826,740

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

ENTERPRISE FUNDS

WATER UTILITY FUND

This fund is used to account for the provision of water services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

SEWER UTILITY FUND

This fund is used to account for the provision of sewer services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

PARKING FUND

This fund is used to account for on-street and off-street parking operations within the boundaries of the central business district of the City. All activities necessary to provide metered parking within the district are accounted for in these funds, including, but not limited to, administration, operations and maintenance, capital improvements, meter collection, and financing including related debt service. The authority for the formation of the district and the issuance of revenue bonds are contained in the State of California's Streets and Highway Code.

PORT OF REDWOOD CITY (PORT FUND)

This fund is used to account for Port activities within the Port Department as defined in the City Charter. These activities include, but are not limited to, administration, maintenance and operations, and Port improvements. Management of the Port of Redwood City is provided by the Port Commission, whose members are appointed for four-year terms by the City Council. The only limitation to the commissioner's authority is the power to levy taxes, which must be approved by the City Council. Also, the City Charter provides that the City Treasurer is the Port Treasurer and the City Attorney is the Port Attorney. This fund is included in this report because both the Bureau of Census and the State of California require the City to include a summary of the Port's financial transactions in the respective reports.

DOCKTOWN MARINA

This fund is used to account for the operation of the Docktown Marina including administration, operations, maintenance and billing/collections.

INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis. Internal service funds are included with enterprise funds as both use the same accounting and financial reporting.

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Downtown Marina		
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Current assets:							
Cash and investments available for operations	22,523,644	21,643,469	10,811,231	16,796,818	46,542	71,821,704	29,527,827
Receivables (net of allowance for uncollectibles):							
Accounts	2,977,431	1,538,023	18,432	382,709	28,585	4,945,180	98,703
Accrued interest	22,806					22,806	2,946
Due from other governmental agencies	415,612	843,156		373,807		1,632,575	267,816
Due from other funds							300,000
Inventory of supplies at cost							150,818
Deposits	10,360		320,483			330,843	275,000
Prepaid items and other assets	104,945		30,870	332,894	7,500	476,209	11,450
Total current assets	<u>26,054,798</u>	<u>24,024,648</u>	<u>11,181,016</u>	<u>17,886,228</u>	<u>82,627</u>	<u>79,229,317</u>	<u>30,634,560</u>
Noncurrent assets:							
Cash and investments, restricted	5,752,450			1,715,496		7,467,946	
Advances to other funds							2,400,000
Investment in sewer authority		32,111,141		400,000		32,511,141	
Capital assets:							
Nondepreciable	1,059,997	568,672	555,663	21,999,800		24,184,132	
Depreciable buildings, property, equipment and infrastructure, net	109,915,914	22,660,846	23,055,474	11,225,254	177,422	167,034,910	9,388,177
Total noncurrent assets	<u>116,728,361</u>	<u>55,340,659</u>	<u>23,611,137</u>	<u>35,340,550</u>	<u>177,422</u>	<u>231,198,129</u>	<u>11,788,177</u>
Total assets	<u>142,783,159</u>	<u>79,365,307</u>	<u>34,792,153</u>	<u>53,226,778</u>	<u>260,049</u>	<u>310,427,446</u>	<u>42,422,737</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refundings	1,610,648					1,610,648	
LIABILITIES							
Current liabilities:							
Accounts payable	1,748,677	1,326,668	64,305	1,732,440	12,122	4,884,212	643,398
Deposits payable	917,996		360,197	160,802	37,366	1,476,361	
Due to other funds	300,000					300,000	
Insurance claims payable - current portion							3,922,579
Accrued sick leave and vacation - current portion	192,643	63,476	43,655	94,731		394,505	344,084
Revenue bonds payable - current portion	1,905,000			675,795		2,580,795	
Loans/leases payable - current portion				34,546		34,546	
Unearned revenue	2,533,818			175,117		2,708,935	42,527
Accrued interest payable	1,116,009			66,304		1,182,313	
Total current liabilities	<u>8,714,143</u>	<u>1,390,144</u>	<u>468,157</u>	<u>2,939,735</u>	<u>49,488</u>	<u>13,561,667</u>	<u>4,952,588</u>
Noncurrent liabilities:							
Insurance claims payable							14,532,144
Accrued sick leave and vacation	252,234	88,394	67,398			408,026	579,175
Advances from other funds	2,400,000					2,400,000	
Net OPEB obligation	306,124	115,029	52,540	172,132		645,825	491,322
Revenue bonds payable	61,636,578			16,175,497		77,812,075	
Loans payable				389,944		389,944	
Total noncurrent liabilities	<u>64,594,936</u>	<u>203,423</u>	<u>119,938</u>	<u>16,737,573</u>	<u>49,488</u>	<u>81,655,870</u>	<u>15,602,641</u>
Total liabilities	<u>73,309,079</u>	<u>1,593,567</u>	<u>588,095</u>	<u>19,677,308</u>	<u>49,488</u>	<u>95,217,537</u>	<u>20,555,229</u>
NET POSITION							
Net investment in capital assets	47,434,333	23,229,518	23,611,137	23,475,092	177,422	117,927,502	9,388,177
Restricted for capital projects			429,961			429,961	
Restricted for debt service	4,647,309			1,475,738		6,123,047	
Unrestricted	19,003,086	54,542,222	10,162,960	8,598,640	33,139	92,340,047	12,479,331
Total net position	<u>71,084,728</u>	<u>77,771,740</u>	<u>34,204,058</u>	<u>33,549,470</u>	<u>210,561</u>	<u>216,820,557</u>	<u>21,867,508</u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds	
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina		Totals
	\$	\$	\$	\$	\$	\$	
Operating Revenues:							
Charges for services	35,655,559	29,095,415	1,453,519	6,824,474	665,819	73,694,786	24,174,474
Total Operating Revenues	35,655,559	29,095,415	1,453,519	6,824,474	665,819	73,694,786	24,174,474
Operating Expenses:							
Employee services	4,678,254	2,049,050	770,485	1,263,098	142,807	8,903,694	8,266,681
Maintenance	782,923	1,025,697	205,234	99,888	79,212	2,192,954	2,291,137
Water purchases	12,912,842					12,912,842	
Utilities	386,353	179,960	108,062	213,975	142,012	1,030,362	45,440
Contractual services	364,962	12,507,833	669,434	670,895	169,884	14,383,008	748,965
Supplies and services	4,047,927	3,281,795	135,997	947,793	139,215	8,552,727	1,430,452
Noncapitalized projects	1,859,321	421,860				2,281,181	
Depreciation and amortization	2,923,325	523,563	579,103	1,085,224	32,258	5,143,473	1,203,181
Insurance and claims							14,189,647
Total Operating Expenses	27,955,907	19,989,758	2,468,315	4,280,873	705,388	55,400,241	28,175,503
Operating Income (Loss)	7,699,652	9,105,657	(1,014,796)	2,543,601	(39,569)	18,294,545	(4,001,029)
Nonoperating Revenues (Expenses):							
Gain (loss) on disposal of capital assets			13,700,440			13,700,440	(57,616)
Property taxes			104,814			104,814	
Grant revenue	58,535					58,535	
Investment earnings	252,370	126,519	74,191	46,316	190	499,586	247,461
Interest expense	(2,635,987)		(2,907)	(847,127)		(3,486,021)	
Increase (decrease) in investment in sewer authority		(4,362,086)				(4,362,086)	
Insurance recovery	3,450	682				4,132	23,711
Contributions			50,000			50,000	10,752
Other				36,735		36,735	
Net Nonoperating Revenues (Expenses)	(2,321,632)	(4,234,885)	13,926,538	(764,076)	190	6,606,135	224,308
Net Income (Loss) Before Capital Contributions and Transfers	5,378,020	4,870,772	12,911,742	1,779,525	(39,379)	24,900,680	(3,776,721)
Capital contributions	557,012	958,929				1,515,941	1,496,864
Transfers in			426,461			426,461	6,023,047
Transfers (out)		(23,047)	(2,717,764)			(2,740,811)	(15,976)
Total Capital Contributions and Transfers	557,012	935,882	(2,291,303)			(798,409)	7,503,935
Change in net position	5,935,032	5,806,654	10,620,439	1,779,525	(39,379)	24,102,271	3,727,214
Total net position-beginning, as restated (Note 1N)	65,149,696	71,965,086	23,583,619	31,769,945	249,940	192,718,286	18,140,294
Total net position-ending	71,084,728	77,771,740	34,204,058	33,549,470	210,561	216,820,557	21,867,508

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Downtown Marina	Totals	Governmental Activities - Internal Service Funds
	\$	\$	\$	\$	\$	\$	\$
Cash flows from operating activities:							
Cash received from customers	35,487,846	29,288,716	1,470,780	7,303,230	702,398	74,252,970	
Cash received from interfund services provided							24,049,864
Cash payments to suppliers for goods and services	(18,719,940)	(14,085,149)	(1,100,744)	(2,538,240)	(544,275)	(36,988,348)	(13,656,951)
Cash payments to employees for services	(5,611,907)	(2,505,183)	(750,652)	(1,376,515)	(142,807)	(10,387,064)	(8,301,413)
Right of way compensation	(2,262,500)	(1,865,119)	(42,000)			(4,169,619)	
Net cash provided by (used in) operating activities	8,893,499	10,833,265	(422,616)	3,388,475	15,316	22,707,939	2,091,500
Cash flows from noncapital financing activities:							
Nonoperating grant revenue	58,535			78,520		137,055	
Insurance recovery	3,450	682				4,132	23,711
Property taxes			104,814			104,814	
Transfers in			426,461			426,461	6,000,000
Transfers out			(2,717,764)			(2,717,764)	(15,976)
Advances to other funds							300,000
Advances from other funds	(300,000)		(1,300,000)			(1,600,000)	
Contributions			50,000			50,000	10,752
Net cash provided by (used in) noncapital financing activities	(238,015)	682	(3,436,489)	78,520		(3,595,302)	6,318,487
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(1,831,787)	(4,088,131)		(6,497,762)		(12,417,680)	(816,870)
Contributions	360,362					360,362	44,473
Principal retirements	(1,845,000)			(714,984)		(2,559,984)	
Interest paid	(2,269,566)		(2,907)	(823,485)		(3,095,958)	
Proceeds from sale of capital assets			13,967,690			13,967,690	1,382
Net cash used in capital and related financing activities	(5,585,991)	(4,088,131)	13,964,783	(8,036,231)		(3,745,570)	(771,015)
Cash flows from investing activities:							
Interest on investments	253,245	126,519	74,191	46,316	190	500,461	248,234
Net cash provided by investing activities	253,245	126,519	74,191	46,316	190	500,461	248,234
Net increase (decrease) in cash and cash equivalents	3,322,738	6,872,335	10,179,869	(4,522,920)	15,506	15,867,528	7,887,206
Cash and cash equivalents at beginning of year	24,953,356	14,771,134	631,362	23,035,234	31,036	63,422,122	21,640,621
Cash and cash equivalents at end of year	28,276,094	21,643,469	10,811,231	18,512,314	46,542	79,289,650	29,527,827
Reconciliation of Net Cash Flow from Operating Activities							
Operating income (loss)	7,699,652	9,105,657	(1,014,796)	2,543,601	(39,569)	18,294,545	(4,001,029)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	2,923,325	523,563	579,103	1,085,224	32,258	5,143,473	1,203,181
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	49,831	(139,395)	17,261	502,052	36,579	466,328	(61,464)
Decrease (increase) in due from other governmental agencies	(415,612)	332,696				(82,916)	(65,673)
Decrease (increase) in inventory/prepaid expenses/deposits	(10,440)	703,023	(320,483)	(90,417)	(7,500)	274,183	(37,806)
Increase (decrease) in vacation & sick leave payable	(201)	(41,313)	19,833	(144,299)		(165,980)	(34,732)
Increase (decrease) in accounts payable	(1,621,297)	349,034	(29,817)	(551,809)	(35,856)	(1,889,745)	32,125
Increase (decrease) in customer deposits	70,173		326,283	36,537	29,404	462,397	
Increase (decrease) in unearned revenue	198,068			(23,296)		174,772	2,527
Increase (decrease) in net OPEB obligation				30,882		30,882	
Increase (decrease) in insurance claims payable							5,054,371
Total adjustments	1,193,847	1,727,608	592,180	844,874	54,885	4,413,394	6,092,529
Net cash provided by (used in) operating activities	8,893,499	10,833,265	(422,616)	3,388,475	15,316	22,707,939	2,091,500
Noncash investing, capital and financing activities:							
Noncash capital contributions	196,650	935,882				1,132,532	1,475,438
Gain (loss) on disposal of equipment							(58,998)
Increase (decrease) in investment in sewer authority		(4,362,086)				(4,362,086)	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u> </u> \$	<u> </u> \$
ASSETS		
Cash and Investments, restricted	5,318,080	4,463,052
Accounts	8,838	
Loans	1,073,924	
Accrued Interest Receivable	315,333	
Deposits		29,505
Depreciable capital assets, net	17,816,516	
Unamortized bond issuance costs	<u>590,275</u>	
 Total Assets	 <u><u>25,122,966</u></u>	 <u><u>4,492,557</u></u>
 LIABILITIES		
Accounts payable	4,120	165
Advances from City	3,957,246	
Accrued interest payable	141,920	
Long-term debt:		
Due in one year	3,075,771	
Due in more than one year	39,309,439	
Due to Bondholders		4,408,680
Employee Benefit Plans Payable	<u> </u>	<u>83,712</u>
 Total Liabilities	 <u><u>46,488,496</u></u>	 <u><u>4,492,557</u></u>
 NET POSITION		
Held in trust for other governments	<u><u>(21,365,530)</u></u>	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Successor Agency Private Purpose Trust Fund
	\$
ADDITIONS	
Property taxes	3,871,368
Investment earnings	381,319
Total additions	4,252,687
 DEDUCTIONS	
Community development	1,511,510
Depreciation	518,272
Interest and fiscal agency expenses of former redevelopment agency	2,202,975
Total deductions	4,232,757
Change in net position	19,930
Net position - beginning, as restated	(21,385,460)
Net position - ending	(21,365,530)

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The City of Redwood City was incorporated in 1867, became a Charter City in 1929, and operates under a council-manager form of government. The City has defined its reporting entity in accordance with generally accepted accounting principles (“GAAP”) in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely to the City or otherwise exclusively benefits the City, even though it does not provide services directly to it.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the certificates of participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority (PFA) was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the former Redevelopment Agency. The PFA has since issued various types of debt on behalf of the City and the former Redevelopment Agency.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port’s own financial staff. The Port’s treasurer and legal counsel are the City’s Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund.

Separate financial statements are not prepared for other component units.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. 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 (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses for proprietary funds are those expenses that are essential to the primary operations of the funds. All other expenses are reported as non-operating expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

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

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

General fund is to account for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Housing Legal Aid Society fund is to account for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society.

Capital outlay fund is to account for all miscellaneous capital improvement projects that are financed by the general fund.

The City reported all of its enterprise funds except the Docktown Marina Fund as major funds in the accompanying financial statements:

Water utility fund is to account for the provision of water services to the residents of Redwood City.

Sewer utility fund is to account for the provision of sewer services to the residents of Redwood City.

Parking fund is to account for on-street and off-street parking operations within the boundaries of the central business district of the City.

Port of Redwood City (Port fund) is to account for Port activities within the Port Department including, but not limited to, administration, maintenance and operations, and Port improvements.

The City also reports the following fund types:

Internal service funds - Internal service funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary funds – These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency.

The City also maintains four agency funds - Employee Benefit Plans Fund, Pacific Shores Community Facilities District Fund, the Shores Transportation Improvement District Fund, and the One Marina Community Facilities District Fund - as an agent of the bondholders or City employees.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after year-end.

The City's fiduciary funds consist of one private purpose trust fund and agency funds which use the accrual basis of accounting. The private purpose trust fund uses the economic resources measurement focus, whereas the agency funds do not have a measurement focus.

During fiscal year 2004/05, the State of California changed the distribution method of the City's sales tax allocation under a program called the "Triple Flip." Under the "Triple Flip," 25% of the City's share of sales tax is now distributed from property tax receipts, with remittance of the sales tax to the City coinciding with the semiannual collection of property tax receipts from property owners in December and April. To recognize the sales tax revenue earned as of June 30, the City has changed its availability period for sales tax revenue from 90 days after year-end to seven months after year-end.

The change in the availability period for sales tax will enable the City to accurately reflect sales tax earned in the reporting period.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted resources to such programs, followed by unrestricted resources if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. *Compensated Absences*

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental activities, the current liability for the payouts made after June 30, 2014 for those employees retired on or before June 30, 2014 appears in the respective funds and the long-term liability appears in the government-wide financial statements. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,920 hours depending on the bargaining unit (certain Fire Department employees who work 24 hour shifts may accumulate up to 2,400 hours of sick leave).

An employee may elect to receive compensation in lieu of sick leave credits for any calendar year with payment equal to varying amounts from 25% to 50% of the year's unused sick leave, depending upon the employee's sick leave usage during the year. In addition to sick leave, payouts are made for unused administrative holidays and accrued compensatory time.

If sick leave and vacation are not used by the employee or paid out during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 50% of accumulated hours at retirement depending upon varying restrictions of the bargaining units. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The general fund is primarily responsible for the repayment of the governmental portion of the compensated absences.

Individual proprietary funds are responsible for the repayment of the liability attributable to their respective funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories and Prepaid Items

Inventories are stated at moving average cost. The cost is recorded as an expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, an amount for inventories is recorded as nonspendable in the general fund balances. Consequently, these nonspendable fund balance amounts are not available for appropriation.

General fund inventories consist of stationery. Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the “Teeter Plan” for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the cost of living index, not to exceed 2% as of January 1 each year except for those properties that have changed ownership during the 12 month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

I. Unbilled Service Receivables

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, Docktown Marina, or internal service funds as of June 30, 2014.

There is no accrual for unbilled water services as of June 30, 2014; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

J. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City’s policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years.

With the implementation of GASB Statement No. 34, the City recorded all of its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems using the basic approach.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The City has assigned the useful lives listed as follows to capital assets:

Buildings	20-50 Years	Storm Drains	40 Years	Traffic Signals	20 Years
Improvements	33-60 Years	Bridges	30 Years	Streets	20 Years
Equipment	2-15 Years	Parks	25 Years		

K. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources related to the unamortized losses on refunding of debt. The losses on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, advances from the federal and state governments, and other sources as appropriate. These amounts are deferred and recognized as revenues in the period the amounts become available.

L. *Interfund Transactions*

Interfund transactions are reflected as loans, services provided or used, reimbursements, or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

M. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

N. Implementation of New GASB Pronouncements

In FY 2013-14 the City adopted the following new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The Statement reclassifies items from assets or liabilities in the statement of financial position into the new categories of deferred outflow or deferred inflow of resources. As a result, costs related to the issuance of debt, previously deferred, were restated as if they had been reported as an outflow of resources when incurred. The impact on the financial statements was a decrease in beginning net position as follows:

	Statement of Activities		Statement of Changes
	Governmental Activities	Business-type Activities	in Net Position Private Purpose Trust Fund
	\$	\$	\$
Net position - beginning of year, as previously reported	282,162,824	194,045,495	(21,050,915)
Restatement of deferred charge for debt issuance costs	<u>(57,645)</u>	<u>(1,327,209)</u>	<u>(334,545)</u>
Net position - beginning of year, as restated	<u>282,105,179</u>	<u>192,718,286</u>	<u>(21,385,460)</u>

NOTE 2 – CASH AND INVESTMENTS

A. Cash and Deposits

The carrying amount of the City’s cash and deposits, including restricted cash, was (\$2,405,628) at June 30, 2014. Bank balances before reconciling items were (\$41,574) at June 30, 2014. Of the total bank balances, \$495,000 was insured or held by the City or its agent in the City’s name.

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution’s trust department) to hold the pledged collateral in a pool to secure all the institution’s public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City’s name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved investment policy and guidelines and state government code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2014:

	Government-wide Statement of Net Assets			Fiduciary Fund Financial Statements	Total
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	
	\$	\$	\$	\$	\$
Cash and Investment	126,898,699	71,821,704	198,720,403		198,720,403
Restricted Cash and Investments	5,477,181	7,467,946	12,945,127	9,781,132	<u>22,726,259</u>
Total Cash and Investments					<u><u>221,446,662</u></u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

B. Risk Disclosures

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

As of June 30, 2014, the City had the following cash and investments available for operations:

	Fair Value	Investment Maturities (in years)		
		1-2 Years	2-3 Years	3-4 Years
	\$	\$	\$	\$
Demand Accounts at Banks	(3,614,370)	(3,614,370)		
Certificates of Deposit	1,095,000	1,095,000		
Petty Cash	11,360	11,360		
County of San Mateo Investment Pool	51,116,230	51,116,230		
California Local Agency Investment Fund	75,119,623	75,119,623		
U.S. Agencies, Securities, and Corporate Notes:				
Federal Home Loan Bank	39,010,380			39,010,380
Federal National Mortgage Association	5,998,320		5,998,320	
Federal Home Loan Mortgage Corporation	23,990,130			23,990,130
Federal Farm Credit	5,993,730		5,993,730	
U.S. Treasury Securities				
TOTAL	198,720,403	123,727,843	11,992,050	63,000,510

Credit Risk – Defined as the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and Poor's or P-1 by Moody's Investor's Service, and corporate bonds to those rated A or better by Standard and Poor's or Moody's Investor's Service.

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit	1 year	7.50%	\$3 Million
Banker's acceptances	180 days	No limit	\$3 Million
Treasury Bills, Notes and Bonds	3 years	No limit	No limit
Government Agency Securities	3 years	No limit	No limit
Commercial Paper	15 days	No limit	\$1 Million
Local Agency Investment Fund	N/A	No limit	\$40 Million
Passbook Savings Accounts	1 year	No limit	\$100,000
San Mateo County Investment Fund	N/A	No limit	\$40 Million
Money Market/Mutual Funds	N/A	10%	No limit
Corporate Notes	3 years	30%	\$5 Million

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City’s investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody’s	S&P	Fitch
U.S. Agencies, Securities, and Corporate Notes:			
Federal Home Loan Bank	Aaa	AA+	
Federal National Mortgage Association	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	Aaa	AA+	AAA
Federal Farm Credit	Aaa	AA+	AAA
U.S. Treasury Securities	Aaa	AA+	AAA
External Investment Pools:			
San Mateo County Investment Fund	Not Rated	AAAf/S1	Not Rated
California Local Agency Investment Fund	Not Rated	Not Rated	Not Rated

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the County Pool and LAIF, are held by third-party custodians (Union Bank of California Trust Division, U.S. Bank and Bank of New York). Union Bank, U.S. Bank and Bank of New York are registered members of the Federal Reserve Bank. The securities held by Union Bank, U.S. Bank and Bank of New York are in street name, and an account number assigned to the City identifies ownership. None of the City’s investments were subject to custodial credit risk.

In fiscal year 1997-98, the City adopted Governmental Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year-end, and it must include the effects of these adjustments in income for that fiscal year. Changes in value at the fiscal year ended June 30, 2014 from the fiscal year ended June 30, 2013 amounted to an unrealized gain of \$358,088.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

C. Restricted Cash

The City’s restricted cash consisted of \$16,332,219 in cash and investments as of June 30, 2014 held by trustees or fiscal agents. The City had \$6,394,037 in restricted cash and investments held by the City. This restricted cash is pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations, these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2014 is a guaranteed

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

investment contract with a maturity date in fiscal year 2035 authorized in the bond indenture and by City Council prior to purchase.

D. External Investment Pools

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. These investments may include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that 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, 2014, the City had \$75,119,623 (estimated fair value) invested in LAIF. LAIF had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on 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 valued its investments in LAIF as of June 30, 2014, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs.

Accordingly, as of June 30, 2014, the City's investment in LAIF at fair value amounted to \$75,119,623 using a LAIF fair value factor of 1.00029875. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

The City is also a voluntary participant in the San Mateo County Investment Fund that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the County of San Mateo. The City reports its investment in the San Mateo County Investment Fund at the fair value amount provided by County of San Mateo. Included in the San Mateo County Investment Fund investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

NOTE 3 - LOANS RECEIVABLE

As of June 30, 2014, loans receivable consist of the following:

	<u>Government-wide</u>	<u>Private Purpose Trust Fund</u>
	\$	\$
Wyndham Place First Time Homebuyer Loan Program	439,383	
City Centre Plaza Loans	371,076	1,073,924
First Time Homebuyer Silent Loan Program	330,850	
Loans with Non-profits and For Profit Organizations	1,133,153	
Housing Rehabilitation Loans	1,612,292	
Shores Childcare Loan	1,534,452	
First Community Housing Loan	2,627,000	
PAL Loan	221,429	
Kainos Home and Training Center Loans	507,500	
HIP Housing Development Corporation Loan	92,197	
Mental Health Association of San Mateo County Loan	400,000	
Total	<u>9,269,332</u>	<u>1,073,924</u>

A. *Wyndham Place First Time Homebuyer Loan Program*

The City established a First Time Homebuyer Program during fiscal year 1995 on a specific development sponsored by the former Redevelopment Agency called Wyndham Place. The program currently involves the resale of Wyndham units where the City has First Right of Refusal. The City exercises its First Right of Refusal and markets the units to qualified buyers.

A portion of the City's Shared Appreciation is used to assist the new buyer in the Resale Program. While the initial program in 1995 made 0% interest loans, current buyers in the Resale Program are assisted according to the needs of the borrower. Depending on the borrower's ability to secure private financing for a first mortgage, the City loan is underwritten based on the borrower's spendable income.

These loans bear no interest and are secured by second deeds of trust on the property, and typically, no payments are due until five years after the date of purchase. As of June 30, 2014 the City has outstanding loans of \$439,383 to twelve Wyndham Place buyers.

B. *City Centre Plaza Loans*

The former Redevelopment Agency sold several parcels of land to the developers of the City Centre Plaza project (a residential and commercial development) for \$1,700,000 in 1996. The developers constructed City Center Plaza, which contains 81 affordable housing units, a childcare facility, residential and commercial parking, and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028 from surplus revenues generated by the housing project and accrued interest at 3%, with \$371,076 due to the City's Low and Moderate Income Housing Asset Fund, and \$1,073,924 due to the Successor Agency Private Purpose Trust Fund.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

C. *First Time Homebuyer Silent Loan Program*

In 2000, the former Redevelopment Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2014 there were outstanding loans to six homebuyers totaling \$330,850.

D. *Loans with Non-profits and For Profit Organizations*

The City and former Redevelopment Agency loaned \$500,000 to MP Redwood Court Associates and \$650,000 to Hallmark Apartments LLP. The MP Redwood Court Associates loan agreement was entered into in July 2003 for the repair and rehabilitation of housing units. The loan term is 55 years and bears 0% interest. The loan to Hallmark Apartments LLP has interest deferred for the first 30 years after which it bears interest at 3% until the December 2058 maturity. The outstanding balance at June 30, 2014 was \$1,133,153.

E. *Housing Rehabilitation Loans*

The City and former Redevelopment Agency have outstanding loans for housing rehabilitation in the amount of \$1,612,292.

F. *Shores Childcare Loan*

The City entered into an agreement with Shores Childcare, LLC whereby \$3,200,000 was loaned to Shores Childcare, LLC for construction of a childcare facility on City-owned land in the Redwood Shores area. The term of the loan is 20 years maturing January 2023, with interest payable quarterly and calculated based on the quarterly rate of the State of California Local Agency Investment Fund plus 250 basis points. The outstanding balance of the loan at June 30, 2014 was \$1,534,452.

G. *First Community Housing Loan*

The City entered into an agreement with First Community Housing whereby \$2,627,000 (\$200,000 from Community Development Block Grant, \$1,927,000 from the former Redevelopment Agency low and moderate housing fund, \$500,000 pass-through from County of San Mateo) was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The portion of the loan attributable to the former Redevelopment Agency has been transferred to the City's Low and Moderate Income Housing Asset fund. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the project's net cash flow. The outstanding balance of the loan at June 30, 2014 was \$2,627,000.

H. *Police Activities League Loan*

In March 2006, the City paid off a construction loan in the amount of \$1,500,000 that the Police Activities League (PAL), a separate, private, non-profit agency, entered into with Bay Area Bank to partially finance the construction of the new PAL community center at Taft School. The City Council and

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

PAL agreed that one-half of the amount, or \$750,000, will be paid back to the City by PAL over a period of 15 years. The outstanding balance of the loan at June 30, 2014 was \$221,429.

I. *Kainos Home and Training Center Loan*

In 1997/98, the City entered into an agreement with Kainos Home and Training Center whereby \$57,500 from Community Development Block Grant was loaned to acquire property for Kainos Home and Training Center. The loan is deferred and payable upon the sale of the property, at which time the City would receive repayment of the loan plus any accrued equity based on the prorated City share.

In 2012/13 the City entered into a second agreement with Kainos Home and Training Center whereby \$450,000 from HOME grant was loaned to acquire property located at 1033 Redwood Avenue for special needs housing. The loan is deferred for a term of 30 years at 0% interest.

J. *HIP Housing Development Corporation (HHDC) Loan*

In March 2013, the City entered into an agreement with HHDC whereby \$92,197 from HOME investment Partnership Act (HOME) funds were loaned to assist in the rehabilitation of a 12 unit apartment building located at 1157-1161 Willow Road in Menlo Park. The loan is deferred for a term of 30 years at 3% interest. The outstanding balance of the loan at June 30, 2014 was \$92,197.

K. *Mental Health Association of San Mateo County (MHA) Loan*

In July, 2013, the City entered into an agreement with MHA whereby \$400,000 from Community Development Block Grant (CDBG) was loaned to assist with the acquisition of a vacant commercial property located at 105 5th Avenue in Redwood City. The loan is deferred for a term of 30 years at 0% interest.

NOTE 4 – CAPITAL ASSETS

A. Summary

Capital assets at June 30 are comprised of the following:

	Beginning Balance \$	Additions \$	Retirements \$	Transfers \$	Ending Balance \$
Government activities					
Capital assets not being depreciated:					
Land	30,977,979	-	-	-	30,977,979
Construction in progress	20,252,073	5,152,914	(3,353,741)	(11,170,636)	10,880,610
Total capital assets not being depreciated	<u>51,230,052</u>	<u>5,152,914</u>	<u>(3,353,741)</u>	<u>(11,170,636)</u>	<u>41,858,589</u>
Capital assets being depreciated:					
Buildings	83,309,015	-	-	-	83,309,015
Accumulated depreciation	(25,093,249)	(1,664,156)	-	-	(26,757,405)
Improvements other than buildings	4,117,663	-	-	2,156,421	6,274,084
Accumulated depreciation	(1,377,426)	(195,988)	-	-	(1,573,414)
Parks	26,936,438	-	-	1,434,964	28,371,402
Accumulated depreciation	(14,363,447)	(891,810)	-	-	(15,255,257)
Streets	109,082,443	-	-	1,953,773	111,036,216
Accumulated depreciation	(56,827,208)	(4,220,060)	-	-	(61,047,268)
Bridges	2,248,335	-	-	-	2,248,335
Accumulated depreciation	(1,750,106)	(74,945)	-	-	(1,825,051)
Traffic Signals	2,606,620	-	-	-	2,606,620
Accumulated depreciation	(1,922,218)	(94,157)	-	-	(2,016,375)
Storm Drains	7,326,474	-	-	4,300,762	11,627,236
Accumulated depreciation	(1,533,289)	(263,600)	-	-	(1,796,889)
Machinery & Equipment	20,963,650	1,336,206	(179,863)	1,324,716	23,444,709
Accumulated depreciation	(11,403,225)	(1,557,018)	115,543	-	(12,844,700)
Net capital assets being depreciated	<u>142,320,470</u>	<u>(7,625,528)</u>	<u>(64,320)</u>	<u>11,170,636</u>	<u>145,801,258</u>
Governmental activity capital assets, net	<u>193,550,522</u>	<u>(2,472,614)</u>	<u>(3,418,061)</u>	<u>-</u>	<u>187,659,847</u>
Business-Type Activities					
Capital assets not being depreciated:					
Land	3,447,522	-	(267,250)	-	3,180,272
Construction in progress	14,890,312	12,379,559	-	(6,266,011)	21,003,860
Total capital assets not being depreciated	<u>18,337,834</u>	<u>12,379,559</u>	<u>(267,250)</u>	<u>(6,266,011)</u>	<u>24,184,132</u>
Capital assets being depreciated:					
Harbor improvements	4,045,440	-	-	-	4,045,440
Accumulated depreciation	(2,815,666)	(112,389)	-	-	(2,928,055)
Buildings	61,212,575	-	-	-	61,212,575
Accumulated depreciation	(10,575,643)	(1,270,034)	-	-	(11,845,677)
Machinery and equipment	1,644,706	16,261	-	-	1,660,967
Accumulated depreciation	(1,322,079)	(84,596)	-	-	(1,406,675)
Improvements other than buildings	161,301,995	239,913	-	6,266,011	167,807,919
Accumulated depreciation	(47,839,969)	(3,671,615)	-	-	(51,511,584)
Net capital assets being depreciated	<u>165,651,359</u>	<u>(4,882,460)</u>	<u>-</u>	<u>6,266,011</u>	<u>167,034,910</u>
Business-type activity capital assets, net	<u>183,989,193</u>	<u>7,497,099</u>	<u>(267,250)</u>	<u>-</u>	<u>191,219,042</u>

B. Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Governmental Activities

	\$
Community Development	216,438
Human Services	82,959
Public Safety	1,196,420
Transportation	4,364,062
Leisure, cultural, and information services	1,950,916
Policy development and implementation	805,681
Environmental support and protection	345,257
Total Depreciation Expense-Governmental Activities	<u><u>8,961,733</u></u>

Business-Type Activities

	\$
Water Utility Fund	2,918,486
Sewer Utility fund	523,563
Parking Fund	579,103
Dock Town	32,258
Port of Redwood City	1,085,224
Total Depreciation Expense-Business-Type Activities	<u><u>5,138,634</u></u>

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY

Redwood City has an investment of \$27,309,412 in a joint powers authority (JPA) with the cities of San Carlos, Belmont, and the West Bay Sanitation District. In addition, the City and the Port of Redwood City have investments of \$4,801,729 and \$400,000, respectively, in Silicon Valley Clean Water Authority (SVCW) stage II construction. SVCW operates and maintains a sewer plant which was jointly constructed with federal and state grants and contributions from participating entities. SVCW is run by its board of directors which is comprised of four members. The city councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SVCW's budget, finances, or operations. The board acts autonomously of the respective member agencies.

Audited financial statements are available from Silicon Valley Clean Water Authority, 1400 Radio Road, Redwood City, CA 94065.

The condensed unaudited financial information of the JPA as of June 30, 2014 is as follows:

	\$
Total Assets	230,094,531
Total Liability	<u>155,718,113</u>
Total Net Position	<u><u>74,376,418</u></u>
Total Operating Revenues	33,530,273
Total Operating Expenses	<u>26,912,311</u>
Total Operating Income (loss)	6,617,962
Other Income (loss)	<u>(3,590,727)</u>
Net Income (loss)	<u><u>3,027,235</u></u>

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY (CONTINUED)

	\$
Cumulative Agency Balances:	
Belmont	19,511,416
San Carlos	7,169,223
Redwood City	32,111,141
West Bay Sanitation District	<u>15,584,638</u>
Total Net Position	<u><u>74,376,418</u></u>

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

A. Description

Redwood City has no outstanding general obligation bonds. The following is the list of long-term obligations of the City.

2013 Public Financing Authority Refunding lease – In May 2013, the City entered into a lease agreement with BBVA Compass Bank in the amount of \$3,360,000 to refund the 2003 Public Financing Authority Bonds. Net proceeds of \$3,292,748 plus the 2003 Public Financing Authority Bond Reserve were utilized for the purpose of establishing an irrevocable escrow to refund \$5,880,000 of the City’s 2003 Public Financing Authority Bonds. Principal is due in annual installments of \$324,742 to \$347,486, with total principal and interest remaining on the lease in the amount of \$3,150,988 through July 15, 2018, payable out of the Public Financing Authority Refunding Lease Debt Service fund out of lease payment revenue received from the general fund, requiring less than 10% of net revenues. The refunding resulted in a decrease in total debt service payments of \$347,302 and an economic gain of \$270,485.

B. Changes in Long-Term Obligations

As of June 30, 2014, the City had the following long-term obligations outstanding:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>	%	\$	\$	\$	\$	\$
2013 PFA Refunding Lease	1.51	<u>3,360,000</u>		<u>324,742</u>	<u>3,035,258</u>	<u>656,858</u>
Total Bonds and Loans		<u>3,360,000</u>		<u>324,742</u>	<u>3,035,258</u>	<u>656,858</u>
Accrued Sick Leave and Vacation		<u>9,535,933</u>	<u>830,536</u>	<u>386,490</u>	<u>9,979,979</u>	<u>346,856</u>
Total Governmental Activities Long-Term Debt		<u><u>12,895,933</u></u>	<u><u>830,536</u></u>	<u><u>711,232</u></u>	<u><u>13,015,237</u></u>	<u><u>1,003,714</u></u>

At year-end, \$923,259 of internal service fund compensated absences is included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

C. Annual Repayment Requirements for Long-Term Debt

Governmental Activities:

Year End June 30	Refunding Lease		Total	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2015	656,858	43,362	656,858	43,362
2016	666,814	33,406	666,814	33,406
2017	676,920	23,299	676,920	23,299
2018	687,180	13,039	687,180	13,039
2019	347,486	2,624	347,486	2,624
	<u>3,035,258</u>	<u>115,730</u>	<u>3,035,258</u>	<u>115,730</u>

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

A. Description

Revenue Bonds:

Port of Redwood City 1999 Revenue Bonds – In April 1999, bonds were issued in the amount of \$10,945,000 to finance improvements to the Port, the majority of which was expended on cleaning up hazardous waste remaining at the Port's liquid bulk terminal. The bonds are due in annual installments of \$170,000 to \$690,000 through 2030, with total principal and interest remaining of \$11,573,241. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

Port of Redwood City 2012 Revenue Bonds – In June 2012, bonds were issued in the amount of \$10,000,000 to finance construction of the Port's Wharf 1 & 2 Redevelopment Project. The bonds are due in annual installments of \$294,620 to \$725,679 through 2032, with total principal and interest remaining of \$13,361,287. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2006A – In February 2006, Redwood City Public Financing Authority issued \$26,000,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 29 annual installments of \$1,568,926 to \$1,573,906 from August 2006 through February 2035, with total principal and interest remaining of \$32,998,720. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2007A – In February 2007, Redwood City Public Financing Authority issued \$15,150,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 28 annual installments of \$728,072 to \$950,950 from August 2007 through February 2035, with total principal and interest remaining of \$19,912,062. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds Series 2013 – In June 2013, Redwood City Public Financing Authority issued \$26,870,000 of bonds to refund the remaining Water Revenue Bonds Series 2005A. The refunding resulted in a decrease of total debt service payments of \$2,386,569 and an economic gain of \$1,231,113. Principal and interest is payable in 21 annual installments of \$1,584,262 to \$2,063,000 from August 2013 through February 2034, with total principal and interest remaining of \$41,212,700. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Pledges of Future Revenues - The pledge of future water utility fund revenues ends upon repayment of the \$60.2 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2034-35. For fiscal year 2013-14, water utility fund operating revenues amounted to \$35,655,559 and operating expenses excluding depreciation and amortizations amounted to \$25,032,582. Net revenues available for debt service amounted to \$10,622,977 which represented coverage ratio of 2.58 over the \$4,114,566 in debt service.

The pledge of future Port of Redwood City fund revenues ends upon repayment of the \$17.1 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2031-32. Port of Redwood City fund operating revenues amounted to \$6,824,473 and operating expenses excluding depreciation, amortizations and subvention to the City amounted to \$2,840,631. Net revenues available for debt service amounted to \$3,983,842 which represented coverage ratio of 2.71 over the \$1,468,257 in debt service.

Loans:

Yacht Harbor Rehabilitation Loan – A loan from the State of California in the original principal amount of \$880,000. The loan is payable in annual installments of principal and interest of \$53,648 through the year 2024, with total principal and interest remaining of \$536,460. The loan is payable out of net revenues of the Port, but subordinated to the Port 1999 Revenue Bonds. At June 30, 2014, the ratio of net revenues to the debt service payment due during FY 2013-14 was 2.71 (271%).

Parking Fund Loan – A loan agreement with the civic center construction fund in the original principal amount of \$1,300,000 to finance the construction of the parking fund's downtown parking structure. Payments were for interest only until funds were available to pay principal. In 2000-01, the civic center construction fund was closed, and the loan receivable was transferred to the capital outlay fund. All principal was repaid as of June 30, 2014.

City of Redwood City
Notes to the Basic Financial Statements
For the year ended June 30, 2014

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

B. Changes in Debt

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
	%	\$	\$	\$	\$	\$
Business-type Activities:						
Revenue Bonds:						
Port of Redwood City - 1999 Series	4.00-5.25	8,060,000		305,000	7,755,000	320,000
Port of Redwood City - 2012 Series	4.20-4.20	9,705,380		341,186	9,364,194	355,795
Water Revenue Bonds Series 2006A	3.50-4.50	22,005,000		640,000	21,365,000	660,000
Water Revenue Bonds Series 2007A	4.00-4.50	13,230,000		375,000	12,855,000	390,000
Water Revenue Refunding Bonds Series 2013	3.00-5.00	26,870,000		830,000	26,040,000	855,000
Unamortized Premium		3,488,605		166,094	3,322,511	
Unamortized Discount - Water		(42,883)		(1,950)	(40,933)	
Unamortized Discount - Port		(278,438)		(10,536)	(267,902)	
		<u>83,037,664</u>		<u>2,644,794</u>	<u>80,392,870</u>	<u>2,580,795</u>
Loans:						
Yacht Harbor Rehabilitation Loan	4.70	457,548		33,058	424,490	34,546
Parking Fund Loan	variable	1,300,000		1,300,000		
		<u>1,757,548</u>		<u>1,333,058</u>	<u>424,490</u>	<u>34,546</u>
Total Bonds and Loans		<u>84,795,212</u>		<u>3,977,852</u>	<u>80,817,360</u>	<u>2,615,341</u>
Accrued Sick Leave and Vacation		968,511	383,157	549,137	802,531	394,505
Total Business-type Activities Long-Term Debt		<u>85,763,723</u>	<u>383,157</u>	<u>4,526,989</u>	<u>81,619,891</u>	<u>3,009,846</u>

C. Annual Repayment Requirements for Business-type Activities Long Term Debt

Business-Type Activities:

Year End June 30	Revenue Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	\$	\$	\$	\$	\$	\$
2015	2,580,795	3,460,204	34,546	19,102	2,615,341	3,479,306
2016	2,681,029	3,360,070	36,101	17,547	2,717,130	3,377,617
2017	2,801,916	3,246,709	37,725	15,923	2,839,641	3,262,632
2018	2,918,483	3,127,341	39,423	14,225	2,957,906	3,141,566
2019	3,025,759	3,016,152	41,197	12,451	3,066,956	3,028,603
2020-2024	17,189,969	13,035,560	235,498	32,722	17,425,467	13,068,282
2025-2029	21,472,372	8,764,852			21,472,372	8,764,852
2030-2034	22,293,871	3,559,256			22,293,871	3,559,256
2035-2039	2,415,000	108,676			2,415,000	108,676
	<u>77,379,194</u>	<u>41,678,820</u>	<u>424,490</u>	<u>111,970</u>	<u>77,803,684</u>	<u>41,790,790</u>

NOTE 8 – DEBT WITHOUT CITY COMMITMENT

A. Successor Agency Private Purpose Trust Fund Debt

Tax Increment Bonds:

2003 Tax Allocation Bonds – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2015. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2015 through July 15, 2032. Total principal and interest remaining on the bonds is \$66,304,369. Payments are made from property tax increment generated by the former redevelopment agency fund.

B. Community Facilities District (Mello-Roos) Bonds

On October 17, 2000, the Community Facilities District (CFD) issued \$21,000,000 of bonds on behalf of the developer of the Pacific Shores Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

In July 2012 the CFD issued \$5,555,000 Community Facilities District No. 2000-1 Pacific Shores Special Tax Refunding Bonds, Series 2012 to refund \$8,655,000 of the Series 2000A bonds. The refunding reduced annual debt service payments by approximately 25% or \$52,000, and resulted in an economic gain of \$398,000, which equates to 7.61% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$4,215,000.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of Phase I CFD bonds, and on September 3, 2003 the District issued \$7,505,000 of Phase II CFD bonds. The proceeds of these bonds were used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City.

In December 2012 the Shores Transportation District issued \$10,275,000 Redwood Shores Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B to refund \$3,640,000 of the outstanding Series 2001A Bonds and \$6,675,000 of the outstanding Series 2003A Bonds. The refunding reduced annual debt service payments by approximately 16% or \$140,000, and resulted in an economic gain of \$1.7 million, which equates to 16.62% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the

NOTE 8 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)

payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$9,700,000.

On April 5, 2011, the Community Facilities District (CFD) issued \$5,760,000 of bonds on behalf of the developer of the One Marina Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$5,760,000.

NOTE 9 – EMPLOYEE BENEFITS

A. *Retirement System*

PERS Safety and Miscellaneous Employees' Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The plans' provisions and benefits in effect at June 30, 2014 are summarized as follows:

	Public Safety Tier 1	Public Safety Tier 2	Public Safety Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Benefit factor for each year of service, as a % of annual salary	3%	2.4% - 3%	2% - 2.7%
Required employee contribution rates	9%	9%	12%

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Benefit factor for each year of service, as a % of annual salary	2% - 2.7%	1.092% - 2.418%	1% - 2.5%
Required employee contribution rates	8%	7%	6.25%

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	Public Safety	Miscellaneous
2012	35.315%	18.328%
2013	35.645%	19.462%
2014	36.316%	20.856%

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2014.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandums of understanding with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary depending on duration of service, age, and type of employment. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up/ramp down. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2014, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$51,693,811. The payroll subject to retirement amounted to \$24,473,497 for public safety and \$27,220,314 for the miscellaneous group.

PERS has reported that the value of the net assets in the plan held for pension benefits changed as follows during the year ended June 30, 2013, the most recent available:

	<u>Public Safety</u>	<u>Miscellaneous</u>
	\$	\$
Beginning Balance 6/30/12	166,637,935	150,822,644
Contributions Received	11,406,260	9,217,945
Benefits and Refunds Paid	(13,180,525)	(10,664,339)
Expected Investment Earnings Credited	21,353,383	19,258,218
	<u>186,217,053</u>	<u>168,634,468</u>
Market Value of Assets 6/30/13	<u>186,217,053</u>	<u>168,634,468</u>
Market Value of Assets 6/30/13 Including Receivables	<u>187,110,004</u>	<u>169,943,544</u>

Additional disclosures will be included when made available by PERS.

Three years of trend information regarding annual pension costs for both plans is summarized as follows:

Fiscal Year	<u>Public Safety</u>			<u>Miscellaneous</u>		
	Annual Pension Cost	Percentage of APC	Net Pension Obligation	Annual Pension Cost	Percentage of APC	Net Pension Obligation
	APC	Contributed	Obligation	APC	Contributed	Obligation
	\$			\$		
2012	7,384,820	100%	-	4,964,308	100%	-
2013	7,814,972	100%	-	5,362,636	100%	-
2014	8,887,795	100%	-	5,677,538	100%	-

As of June 30, 2013, the most recent actuarial valuation date, the public safety plan was 66.2% funded, the actuarial liability (AAL) for benefits was \$282,699,515, and the market value of plan assets was \$187,110,004, resulting in an unfunded actuarial accrued liability (UAAL) of \$95,589,511. The covered payroll (annual payroll of active employees covered by the plan) was \$21,048,349 and the ratio of UAAL to the covered payroll was 454.1%.

For the miscellaneous plan, the plan was 70.2% funded, the AAL for benefits was \$242,120,498, and the market value of plan assets was \$169,943,544, resulting in a UAAL of \$72,176,954. The covered payroll was \$27,759,758 and the ratio of UAAL to the covered payroll was 260%.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

B. Post Employment Benefits

Redwood City:

The City administers a single-employer defined benefit post employment healthcare plan. Permanent employees who retire under the City's retirement plan (CalPERS) are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. Currently there are 367 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2013-14, the City contributed \$4,890,000, or 100%, of the actuarially required contributions to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$48,399,901.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The following table shows the components of the City’s 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	4,802,000
Interest on net OPEB obligation	530,000
Adjustment to annual required contribution	<u>(442,000)</u>
Annual OPEB Cost	4,890,000
Contributions made to irrevocable trust	(2,419,901)
Benefit payments made outside of trust	<u>(2,470,099)</u>
Increase in net OPEB obligation	
Net OPEB obligation - beginning of the year	<u>6,962,477</u>
Net OPEB obligation - end of the year	<u><u>6,962,477</u></u>

The General fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/30/2012	5,018,000	98	6,868,477
6/30/2013	5,172,000	98	6,962,477
6/30/2014	4,890,000	100	6,962,477

As of June 30, 2013, the most recent actuarial valuation date, the plan was 19.6% funded. The actuarial accrued liability (AAL) for benefits was \$56,177,000, and the actuarial value of plan assets was \$11,001,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,176,000. The covered payroll (annual payroll of active employees covered by the plan) was \$48,399,901 and the ratio of UAAL to the covered payroll was 93.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) 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 members to that point. The actuarial methods and assumptions used include techniques that are

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

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.

In the June 30, 2013 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2014 of 27 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 7.61% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.25% per annum, and an annual healthcare trend rate of 8.5% - 8.9% for 2014, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997-2007 Experience Study. Retirement assumption was also based on CalPERS 1997-2007 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 54.9 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 60.3 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.1 for Police and 56.9 for Fire.

Port of Redwood City:

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011 who have worked ten or more consecutive years at the Port on a full time basis, and prior to retirement are: (a) enrolled in the Port's medical plan, (b) age 55 or older, and (c) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of: (a) the medical insurance premium paid by the eligible retiree, or (b) the Port's cost to provide medical coverage for an active employee of the same age as the retiree, or (c) the insurance premium for a Medicare supplement plan at the retiree's earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post-employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements, and administrative matters. The Section 115 Trust selected was the CalPERS California Employer's Retiree Benefit Trust Program (CERBT).

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

For the fiscal year ended June 30, 2014, the Port’s annual OPEB cost was \$32,421; of this amount \$1,539 was expensed and funded by reimbursements to current retirees and the remaining \$30,882 net OPEB obligation was expensed and recorded as a liability. Combined with the \$141,250 net OPEB obligation as of June 30, 2013, the total net OPEB obligation as of June 30, 2014 was \$172,132.

The annual required contribution was determined as part of the July 1, 2013 actuarial valuation using the Entry Age Actuarial Cost Method and assumptions consistent with the CalPERS OPEB Assumptions Model. The actuarial assumptions included: (a) salary increases of 3.25% per year, (b) a discount rate of 7.61%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal, and mortality rates based on CalPERS Assumption model for the classification “public agency miscellaneous 2.7% at 55”, and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumptions and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

The following table shows the components of the Port’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Port’s net OPEB obligation:

Annual OPEB Costs and Net OPEB Obligation		\$
Normal cost		7,905
Amortization of unfunded actuarial accrued liability		<u>23,150</u>
Annual required contribution		31,055
Interest on beginning net OPEB obligation		10,470
Annual required contribution adjustment		<u>(9,104)</u>
Annual OPEB expense		32,421
Actual current year employer payment		<u>(1,539)</u>
Increase in OPEB obligation		30,882
Net OPEB obligation at June 30, 2013		<u>141,250</u>
Net OPEB obligation at June 30, 2014		<u><u>172,132</u></u>
 OPEB Unfunded Actuarial Accrued Liabilities		 \$
Actuarial accrued liabilities		349,824
Actuarial value of plan assets		<u>349,824</u>
Unfunded actuarial accrued liabilities (UAAL)		<u><u>349,824</u></u>
 Funded ratio		 0%
Covered payroll		636,746
UAAL as a % of covered payroll		54.94%

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The Port’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2014 and the two preceding fiscal years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/29/2012	32,046	5.05	115,042
6/30/2013	28,260	7.26	141,250
6/30/2014	32,421	43.2	159,666

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 new 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.

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.

C. Cafeteria Benefit Plan

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City or elect to contribute pre-tax dollars, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account and \$2,500 annually into the Medical Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

D. *Deferred Compensation Plans*

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

Effective January 28, 2003, the City implemented a retirement enhancement plan (401-A defined contribution plan) for certain executive management employees. In February 2005, a plan amendment was adopted to extend the 401-A plan to all members of the executive management employee classification. Under this plan, the City contributes 2% of the employees' compensation into the 401-A plan.

Effective October 1, 2002 for the Redwood City Management Employees Association, the City contributes an amount equal to 2% of the base monthly salary to a deferred compensation plan offered by the City to members of the Association.

NOTE 10 – NET POSITION AND FUND BALANCES

GASB Statement No. 63 adds the concept of net position, which is measured on the full accrual basis, to the concept of fund balance, which is measured on the modified accrual basis.

A. *Net Position*

Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level and are described below:

Net investment in capital assets describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. At June 30, 2014, restricted net position for the governmental activities were \$49,268,810 of which all was restricted by enabling legislation.

Unrestricted describes the portion of net position which is not restricted as to use.

B. Fund Balances

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2014, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action, adopting a resolution, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City adopting another resolution, as a resolution imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or City Manager, to which the City Council has delegated the authority through a resolution, to assign amounts to be used for specific purposes.

Pursuant to the authority delegated by City Council, the City Manager determines the amount of assigned fund balances, which includes items such as encumbrances, and constrained amounts when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of special revenue, capital projects and debt service funds which have not been restricted or committed.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance. Within the unassigned

NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)

fund balance of the general fund, the City Council has established a minimum balance representing a level not less than 15%, nor more than 20% of estimated general fund revenues.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

C. Deficit Fund Equity/Net Position

The Successor Agency private purpose trust fund had negative net position of \$21,365,530 due to long-term debt outstanding for bonds used to finance various downtown improvements.

The self-insurance internal service fund had negative net position of \$51,424 due to higher worker's compensation claims than budgeted and actuarial liability adjustments.

NOTE 11 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS

The budgetary expenditures exceeded appropriations in the general fund due to Library department expenditures exceeding budget, primarily due to unbudgeted program expenditures for which there were sufficient revenues available.

Expenditure of the Parks, Recreation and Community Services department also exceeded appropriations due primarily to unbudgeted program expenditures for which there were sufficient revenues available.

The budgetary expenditures exceeded appropriations in the Supplemental Law Enforcement Services fund due to increased and unbudgeted expenditures related to the program which were supported by available program revenues.

The budgetary expenditures exceeded appropriation in the Low and Moderate Income Housing Asset fund due to loans which had achieved certain milestones resulting in an unbudgeted write off. Sufficient revenues were available to fund these expenditures.

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS

A. Transfers

The following interfund transfers were made during the year:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
		\$
General Fund	Non-major Governmental Funds	260,000 ⁽¹⁾
	Capital Outlay Fund	150,503 ⁽²⁾
	Internal Service Funds	15,976 ⁽²⁾
Capital Outlay Fund	General Fund	9,166,504 ⁽³⁾
	Parking Fund	2,717,764 ⁽⁵⁾
Non-major Governmental Funds	General Fund	1,294,355 ^{(3) (4)}
	Non-major Governmental Funds	27,684 ⁽⁵⁾
Parking Fund	General Fund	426,461 ⁽⁴⁾
Internal Service Funds	General Fund	6,000,000 ⁽⁴⁾
	Sewer Fund	23,047 ⁽³⁾
Total Interfund Transfers		<u><u>20,082,294</u></u>

The reasons for these transfers are set forth below:

- ⁽¹⁾ Reimburse General Fund for expenditures incurred for maintenance in the Redwood Shores area.
- ⁽²⁾ Reimburse General Fund for interest earned by funds supported by the General Fund.
- ⁽³⁾ Allocation of funds to construct/purchase general capital assets.
- ⁽⁴⁾ Allocation of funds to support operations.
- ⁽⁵⁾ Reimburse for expenditures/expenses incurred.

B. Short-Term Due to/From other Funds

At the end of the fiscal year the general fund had net utility users tax receivable in the amount of \$833,946. The policy of the City Council dictates the transfer of utility users tax to the capital outlay fund, and once the revenue is received, the general fund will transfer the cash to the capital outlay fund.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount Due to/From</u>
		\$
Capital Outlay Fund	General Fund	833,946
Internal Service Funds	Water Utility Fund	300,000
		<u><u>1,133,946</u></u>

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS (CONTINUED)

C. Long-Term Interfund Loans

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
		\$
Successor Agency Fund	Capital Outlay Fund	2,269,543
	Low and Moderate Income Housing Asset Fund	1,687,703
Water Utility Fund	Internal Service Funds	<u>2,400,000</u>
Total Long-Term Interfund Loans		<u><u>6,357,246</u></u>

During FY 2004-05, the capital outlay fund advanced \$3,000,000 to the redevelopment agency fund to finance various downtown improvements. During FY 2008-09 the Redevelopment Agency repaid \$115,622 of the advance, during FY 2009-10 the Redevelopment Agency repaid \$238,439, and during FY 2010-11 the Redevelopment Agency repaid \$248,364. During 2011-12 the Redevelopment Agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. Prior to the dissolution the Redevelopment Agency repaid \$128,032.

During FY 2009-10, the low and moderate income housing fund advanced \$2,812,838 to the redevelopment agency fund to partially finance the amount taken away from the Redevelopment Agency by the State of California. During FY 2010-11 the Redevelopment Agency repaid \$562,568 to the low and moderate income housing fund. During FY 2011-12 the Redevelopment Agency was dissolved and the advance receivable was transferred to the low and moderate income housing asset fund, and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011-12 the Successor Agency repaid \$562,567 to the low and moderate income housing asset fund.

During FY 2012-13, the equipment services internal service fund advanced \$3,000,000 to the water utility enterprise fund for the implementation of the Automated Meter Infrastructure Project to replace water meters. During FY 2013-14 the water utility enterprise fund repaid \$300,000 to the equipment services internal service fund. As of June 30, 2014, \$300,000 of this advance is considered current.

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND

A. Workers' Compensation and Property Insurance

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to the statutory limits required by the State of California. The City paid \$423,239 during FY 2013-14 for the coverage.

The City's workers' compensation policy includes coverage for the Port of Redwood City. The Port carries property and liability insurance policies with limits of \$15,000,000 and \$150,000,000, respectively.

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)

B. General Liability and Automobile

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which is a liability pool consisting of 18 San Francisco Bay Area government agencies, for general liability and auto liability coverage. In FY 2013-14 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially-determined premium based upon a formula which takes into account loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in FY 2013-14 was \$633,788.

The BCJPIA belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$29,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA, the layer from \$4,000,001 to \$29,000,000 is reinsured through agreements with commercial insurers.

The City also carries all risk coverage on buildings and their contents at replacement cost value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833. The following is the BCJPIA condensed audited financial results for the year ended June 30, 2014:

	\$
Assets	29,597,416
Reserves for Claims	16,149,653
Liabilities ¹	3,055,687
Net Position Unrestricted	10,392,076
Member Contributions	10,024,132
Other Income	88,546
Provisions for Claims and Claim Adjustment Expenses	4,782,196
Operating Expenses ²	5,785,209
Change in Net Position	1,701,840

¹ Excluding claims liabilities

² Excluding provisions for claims

C. Self-Insurance Fund

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc. in accordance with GASB 10.

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)

Changes in the self-insurance fund’s claims payable liability for fiscal years ended 2012, 2013, and 2014 were:

	Beginning Balance \$	Current Year Claims/ Changes in Estimates \$	Claim Payments \$	Ending Balance \$
2011-12	10,951,960	2,407,125	(1,580,295)	11,778,790
2012-13	11,778,790	4,732,771	(3,111,209)	13,400,352
2013-14	13,400,352	7,617,770	(2,563,399)	18,454,723

Settlements have not exceeded coverage for each of the past three fiscal years.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY

As part of the FY 2011-12 State Budget package, and in an effort to help solve the State’s budget problems, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB X1 26 (Dissolution Act) and AB X1 27 (Voluntary Program Act), which took effect on June 29, 2011.

The Dissolution Act immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminated redevelopment agencies as of October 1, 2011.

The Voluntary Program Act allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance beginning FY 2011-12 and each year thereafter.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act, and the Voluntary Program Act, on behalf of cities, counties, and redevelopment agencies, and requesting a stay of their enforcement.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and found the Voluntary Program Act to be unconstitutional and extended the date of dissolution to February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. The City Council elected to become Successor Agency on August 22, 2011 with resolution 15141, and reconfirmed this action on January 23, 2012 with resolution 15164.

Under the Dissolution Act, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

In FY 2010-11, prior to AB X1 26 becoming law, \$3.3 million of real property assets (vacant land) were transferred from the RDA's Low and Moderate Income Housing Fund to the City in an attempt to protect these assets from being diverted for the benefit of the State. AB X1 26, however, specifically disallowed such transfers. Accordingly, the assets were transferred to the Low and Moderate Income Housing Asset Fund in FY 2011-12.

Prior to the dissolution of the redevelopment agency, under an agreement with San Mateo County to receive a cumulative \$25 million of the County's share of tax increment and an agreement with the Legal Aid Society to deposit the first \$11.9 million of the \$25 million into the Low and Moderate Income Housing Fund, the agency had deposited \$10.3 million into the Low and Moderate Income Housing Fund as of June 30, 2011. Pursuant to the agreement with the Legal Aid Society to restrict these funds to housing, after the dissolution of the redevelopment agency these funds were deposited into a new fund, Housing Legal Aid Society Fund, to be used for housing purposes. The State Department of Finance has disputed that these funds are restricted for housing, and the City has filed a lawsuit against the State of California on this matter. On October 30, 2013 the Superior Court Judge hearing the lawsuit filed against the State of California Department of Finance concerning the \$10.3 million the City is holding in the Housing Legal Aid Society Fund as part of the dissolution of the former Redevelopment Agency issued a tentative ruling in favor of the State of California. On November 6, 2013 the Judge then issued a "Request for Further Briefing" to be held on November 22, 2013. On January 4, 2014 the Superior Court Judge ruled in favor of the State of California. In April 2014, the City filed an appeal, and as of the date of this report, a ruling on the appeal has not been issued. The accumulated funds in the amount of \$10.3 million are reflected as a liability in the Housing Legal Aid Society Fund pending the outcome of the lawsuit.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The City's former Redevelopment Agency had entered into agreements with certain public entities whose jurisdictions were within the territory of the former Redevelopment Agency under which these entities received a specified share of the property tax increment received by the former Redevelopment Agency. Under Assembly Bill X1 26 the responsibility for making these payments has been shifted to the County of San Mateo.

NOTE 15 – LITIGATION AND CONTINGENT LIABILITIES

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

There are lawsuits pending in which the City is a party. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

NOTE 16 – CONSTRUCTION, OTHER SIGNIFICANT COMMITMENTS AND ENCUMBRANCES

As of June 30, 2014, the City has the following significant commitments:

- \$2,775,211 – Professional services related to 101/84 Highway Interchange
- \$1,913,000 – Construction services related to Blomquist Avenue extension
- \$520,921 – Professional services related to Inner Harbor Community Engagement Framework

Purchase orders are issued throughout the fiscal year to encumber the budgets in the governmental funds. Following are the outstanding encumbrances as of June 30, 2014:

Major Funds:	\$
General Fund	523,558
Capital Outlay Fund	1,354,040
Total Major Funds	<u>1,877,598</u>
Non-Major Funds	<u>6,065,607</u>
Total Encumbrances	<u><u>7,943,205</u></u>

NOTE 17 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

The City is a member of the South Bayside Waste Management Authority (SBWMA), a joint powers authority established to purchase the solid waste transfer station located in San Carlos, California from Browning-Ferris Industries. Currently there are 12 public entities that are members of this organization. Each of these members also, by individual and separate legislative action, has entered into a franchise agreement with Recology for solid waste collection within their respective jurisdictions.

The SBWMA issued \$20 million in bonds in 1999 to provide funds for the purchase of the transfer station. The debt issued by the SBWMA is not an obligation of any of the member entities. During FY 2009-10, SBWMA issued \$58.5 million in bonds to finance improvements at the solid waste transfer station, and the remaining balance of the 1999 bonds were retired.

The SBWMA also serves as a regional forum for member entities to collectively pursue other solid waste management matters such as rate setting, solid waste reduction, and meeting recycling goals as required by state law.

Audited financial statements are available from the SBWMA, c/o the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The following is SBWMA’s condensed unaudited financial results for the year-ended June 30, 2014.

	\$
Total assets	80,505,928
Total liabilities	<u>58,152,387</u>
Total net position	<u><u>22,353,541</u></u>

NOTE 18 – RELATED PARTY TRANSACTIONS

In June 2000, the City's former Redevelopment Agency authorized a First Time Homebuyer Program targeted to City employees and school teachers from the Redwood City Elementary School District. Under the program, the Agency offered first time homebuyers financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. This loan program is extended to City employees who meet the criteria of the program. As of June 30, 2014, one employee had a loan due to the City in the amount of \$36,139.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, special revenue, and debt service funds. Capital projects funds' budgets are adopted on a project length basis and are not presented here. As the Housing Legal Aid Society Fund was created after the February 1, 2012 dissolution of the former Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between sub-programs and funds. Any increase or decrease to the total appropriations provided for in the budget must also be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a sub-program of a department. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of the fiscal year. Appropriations for capital projects or appropriations that are encumbered are re-appropriated and carried over in the following year's budget.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
	\$	\$	\$	
Fund balance, July 1	21,753,742	21,753,742	21,753,742	\$
Resources (inflows):				
Property taxes/special assessments	36,791,615	36,791,615	41,708,668	4,917,053
Sales and other taxes	36,944,232	36,944,232	39,970,312	3,026,080
Licenses and permits	1,911,000	1,911,000	2,559,720	648,720
Fines, forfeitures and penalties	575,000	575,000	629,017	54,017
Use of money and property	410,000	410,000	793,967	383,967
Intergovernmental	3,252,892	3,563,808	3,646,694	82,886
Charges for current services	9,498,466	14,733,785	14,668,911	(64,874)
Contributions	759,912	759,912	486,673	(273,239)
Other	89,862	544,862	618,057	73,195
Amounts available for appropriation	90,232,979	96,234,214	105,082,019	8,847,805
Charges to appropriations (outflows):				
Current Operations:				
City Council:				
City Council	328,460	330,860	326,671	4,189
Human Services Assistance	34,800	34,800	34,800	
Total City Council	363,260	365,660	361,471	4,189
City Manager:				
Management/Policy execution/ Organizational Efficiencies	1,585,942	1,585,942	1,247,445	338,497
Community promotion	259,862	259,862	350,625	(90,763)
Economic development	339,167	339,167	339,596	(429)
Total City Manager	2,184,971	2,184,971	1,937,666	247,305
City Attorney	1,008,607	1,286,874	1,210,822	76,052
City Clerk:				
City Clerk	613,708	616,108	612,139	3,969
Elections	139,938	139,938	114,381	25,557
Council support	16,585	16,585	32,337	(15,752)
Total City Clerk	770,231	772,631	758,857	13,774

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$		
Community development:				
Planning	829,183	839,800	882,101	(42,301)
Strategic planning	160,583	160,583	101,872	58,711
Building regulation	1,947,498	1,947,498	1,682,640	264,858
Administration	297,129	347,129	296,381	50,748
General engineering	370,331	370,331	410,472	(40,141)
Subdivision engineering	44,393	1,098,322	790,975	307,347
Code enforcement	677,326	677,326	563,172	114,154
Street system maintenance	250,929	271,929	249,589	22,340
Street cleaning	147,394	147,394	147,394	
Sidewalk maintenance/replacement	14,900	14,900	14,900	
Street tree maintenance	866,529	866,529	781,314	85,215
Downtown/Entry feature maintenance	37,214	37,214	20,373	16,841
Storm water collection/Disposal	8,498	8,498		8,498
Downtown development program	537,766	537,766	419,796	117,970
Redevelopment	1,324,555	1,324,555	1,273,006	51,549
Total Community Development	7,514,228	8,649,774	7,633,985	1,015,789
Finance:				
Financial services	1,396,507	1,531,495	1,507,061	24,434
Administrative support services	1,322,466	1,822,466	1,227,616	594,850
Public Financing Authority lease payments	1,045,986	434,392	427,899	6,493
Total Finance	3,764,959	3,788,353	3,162,576	625,777
Fire:				
Administration	1,429,932	965,396	933,965	31,431
Operations	15,124,133	15,582,776	15,759,272	(176,496)
San Carlos Fire		5,855,799	5,578,981	276,818
Prevention	845,098	655,974	622,366	33,608
Training	353,633	276,091	283,768	(7,677)
Emergency medical services	35,456	35,456	24,887	10,569
Emergency operations	105,752	105,752	161,377	(55,625)
Total Fire	17,894,004	23,477,244	23,364,616	112,628
Human Resources	1,120,670	1,187,926	1,104,341	83,585
Library:				
Administrative services unit	1,326,044	1,326,044	1,215,370	110,674
Downtown library	3,220,075	3,220,075	3,468,625	(248,550)
Literacy services unit	875,898	965,296	978,986	(13,690)
Neighborhood libraries and outreach	1,430,588	1,430,588	1,466,279	(35,691)
Total Library	6,852,605	6,942,003	7,129,260	(187,257)

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
	\$	\$	\$	Positive (Negative)
				\$
Parks, Recreation and Community Services:				
Fair Oaks Community Center	896,338	903,133	926,648	(23,515)
Information/Referral	297,655	421,860	391,239	30,621
Fair Oaks Senior Services	5,027	5,027	5,027	
Administration	701,163	719,539	614,999	104,540
Civic Cultural Commission	63,860	63,860	58,924	4,936
Landscape maintenance-City	2,107,410	2,107,410	2,184,129	(76,719)
Landscape maintenance-Redwood Shores	1,107,880	1,107,880	1,096,692	11,188
Landscape maintenance-Downtown	729,120	729,120	756,430	(27,310)
Youth and teen services	275,144	275,144	297,277	(22,133)
Elementary activities	493,326	503,326	607,201	(103,875)
Teen activities	279,668	279,668	325,535	(45,867)
After school program grant	1,371,368	1,321,368	1,395,345	(73,977)
Red Morton Community Center	1,099,616	1,099,616	1,115,251	(15,635)
Aquatics program	169,094	169,094	188,589	(19,495)
Adult sports	122,746	122,746	136,858	(14,112)
Middle school sports	505,355	836,355	644,096	192,259
Special interest classes	784,340	784,340	820,664	(36,324)
Sandpiper Community Center	390,749	390,749	411,247	(20,498)
Sandpiper youth club	150,556	150,556	213,499	(62,943)
Community services	1,052,449	1,102,449	1,134,231	(31,782)
Senior nutrition	153,923	133,923	131,457	2,466
	<u>12,756,787</u>	<u>13,227,163</u>	<u>13,455,338</u>	<u>(228,175)</u>
Total Parks, Recreation and Community Services				
Police:				
Administration	5,820,098	5,820,098	5,687,470	132,628
Records	1,031,441	1,034,174	927,450	106,724
Training	519,888	529,888	542,382	(12,494)
Property/Evidence	294,794	294,794	172,754	122,040
Police Activities League	126,367	126,367	91,958	34,409
Patrol services	19,229,266	20,104,652	20,151,970	(47,318)
Criminal investigation	4,437,500	4,476,621	4,789,876	(313,255)
	<u>31,459,354</u>	<u>32,386,594</u>	<u>32,363,860</u>	<u>22,734</u>
Total Police				
Reimbursement from Other Funds	<u>(5,956,714)</u>	<u>(5,956,714)</u>	<u>(5,956,714)</u>	
Total charges to appropriations				
	<u>79,732,962</u>	<u>88,312,479</u>	<u>86,526,078</u>	<u>1,786,401</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	365,000	365,000	426,479	61,479
Transfers (out)	<u>(10,586,294)</u>	<u>(16,636,294)</u>	<u>(16,887,320)</u>	<u>(251,026)</u>
Total Other Financing Sources (Uses)				
	<u>(10,221,294)</u>	<u>(16,271,294)</u>	<u>(16,460,841)</u>	<u>(189,547)</u>
Fund balance, June 30	<u>22,032,465</u>	<u>13,404,183</u>	<u>23,848,842</u>	<u>10,444,659</u>

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 2 – PUBLIC EMPLOYEES RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS

Public Safety Plan:

Actuarial						
Valuation Date	Value of Assets *	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011	188,706,656	249,306,267	60,599,611	75.7	20,072,380	301.9
2012	199,093,142	265,379,700	66,286,558	75.0	19,553,357	339.0
2013	187,110,004	282,699,515	95,589,511	66.2	21,048,349	454.1

Miscellaneous Plan:

Actuarial						
Valuation Date	Value of Assets *	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011	176,271,009	219,035,437	42,764,428	80.5	28,015,399	152.6
2012	181,792,644	227,332,457	45,539,813	80.0	27,247,606	167.1
2013	169,943,544	242,120,498	72,176,954	70.2	27,759,758	260.0

* Beginning with the 6/30/2013 Valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 3 – OTHER POSTEMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

City of Redwood City:

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2009		37,264,000	37,264,000		43,764,165	85.2
2011	4,429,000	53,083,000	48,654,000	8.3	44,961,408	108.2
2013	11,001,000	56,177,000	45,176,000	19.6	48,399,901	93.3

Port of Redwood City:

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011		303,153	303,153		682,637	44.4
2012		334,371	334,371		631,539	52.9
2013		362,074	362,074		629,034	57.6
2014		349,824	349,824		636,746	54.9



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*

GENERAL FUND

The general fund accounts for resources traditionally associated with governments that are not required to be accounted for in another fund. Library operations, whose expenditures must be approved by the Library Board, are accounted for as part of this fund along with the general governmental expenditures not accounted for in other funds.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
	\$	\$
Cash and investments available for operations	22,932,368	21,460,699
Receivables (net of allowance for uncollectibles):		
Taxes and assessments - current	7,781,376	6,380,053
Accounts	1,570,988	1,538,072
Loans	1,534,452	1,692,608
Accrued interest	155,289	119,895
Due from other governmental agencies	2,579,041	1,373,779
Inventory of supplies at cost	1,288	164
Prepaid expenditures	72,993	92,412
 Total Assets	 36,627,795	 32,657,682
LIABILITIES		
Accounts payable	1,945,002	2,042,937
Accrued payroll	3,248,659	2,907,558
Deposits payable	4,749,155	3,604,714
Due to other funds	833,946	811,980
Unearned revenue	2,002,191	1,505,951
Accrued sick leave and vacation - current	30,800	30,800
 Total Liabilities	 12,778,953	 10,903,940
FUND BALANCE		
Nonspendable:		
Loans	1,534,452	1,692,608
Inventory	1,288	164
Prepaid items	72,993	92,412
Committed to:		
General plan	536,108	370,927
Assigned to:		
Other purposes	223,061	148,534
Unassigned:		
City Council directed minimum balance	19,901,941	17,320,930
Residual balance	1,578,999	2,128,167
 Total Fund Balance	 23,848,842	 21,753,742
 Total Liabilities and Fund Balance	 36,627,795	 32,657,682

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes	36,791,615	41,708,668	4,917,053	35,661,621	38,379,963	2,718,342
Sales and other taxes	36,944,232	39,970,312	3,026,080	34,613,371	37,072,870	2,459,499
Licenses and permits	1,911,000	2,559,720	648,720	1,211,000	1,897,584	686,584
Fines, forfeitures and penalties	575,000	629,017	54,017	575,000	549,591	(25,409)
Uses of money and property	410,000	513,647	103,647	608,500	495,003	(113,497)
Net increases (decreases) in fair value of investments		280,320	280,320		15,216	15,216
Intergovernmental	3,563,808	3,646,694	82,886	3,502,259	3,643,228	140,969
Charges for current services	14,733,785	14,668,911	(64,874)	9,553,142	9,321,628	(231,514)
Other	1,304,774	1,104,730	(200,044)	592,206	1,039,401	447,195
Total revenues	96,234,214	105,082,019	8,847,805	86,317,099	92,414,484	6,097,385
EXPENDITURES						
Community development	7,303,310	6,420,415	882,895	6,580,019	6,330,555	249,464
Human services	1,364,820	1,357,714	7,106	1,467,393	1,462,092	5,301
Public safety	55,863,838	55,728,476	135,362	47,452,457	49,043,503	(1,591,046)
Transportation	286,829	264,489	22,340	198,226	182,657	15,569
Environmental support and protection	155,892	147,394	8,498	345,285	344,716	569
Leisure, cultural, and information services	19,742,889	20,063,371	(320,482)	19,250,785	19,448,415	(197,630)
Policy development and implementation	3,594,901	2,544,219	1,050,682	5,465,590	4,597,542	868,048
Total expenditures	88,312,479	86,526,078	1,786,401	80,759,755	81,409,480	(649,725)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,921,735	18,555,941	10,634,206	5,557,344	11,005,004	5,447,660
OTHER FINANCING SOURCES (USES)						
Transfers in	365,000	426,479	61,479	450,000	384,637	(65,363)
Transfers (out)	(16,636,294)	(16,887,320)	(251,026)	(11,011,337)	(9,460,452)	1,550,885
Total Other Financing Sources (Uses)	(16,271,294)	(16,460,841)	(189,547)	(10,561,337)	(9,075,815)	1,485,522
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(8,349,559)	2,095,100	10,444,659	(5,003,993)	1,929,189	6,933,182
Fund balance at beginning of year		21,753,742			19,824,553	
Fund balance at end of year		<u>23,848,842</u>			<u>21,753,742</u>	

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2014		Variance with Final Budget Positive (Negative)	2013
	Budget	Actual		Actual
Property Taxes:	\$	\$	\$	\$
Property taxes - secured and unsecured	36,791,615	41,708,668	4,917,053	38,379,963
Total Property Taxes	<u>36,791,615</u>	<u>41,708,668</u>	<u>4,917,053</u>	<u>38,379,963</u>
Sales and Other Taxes:				
Sales tax	18,825,233	20,781,613	1,956,380	19,240,290
Franchises	1,586,000	1,676,834	90,834	1,621,972
Transient occupancy tax	4,827,206	5,262,280	435,074	4,526,424
Property transfer tax	420,000	729,522	309,522	599,316
Business license tax	1,830,500	1,925,660	95,160	1,668,370
Utility users tax	9,455,293	9,594,403	139,110	9,416,498
Total Sales and Other Taxes	<u>36,944,232</u>	<u>39,970,312</u>	<u>3,026,080</u>	<u>37,072,870</u>
Licenses and Permits:				
Building permits	1,800,000	2,545,577	745,577	1,881,030
Fire and other permits	111,000	14,143	(96,857)	16,554
Total Licenses and Permits	<u>1,911,000</u>	<u>2,559,720</u>	<u>648,720</u>	<u>1,897,584</u>
Fines, Forfeitures and Penalties:				
Parking fines	575,000	629,017	54,017	549,591
Total Fines, Forfeitures and Penalties	<u>575,000</u>	<u>629,017</u>	<u>54,017</u>	<u>549,591</u>
Uses of Money and Property:				
Rent and concessions	390,000	483,253	93,253	401,823
Interest income	20,000	30,394	10,394	93,180
Total Uses of Money and Property	<u>410,000</u>	<u>513,647</u>	<u>103,647</u>	<u>495,003</u>
Net Increase (Decrease) in Fair Value of Investments		<u>280,320</u>	<u>280,320</u>	<u>15,216</u>
Intergovernmental:				
Motor vehicle in lieu tax				33,547
Public safety sales tax	677,250	693,969	16,719	659,002
Police training allowance	10,000	27,477	17,477	29,258
Homeowners' property tax relief	185,000	178,204	(6,796)	178,647
State mandated programs grant		46,378	46,378	38,606
Grants - County, State, and Federal	2,270,458	2,228,007	(42,451)	2,246,651
Abandoned vehicle fees	40,000	63,191	23,191	81,757
Port contribution	381,100	409,468	28,368	375,760
Total Intergovernmental	<u>3,563,808</u>	<u>3,646,694</u>	<u>82,886</u>	<u>3,643,228</u>
Charges for Current Services:				
Fire services	6,685,299	5,678,156	(1,007,143)	1,693,334
Police services	165,000	232,463	67,463	223,306
Plan checking	602,000	1,515,469	913,469	862,129
Garbage collections - net	2,405,887	2,350,084	(55,803)	2,344,689
Engineering services	13,200	22,757	9,557	11,866
Planning services	451,400	514,803	63,403	539,380
Library fees	125,000	93,321	(31,679)	152,724
Recreation programs	2,223,000	2,294,238	71,238	2,112,047
Other current service charges	2,062,999	1,967,620	(95,379)	1,382,153
Total Charges for Current Services	<u>14,733,785</u>	<u>14,668,911</u>	<u>(64,874)</u>	<u>9,321,628</u>
Other:				
Contributions	759,912	486,673	(273,239)	498,214
Miscellaneous	544,862	618,057	73,195	541,187
Total Other	<u>1,304,774</u>	<u>1,104,730</u>	<u>(200,044)</u>	<u>1,039,401</u>
Total Revenue	<u><u>96,234,214</u></u>	<u><u>105,082,019</u></u>	<u><u>8,847,805</u></u>	<u><u>92,414,484</u></u>

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2014		Variance with Final Budget Positive (Negative)	2013
	Budget	Actual		Actual
Community Development:	\$	\$	\$	\$
Community planning	1,000,383	983,973	16,410	1,185,081
Building regulation	1,947,498	1,682,640	264,858	1,795,126
Administration	347,129	296,381	50,748	231,049
Engineering services	1,468,653	1,201,447	267,206	881,083
Code enforcement	677,326	563,172	114,154	637,179
Redevelopment	1,862,321	1,692,802	169,519	1,601,037
Total Community Development	7,303,310	6,420,415	882,895	6,330,555
Human Services:				
Human services assistance program	34,800	34,800		93,556
Social services center	1,330,020	1,322,914	7,106	1,368,536
Total Human Services	1,364,820	1,357,714	7,106	1,462,092
Public Safety:				
Law enforcement	32,386,594	32,363,860	22,734	31,895,762
Fire safety	23,477,244	23,364,616	112,628	17,147,741
Total Public Safety	55,863,838	55,728,476	135,362	49,043,503
Transportation:				
Street system/sidewalk maintenance, repair	286,829	264,489	22,340	182,657
Total Transportation	286,829	264,489	22,340	182,657
Environmental Support and Protection:				
Street cleaning/storm water collection, disposal	155,892	147,394	8,498	344,716
Total Environmental Support and Protection	155,892	147,394	8,498	344,716
Leisure, Cultural, and Information Services:				
Parks and recreation	12,800,886	12,934,111	(133,225)	12,637,536
Information services	6,942,003	7,129,260	(187,257)	6,810,879
Total Leisure, Cultural, and Information Services	19,742,889	20,063,371	(320,482)	19,448,415
Policy Development and Implementation:				
Legislative/policy determination	330,860	326,671	4,189	311,680
Management/policy execution	2,184,971	1,937,666	247,305	1,441,880
Legislative services/records management	772,631	758,857	13,774	604,187
Financial services	1,531,495	1,507,061	24,434	1,342,300
Legal services	1,286,874	1,210,822	76,052	969,049
Human Resources	1,187,926	1,104,341	83,585	1,005,597
Other administrative support services	2,256,858	1,655,515	601,343	4,706,177
Less reimbursements from other funds	(5,956,714)	(5,956,714)		(5,783,328)
Total Policy Development and Implementation	3,594,901	2,544,219	1,050,682	4,597,542
Total Expenditures	88,312,479	86,526,078	1,786,401	81,409,480

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Special Gas Tax Street Improvement Fund – This fund accounts for revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State of California Streets and Highway Code.

Transportation Grants Fund – This fund accounts for grants and developer contributions received for specific transportation projects.

Grants Fund – This fund accounts for grants received for specific purposes. These include funds received under the Housing and Community Development Act.

Traffic Safety Fund – This fund accounts for revenues received from traffic fines and used for traffic safety programs.

Transportation Fund – This fund accounts for the City's share of special sales tax for transportation. Expenditures from this fund may only be incurred on transportation-related programs.

Seaport Landscape Maintenance Fund – This fund accounts for funds to be provided by property owners in the Seaport Boulevard area for maintenance of landscaping on Seaport Boulevard.

Seaport Centre Maintenance Fund – This fund accounts for funds provided by property owners in the Seaport Centre area for the maintenance and repair of drains and sewer lines connecting the Centre facilities to the public facilities.

Redwood Shores Maintenance Fund – This fund accounts for funds collected from property owners in the Redwood Shores area for the maintenance of various public areas.

Redwood Shores Landscape Maintenance Fund – This fund accounts for funds collected from property owners for landscape maintenance of certain areas in Redwood Shores.

Supplemental Law Enforcement Services Fund – This fund accounts for funds from the State of California "Citizens Option for Public Safety" program.

Traffic Mitigation Fees Fund – This fund accounts for developer contributions received for general transportation projects.

Low and Moderate Income Housing Asset Fund – This fund accounts for the restricted and obligated balances (other than the Legal Aid Society balance) of the former redevelopment agency low and moderate income housing fund that were transferred to the City after the dissolution of the redevelopment agency on February 1, 2012.

Planning Cost Recovery Fund – This fund accounts for fees charged for reimbursement of the expenditures associated with processing planning applications related to major projects.

DEBT SERVICE FUNDS

Debt service funds are used to account for the payment of interest and principal on general debt of the City and related entities.

Public Financing Authority 2013 Refunding Lease Fund – This fund accounts for a lease entered into to refund the 2003 Public Financing Authority bonds. This lease is secured by lease payment from the City.

CAPITAL PROJECTS FUNDS

Capital project funds are established to account for resources used for the acquisition and construction of capital facilities by the City except for those financed by the proprietary funds or special revenue funds. Funding for these projects is provided by the general fund and by special assessment districts. Currently the City has the following funds:

Facilities Fee Construction Fund – This fund derives its revenue from fees collected from the developers in the Redwood Shores area. Funds are used for improvements to roads, drainage, water, traffic lights, canals, etc. in the area.

Parks Impact and In Lieu Fee Fund – This fund accounts for parks impact fees and Quimby Act in lieu fees charged to developers on new development projects, to enable the City to expand and improve its system of parks, parkland, and recreational facilities to provide services to future development.

Shores Transportation Improvement District Fund – This fund accounts for community facility district bonds that were issued and developer contributions that were received by the City to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for certain public infrastructure improvements within the One Marina district that are financed by community facilities district bonds, and developer contributions.

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$	Seaport Landscape Maintenance Fund \$
ASSETS						
Cash and investments available for operations	6,802,440	4,459,774	2,042,164	55,801	1,679,115	525,689
Cash and investments, restricted			102,383			
Receivables (net of allowance for uncollectibles):						
Taxes and assessments - current	240,998				113,293	
Accounts	14,969		14,112	6,103		
Loans			3,387,471			
Accrued interest			51,252			
Due from other governmental agencies		1,145,781	133,780	26,141		
Due from other funds				7,474		
Advances to RDA successor agency						
Investment in land held for redevelopment			2,410,000			
Total Assets	7,058,407	5,605,555	8,141,162	95,519	1,792,408	525,689
LIABILITIES						
Accounts payable	69,986	410,533	212,930	54,381	6,378	125
Deposits payable						
Due to other funds		7,474				
Total Liabilities	69,986	418,007	212,930	54,381	6,378	125
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - interest			51,252			
Total Deferred Inflows of Resources			51,252			
FUND BALANCES						
Restricted for:						
Community development			6,649,424			
Public safety						
Transportation	126,735	3,500,157			457,998	
Environmental support and protection						520,107
Leisure, cultural and information services			351,041			
Capital projects		1,687,391	876,515		1,328,032	5,457
Other purposes						
Committed to:						
Capital projects	6,368,041					
Assigned to:						
Community development						
Transportation				41,138		
Capital projects	493,645					
Total Fund Balances	6,988,421	5,187,548	7,876,980	41,138	1,786,030	525,564
Total Liabilities, Deferred Inflows of Resources and Fund Balances	7,058,407	5,605,555	8,141,162	95,519	1,792,408	525,689

SPECIAL REVENUE FUNDS

Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Mtc. Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$
1,748,866	1,172,573	60,313	115,266	4,048,911 5,374,798
			10,253	123,322
<u>1,748,866</u>	<u>1,172,573</u>	<u>60,313</u>	<u>125,519</u>	<u>9,547,031</u>
94	60,649	844	13,726	61,953 11,088
<u>94</u>	<u>60,649</u>	<u>844</u>	<u>13,726</u>	<u>73,041</u>
			111,793	3,205,080
1,719,579	656,913	59,469		
29,193	455,011			6,268,910
<u>1,748,772</u>	<u>1,111,924</u>	<u>59,469</u>	<u>111,793</u>	<u>9,473,990</u>
<u>1,748,866</u>	<u>1,172,573</u>	<u>60,313</u>	<u>125,519</u>	<u>9,547,031</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Public Financing Authority 2013 Refunding Lease Fund
	\$	\$	\$
ASSETS			
Cash and investments available for operations	1,587,081	317,254	
Cash and investments, restricted			
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current			
Accounts	4,830		
Loans	4,125,980		
Accrued interest	736,449		
Due from other governmental agencies			
Due from other funds			
Advances to RDA successor agency	1,687,703		
Investment in land held for redevelopment	3,331,208		
	11,473,251	317,254	
LIABILITIES			
Accounts payable	500,000	60,206	
Deposits payable	4,104	257,048	
Due to other funds			
	504,104	317,254	
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - interest	736,449		
	736,449		
FUND BALANCES			
Restricted for:			
Community development	9,682,698		
Public safety			
Transportation			
Environmental support and protection			
Leisure, cultural and information services			
Capital projects			
Other purposes			
Committed to:			
Capital projects			
Assigned to:			
Community development	550,000		
Transportation			
Capital projects			
	10,232,698		
Total Fund Balances	10,232,698		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	11,473,251	317,254	

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$
428,304	10,219,803	592,920	316,461	36,172,735 5,477,181
				354,291 40,014 7,513,451 787,701 1,439,277 7,474 1,687,703 5,741,208
<u>428,304</u>	<u>10,219,803</u>	<u>592,920</u>	<u>316,461</u>	<u>59,221,035</u>
	15,875			1,467,680 272,240 7,474
	<u>15,875</u>			<u>1,747,394</u>
				<u>787,701</u>
				<u>787,701</u>
				16,332,122 111,793 7,384,562 2,956,068 9,732,155 12,409,017 307,399
120,905 307,399	9,381,114 822,814	94,592 498,328	316,461	6,368,041 550,000 41,138 493,645
<u>428,304</u>	<u>10,203,928</u>	<u>592,920</u>	<u>316,461</u>	<u>56,685,940</u>
<u>428,304</u>	<u>10,219,803</u>	<u>592,920</u>	<u>316,461</u>	<u>59,221,035</u>

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$
REVENUES					
Property taxes/special assessments					
Fines, forfeitures and penalties				258,292	
Use of money and property		52,516	71,073		12,276
Intergovernmental	2,506,108	1,357,530	977,293		1,900,848
Contributions					
Charges for current services	106,074		100	4,800	
Other			380	4,070	
Total Revenues	2,612,182	1,410,046	1,048,846	267,162	1,913,124
EXPENDITURES					
Current Operations:					
Community development			623,556		
Public safety					
Transportation	2,359,716	183,440		1,521,155	583,651
Environmental support and protection	391,844	390,290			
Leisure, cultural and information services					
Capital outlay	519,001	756,853	41,505		662,719
Debt service:					
Principal retirement					
Interest and fiscal charges					
Total Expenditures	3,270,561	1,330,583	665,061	1,521,155	1,246,370
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(658,379)	79,463	383,785	(1,253,993)	666,754
OTHER FINANCING SOURCES (USES)					
Transfers in	20,210			1,271,884	
Transfers (out)		(27,684)			
Total Other Financing Sources (Uses)	20,210	(27,684)		1,271,884	
Net change in fund balances	(638,169)	51,779	383,785	17,891	666,754
Fund balances - beginning	7,626,590	5,135,769	7,493,195	23,247	1,119,276
FUND BALANCES - ENDING	6,988,421	5,187,548	7,876,980	41,138	1,786,030

SPECIAL REVENUE FUNDS

Seaport Landscape Maintenance Fund	Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Maintenance Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$	\$
212,441	186,951	765,648	218,669		
4,838	16,636	11,832	338	1,045 114,765	59,516 1,579,820
<u>217,279</u>	<u>203,587</u>	<u>777,480</u>	<u>219,007</u>	<u>115,810</u>	<u>1,639,336</u>
				155,372	266,619
214,282	98,452	524,485	241,207		339,007
<u>214,282</u>	<u>98,452</u>	<u>524,485</u>	<u>241,207</u>	<u>155,372</u>	<u>605,626</u>
2,997	105,135	252,995	(22,200)	(39,562)	1,033,710
			29,945		
		(260,000)			
		(260,000)	29,945		
2,997	105,135	(7,005)	7,745	(39,562)	1,033,710
<u>522,567</u>	<u>1,643,637</u>	<u>1,118,929</u>	<u>51,724</u>	<u>151,355</u>	<u>8,440,280</u>
<u>525,564</u>	<u>1,748,772</u>	<u>1,111,924</u>	<u>59,469</u>	<u>111,793</u>	<u>9,473,990</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUNDS</u>
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Public Financing Authority 2013 Refunding Lease Fund
	\$	\$	\$
REVENUES			
Property taxes/special assessments			
Fines, forfeitures and penalties			
Use of money and property	25,190		356,497
Intergovernmental			
Contributions	550,000		
Charges for current services		535,109	
Other	735		
	<u>575,925</u>	<u>535,109</u>	<u>356,497</u>
EXPENDITURES			
Current Operations:			
Community development	35,000	535,109	
Public safety			
Transportation			
Environmental support and protection			
Leisure, cultural and information services			
Capital outlay			
Debt service:			
Principal retirement			324,742
Interest and fiscal charges			31,755
	<u>35,000</u>	<u>535,109</u>	<u>356,497</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>540,925</u>		
OTHER FINANCING SOURCES (USES)			
Transfers in			
Transfers (out)			
	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)			
Net change in fund balances	540,925		
Fund balances - beginning	<u>9,691,773</u>		
FUND BALANCES - ENDING	<u><u>10,232,698</u></u>		

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund \$	Parks Impact and In Lieu Fee Fund \$	Shores Transportation Improvement District Fund \$	One Marina Community Facilities District Fund \$	Total Nonmajor Governmental Funds \$
				1,383,709
				258,292
13,637	67,264	5,643		698,301
				6,856,544
171,111	2,719,137		316,461	5,336,529
				646,083
				5,185
<u>184,748</u>	<u>2,786,401</u>	<u>5,643</u>	<u>316,461</u>	<u>15,184,643</u>
				1,193,665
				155,372
55,463				4,914,581
				1,916,023
	82,149			82,149
	82,664			2,401,749
				324,742
				31,755
<u>55,463</u>	<u>164,813</u>			<u>11,020,036</u>
<u>129,285</u>	<u>2,621,588</u>	<u>5,643</u>	<u>316,461</u>	<u>4,164,607</u>
				1,322,039
				(287,684)
				1,034,355
129,285	2,621,588	5,643	316,461	5,198,962
<u>299,019</u>	<u>7,582,340</u>	<u>587,277</u>		<u>51,486,978</u>
<u>428,304</u>	<u>10,203,928</u>	<u>592,920</u>	<u>316,461</u>	<u>56,685,940</u>

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SPECIAL GAS TAX			TRANSPORTATION GRANTS FUND		
	STREET IMPROVEMENT FUND		Variance with Final Budget Positive (Negative)	TRANSPORTATION GRANTS FUND		Variance with Final Budget Positive (Negative)
	Budget	Actual		Budget	Actual	
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property				35,000	52,516	17,516
Intergovernmental	2,281,151	2,506,108	224,957	1,383,672	1,357,530	(26,142)
Contributions						
Charges for current services		106,074	106,074			
Other						
Total Revenues	2,281,151	2,612,182	331,031	1,418,672	1,410,046	(8,626)
EXPENDITURES						
Current operations:						
Community development						
Public safety						
Transportation	2,366,632	2,359,716	6,916	213,424	183,440	29,984
Environmental support and protection	391,909	391,844	65	375,838	390,290	(14,452)
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	2,758,541	2,751,560	6,981	589,262	573,730	15,532
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(477,390)	(139,378)	338,012	829,410	836,316	6,906
OTHER FINANCING SOURCES (USES)						
Transfers in	659,575	20,210	(639,365)			
Transfers (out)					(27,684)	(27,684)
Total Other Financing Sources (Uses)	659,575	20,210	(639,365)		(27,684)	(27,684)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	182,185	(119,168)	(301,353)	829,410	808,632	(20,778)
Adjustments to budgetary basis:						
Capital outlay		(519,001)			(756,853)	
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		7,626,590			5,135,769	
Fund balances - ending		6,988,421			5,187,548	

There were no material changes between the original and final budgeted amounts.

GRANTS FUND			TRAFFIC SAFETY FUND			TRANSPORTATION FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
			270,000	258,292	(11,708)			
300,000	71,073	(228,927)				9,000	12,276	3,276
1,236,519	977,293	(259,226)				1,855,312	1,900,848	45,536
	100	100		4,800	4,800			
	380	380		4,070	4,070			
<u>1,536,519</u>	<u>1,048,846</u>	<u>(487,673)</u>	<u>270,000</u>	<u>267,162</u>	<u>(2,838)</u>	<u>1,864,312</u>	<u>1,913,124</u>	<u>48,812</u>
1,305,737	623,556	682,181						
			1,567,633	1,521,155	46,478	601,566	583,651	17,915
<u>1,305,737</u>	<u>623,556</u>	<u>682,181</u>	<u>1,567,633</u>	<u>1,521,155</u>	<u>46,478</u>	<u>601,566</u>	<u>583,651</u>	<u>17,915</u>
230,782	425,290	194,508	(1,297,633)	(1,253,993)	43,640	1,262,746	1,329,473	66,727
			1,297,633	1,271,884	(25,749)			
			<u>1,297,633</u>	<u>1,271,884</u>	<u>(25,749)</u>			
<u>230,782</u>	425,290	<u>194,508</u>		17,891	<u>17,891</u>	<u>1,262,746</u>	1,329,473	<u>66,727</u>
	(41,505)						(662,719)	
	<u>7,493,195</u>			<u>23,247</u>			<u>1,119,276</u>	
	<u>7,876,980</u>			<u>41,138</u>			<u>1,786,030</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SEAPORT LANDSCAPE MAINTENANCE FUND			SEAPORT CENTRE MAINTENANCE FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments	212,500	212,441	(59)	187,000	186,951	(49)
Fines, forfeitures and penalties						
Use of money and property	2,900	4,838	1,938	9,200	16,636	7,436
Intergovernmental						
Contributions						
Charges for current services						
Other						
Total Revenues	215,400	217,279	1,879	196,200	203,587	7,387
Current operations:						
Community development						
Public safety						
Transportation						
Environmental support and protection	239,166	214,282	24,884	146,725	98,452	48,273
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	239,166	214,282	24,884	146,725	98,452	48,273
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(23,766)	2,997	26,763	49,475	105,135	55,660
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(23,766)	2,997	26,763	49,475	105,135	55,660
Adjustments to budgetary basis:						
Capital outlay						
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		522,567			1,643,637	
Fund balances - ending		525,564			1,748,772	

There were no material changes between the original and final budgeted amounts.

REDWOOD SHORES MAINTENANCE FUND			REDWOOD SHORES LANDSCAPE MAINTENANCE FUND			SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
706,318	765,648	59,330	219,600	218,669	(931)			
5,000	11,832	6,832		338	338		1,045	1,045
						125,771	114,765	(11,006)
<u>711,318</u>	<u>777,480</u>	<u>66,162</u>	<u>219,600</u>	<u>219,007</u>	<u>(593)</u>	<u>125,771</u>	<u>115,810</u>	<u>(9,961)</u>
						154,127	155,372	(1,245)
635,170	524,485	110,685	249,545	241,207	8,338			
<u>635,170</u>	<u>524,485</u>	<u>110,685</u>	<u>249,545</u>	<u>241,207</u>	<u>8,338</u>	<u>154,127</u>	<u>155,372</u>	<u>(1,245)</u>
76,148	252,995	176,847	(29,945)	(22,200)	7,745	(28,356)	(39,562)	(11,206)
(260,000)	(260,000)		29,945	29,945				
<u>(260,000)</u>	<u>(260,000)</u>		<u>29,945</u>	<u>29,945</u>				
<u>(183,852)</u>	(7,005)	<u>176,847</u>		7,745	<u>7,745</u>	<u>(28,356)</u>	(39,562)	<u>(11,206)</u>
	<u>1,118,929</u>			<u>51,724</u>			<u>151,355</u>	
	<u>1,111,924</u>			<u>59,469</u>			<u>111,793</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	TRAFFIC MITIGATION FEES FUND			LOW AND MODERATE INCOME HOUSING ASSET FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property	23,000	59,516	36,516		25,190	25,190
Intergovernmental						
Contributions	720,000	1,579,820	859,820		550,000	550,000
Charges for current services						
Other					735	735
Total Revenues	743,000	1,639,336	896,336		575,925	575,925
Current operations:						
Community development				25,000	35,000	(10,000)
Public safety						
Transportation	266,619	266,619				
Environmental support and protection						
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	266,619	266,619		25,000	35,000	(10,000)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	476,381	1,372,717	896,336	(25,000)	540,925	565,925
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	476,381	1,372,717	896,336	(25,000)	540,925	565,925
Adjustments to budgetary basis:						
Capital outlay		(339,007)				
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		8,440,280			9,691,773	
Fund balances - ending		9,473,990			10,232,698	

There were no material changes between the original and final budgeted amounts.

PLANNING COST RECOVERY FUND			PUBLIC FINANCING AUTHORITY 2013 REFUNDING LEASE FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$
			359,247	356,497	(2,750)
1,132,523	535,109	(597,414)			
<u>1,132,523</u>	<u>535,109</u>	<u>(597,414)</u>	<u>359,247</u>	<u>356,497</u>	<u>(2,750)</u>
1,132,523	535,109	597,414			
			324,742	324,742	
			34,505	31,755	2,750
<u>1,132,523</u>	<u>535,109</u>	<u>597,414</u>	<u>359,247</u>	<u>356,497</u>	<u>2,750</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	TOTALS		
	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$
REVENUES			
Property taxes/special assessments	1,325,418	1,383,709	58,291
Fines, forfeitures and penalties	270,000	258,292	(11,708)
Use of money and property	743,347	611,757	(131,590)
Intergovernmental	6,882,425	6,856,544	(25,881)
Contributions	720,000	2,129,820	1,409,820
Charges for current services	1,132,523	646,083	(486,440)
Other		5,185	5,185
Total Revenues	11,073,713	11,891,390	817,677
Current operations:			
Community development	2,463,260	1,193,665	1,269,595
Public safety	154,127	155,372	(1,245)
Transportation	5,015,874	4,914,581	101,293
Environmental support and protection	2,038,353	1,860,560	177,793
Debt service:			
Principal retirement	324,742	324,742	
Interest and fiscal charges	34,505	31,755	2,750
Total Expenditures	10,030,861	8,480,675	1,550,186
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,042,852	3,410,715	2,367,863
OTHER FINANCING SOURCES (USES)			
Transfers in	1,987,153	1,322,039	(665,114)
Transfers (out)	(260,000)	(287,684)	(27,684)
Total Other Financing Sources (Uses)	1,727,153	1,034,355	(692,798)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	2,770,005	4,445,070	1,675,065
Adjustments to budgetary basis:			
Capital outlay		(2,319,085)	
Funds not budgeted:			
Facilities Fee Construction Fund		428,304	
Parks Impact and In Lieu Fee Fund		10,203,928	
Shores Transportation Improvement District		592,920	
One Marina Community Facilities District		316,461	
Fund balances - beginning		43,018,342	
Fund balances - ending		56,685,940	

There were no material changes between the original and final budgeted amounts.



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis.

Equipment Services Fund – This fund accounts for the costs of operation, maintenance, and replacement of automotive equipment used by other departments. Such costs are billed to the consuming departments at a rate that includes operation, maintenance, and an amount necessary to provide replacement of the equipment at a future date. Additional equipment is budgeted by the consuming department and is then transferred to the equipment services fund after purchase.

Self-Insurance Fund – This fund accounts for the City's total insurance program which includes, but is not limited to, workers' compensation, comprehensive automobile and general liability, marinas, and property and crime insurance. Included are administrative costs and costs associated with self-insurance and the purchase of excess insurance to adequately protect the City. User departments are charged for workers' compensation insurance at rates based on loss experience and on departmental budget size.

Internal Services Fund – This fund accounts for the costs of operation of the City's telephone/communications service, maintenance and repair of buildings, custodial services, and information technology services. The costs are billed to the user departments based on actual use by the departments.

Employee Benefits Fund – This fund is used to account for providing City workers with self-insured dental and vision benefits, unemployment insurance, and health insurance to retired City employees.

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
ASSETS	\$	\$	\$	\$	\$
Current assets:					
Cash and investments available for operations	8,722,534	18,495,049	1,716,950	593,294	29,527,827
Receivables (net of allowance for uncollectibles):					
Accounts		75,000	23,248	455	98,703
Accrued interest	2,946				2,946
Due from other governmental agencies	74,536		193,280		267,816
Due from other funds	300,000				300,000
Inventory of supplies at cost	150,818				150,818
Deposits		275,000			275,000
Prepaid items and other assets	486	1,918	9,046		11,450
Total current assets	<u>9,251,320</u>	<u>18,846,967</u>	<u>1,942,524</u>	<u>593,749</u>	<u>30,634,560</u>
Noncurrent assets:					
Advances to other funds	2,400,000				2,400,000
Capital assets:					
Equipment, net	8,586,203		801,974		9,388,177
Net capital assets	<u>8,586,203</u>		<u>801,974</u>		<u>9,388,177</u>
Total noncurrent assets	<u>10,986,203</u>		<u>801,974</u>		<u>11,788,177</u>
Total assets	<u>20,237,523</u>	<u>18,846,967</u>	<u>2,744,498</u>	<u>593,749</u>	<u>42,422,737</u>
LIABILITIES					
Current liabilities:					
Accounts payable	116,092	417,674	109,351	281	643,398
Insurance claims payable - current portion		3,922,579			3,922,579
Accrued sick leave and vacation - current portion	45,675		298,409		344,084
Unearned revenue	42,527				42,527
Total current liabilities	<u>204,294</u>	<u>4,340,253</u>	<u>407,760</u>	<u>281</u>	<u>4,952,588</u>
Noncurrent liabilities:					
Insurance claims payable		14,532,144			14,532,144
Accrued sick leave and vacation	73,592		505,583		579,175
Net OPEB obligation	74,492	25,994	390,836		491,322
Total noncurrent liabilities	<u>148,084</u>	<u>14,558,138</u>	<u>896,419</u>		<u>15,602,641</u>
Total liabilities	<u>352,378</u>	<u>18,898,391</u>	<u>1,304,179</u>	<u>281</u>	<u>20,555,229</u>
NET POSITION					
Invested in capital assets	8,586,203		801,974		9,388,177
Unrestricted	11,298,942	(51,424)	638,345	593,468	12,479,331
Total net position	<u>19,885,145</u>	<u>(51,424)</u>	<u>1,440,319</u>	<u>593,468</u>	<u>21,867,508</u>

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
OPERATING REVENUES					
Charges for services	4,262,961	5,206,289	8,774,795	5,930,429	24,174,474
OPERATING EXPENSES					
Employee services	872,348	381,751	7,012,582		8,266,681
Maintenance	1,253,084		1,038,053		2,291,137
Utilities	23,086	3,014	19,340		45,440
Contractual services	141,823	582,648	9,910	14,584	748,965
Supplies and services	81,086	484,642	864,724		1,430,452
Depreciation	1,059,436		143,745		1,203,181
Insurance and claims		8,512,343		5,677,304	14,189,647
Total operating expenses	3,430,863	9,964,398	9,088,354	5,691,888	28,175,503
Operating Income (Loss)	832,098	(4,758,109)	(313,559)	238,541	(4,001,029)
NONOPERATING REVENUES (EXPENSES)					
Gain (loss) on disposal of capital assets	(86)		(57,530)		(57,616)
Investment earnings	85,960	123,994	21,203	16,304	247,461
Insurance recovery	23,711				23,711
Contributions	10,752				10,752
Net Nonoperating Revenues (Expenses)	120,337	123,994	(36,327)	16,304	224,308
Net Income (Loss) Before Capital Contributions and Transfers	952,435	(4,634,115)	(349,886)	254,845	(3,776,721)
Capital contributions	1,190,671		306,193		1,496,864
Transfers in	23,047	6,000,000			6,023,047
Transfers (out)			(15,976)		(15,976)
Total Capital Contributions and Transfers	1,213,718	6,000,000	290,217		7,503,935
Change in net position	2,166,153	1,365,885	(59,669)	254,845	3,727,214
Net position - beginning	17,718,992	(1,417,309)	1,499,988	338,623	18,140,294
Net position - ending	19,885,145	(51,424)	1,440,319	593,468	21,867,508

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from interfund services provided	4,307,655	5,131,289	8,680,491	5,930,429	24,049,864
Cash payments to suppliers for goods and services	(1,547,356)	(4,374,013)	(2,043,975)	(5,691,607)	(13,656,951)
Cash payments to employees for services	(917,795)	(381,751)	(7,001,867)		(8,301,413)
Net cash provided by (used in) operating activities	<u>1,842,504</u>	<u>375,525</u>	<u>(365,351)</u>	<u>238,822</u>	<u>2,091,500</u>
Cash flows from noncapital financing activities					
Insurance recovery	23,711				23,711
Transfers in		6,000,000			6,000,000
Transfers out			(15,976)		(15,976)
Advances to other funds	300,000				300,000
Contributions	10,752				10,752
Net cash provided by (used in) non-capital financing activities	<u>334,463</u>	<u>6,000,000</u>	<u>(15,976)</u>		<u>6,318,487</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(808,762)		(8,108)		(816,870)
Contributions	44,473				44,473
Proceeds from sale of capital assets	1,382				1,382
Net cash used in capital and related financing activities	<u>(762,907)</u>		<u>(8,108)</u>		<u>(771,015)</u>
Cash flows from investing activities:					
Interest on investments	86,733	123,994	21,203	16,304	248,234
Net cash provided by investing activities	<u>86,733</u>	<u>123,994</u>	<u>21,203</u>	<u>16,304</u>	<u>248,234</u>
Net increase (decrease) in cash and cash equivalents	1,500,793	6,499,519	(368,232)	255,126	7,887,206
Cash and cash equivalents at beginning of year	7,221,741	11,995,530	2,085,182	338,168	21,640,621
Cash and cash equivalents at end of year	<u>8,722,534</u>	<u>18,495,049</u>	<u>1,716,950</u>	<u>593,294</u>	<u>29,527,827</u>
Reconciliation of Net Cash Flow from Operating Activities					
Operating income (loss)	832,098	(4,758,109)	(313,559)	238,541	(4,001,029)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:					
Depreciation	1,059,436		143,745		1,203,181
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	36,784	(75,000)	(23,248)		(61,464)
Decrease (increase) in due from other governmental agencies	5,383		(71,056)		(65,673)
Decrease (increase) in inventory/prepaid expense/deposits	(10,913)	(26,918)	25		(37,806)
Increase (decrease) in vacation & sick leave payable	(45,447)		10,715		(34,732)
Increase (decrease) in accounts payable	(37,364)	181,181	(111,973)	281	32,125
Increase (decrease) in unearned revenue	2,527				2,527
Increase (decrease) in net OPEB obligation					
Increase (decrease) in insurance claims payable		5,054,371			5,054,371
Total adjustments	<u>1,010,406</u>	<u>5,133,634</u>	<u>(51,792)</u>	<u>281</u>	<u>6,092,529</u>
Net cash provided by (used in) operating activities	<u>1,842,504</u>	<u>375,525</u>	<u>(365,351)</u>	<u>238,822</u>	<u>2,091,500</u>
Noncash investing, capital and financing activities:					
Noncash capital contributions	1,169,245		306,193		1,475,438
Gain (loss) on disposal of equipment	(1,468)		(57,530)		(58,998)

AGENCY FUNDS

Agency funds are used to account for assets held by government in a trustee capacity or as an agent for an individual.

Employee Benefit Plans Fund – This fund is used to account for contributions to certain employee benefit categories established by the City under Section 125 of the Internal Revenue Code for the employees and their dependents.

Pacific Shores Community Facilities District Fund – This fund accounts for the Mello-Roos Pacific Shores Project special tax bonds that were issued to fund various transportation system improvements within the City's right-of-way in the Pacific Shores district.

Shores Transportation Improvement District Fund – This fund accounts for the Mello-Roos Shores Transportation Improvement special tax bonds that were issued to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for the Mello-Roos One Marina Project special tax bonds that were issued to fund certain public infrastructure improvements projects within the One Marina district.

CITY OF REDWOOD CITY, CALIFORNIA
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Balance July 1, 2013 \$	Additions \$	Withdrawals \$	Balance June 30, 2014 \$
EMPLOYEE BENEFIT PLANS				
ASSETS				
Cash and Investments, restricted				
Cafeteria Benefits Plan	50,382	308,370	304,545	54,207
Deposits	8,157	29,505	8,157	29,505
Total Assets	<u>58,539</u>	<u>337,875</u>	<u>312,702</u>	<u>83,712</u>
LIABILITIES				
Cafeteria Benefits Plan Payable	58,539	337,875	312,702	83,712
Total Liabilities	<u>58,539</u>	<u>337,875</u>	<u>312,702</u>	<u>83,712</u>
PACIFIC SHORES COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	2,460,177	1,348,070	1,470,675	2,337,572
Total Assets	<u>2,460,177</u>	<u>1,348,070</u>	<u>1,470,675</u>	<u>2,337,572</u>
LIABILITIES				
Due to Bondholders	2,460,177	1,348,070	1,470,675	2,337,572
Total Liabilities	<u>2,460,177</u>	<u>1,348,070</u>	<u>1,470,675</u>	<u>2,337,572</u>
SHORES TRANSPORTATION IMPROVEMENT DISTRICT				
ASSETS				
Cash and Investments, restricted	1,527,930	802,583	1,012,653	1,317,860
Accrued interest receivable	24		24	
Total Assets	<u>1,527,954</u>	<u>802,583</u>	<u>1,012,677</u>	<u>1,317,860</u>
LIABILITIES				
Due to Bondholders	1,527,954	802,583	1,012,677	1,317,860
Total Liabilities	<u>1,527,954</u>	<u>802,583</u>	<u>1,012,677</u>	<u>1,317,860</u>
ONE MARINA COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	1,184,439	470,652	901,678	753,413
Accrued interest receivable	15		15	
Total Assets	<u>1,184,454</u>	<u>470,652</u>	<u>901,693</u>	<u>753,413</u>
LIABILITIES				
Accounts payable	2,278	165	2,278	165
Due to Bondholders	1,182,176	470,487	899,415	753,248
Total Liabilities	<u>1,184,454</u>	<u>470,652</u>	<u>901,693</u>	<u>753,413</u>
TOTAL FOR ALL FUNDS				
ASSETS				
Cash and Investments, restricted	5,222,928	2,929,675	3,689,551	4,463,052
Accrued interest receivable	39		39	
Deposits	8,157	29,505	8,157	29,505
Total Assets	<u>5,231,124</u>	<u>2,959,180</u>	<u>3,697,747</u>	<u>4,492,557</u>
LIABILITIES				
Accounts payable	2,278	165	2,278	165
Due to Bondholders	5,170,307	2,621,140	3,382,767	4,408,680
Employee Benefit Plans Payable	58,539	337,875	312,702	83,712
Total Liabilities	<u>5,231,124</u>	<u>2,959,180</u>	<u>3,697,747</u>	<u>4,492,557</u>



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2014*

Statistical Section

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

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	114-121
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	122-125
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	126-130
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	131-133
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	134-136

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

Schedule 1
CITY OF REDWOOD CITY, CALIFORNIA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Years				
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	141,068,539	158,410,981	156,907,578	156,560,228	161,627,155
Restricted	85,744,834	64,855,313	54,756,987	50,323,338	52,368,702
Unrestricted	29,809,721	39,583,698	62,441,526	63,104,332	49,292,416
Total governmental activities net position	<u>256,623,094</u>	<u>262,849,992</u>	<u>274,106,091</u>	<u>269,987,898</u>	<u>263,288,273</u>
Business-type activities					
Net investment in capital assets	38,599,000	28,718,115	70,506,885	78,785,990	81,617,178
Restricted	27,422,661	36,638,784	6,139,177	5,785,576	5,548,281
Unrestricted	52,654,580	55,293,919	49,663,838	66,030,719	55,230,314
Total business-type activities net position	<u>118,676,241</u>	<u>120,650,818</u>	<u>126,309,900</u>	<u>150,602,285</u>	<u>142,395,773</u>
Primary government					
Net investment in capital assets	179,667,539	187,129,096	227,414,463	235,346,218	243,244,333
Restricted	113,167,495	101,494,097	60,896,164	56,108,914	57,916,983
Unrestricted	82,464,301	94,877,617	112,105,364	129,135,051	104,522,730
Total primary government net position	<u>375,299,335</u>	<u>383,500,810</u>	<u>400,415,991</u>	<u>420,590,183</u>	<u>405,684,046</u>

Schedule 1 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 NET POSITION BY COMPONENT
 Last Ten Fiscal Years
 (accrual basis of accounting)

Fiscal Years				
2010	2011	2012	2013	2014
\$	\$	\$	\$	\$
169,093,206	169,197,701	185,512,524	190,190,522	184,624,589
54,628,813	48,959,550	39,238,667	43,957,061	49,268,810
37,166,449	42,990,998	48,138,559	48,015,241	60,038,520
<u>260,888,468</u>	<u>261,148,249</u>	<u>272,889,750</u>	<u>282,162,824</u>	<u>293,931,919</u>
90,877,809	101,835,656	107,036,885	110,901,151	117,927,502
5,660,219	5,838,632	5,868,399	6,637,669	6,553,008
64,022,824	65,532,636	69,695,347	76,506,675	92,340,047
<u>160,560,852</u>	<u>173,206,924</u>	<u>182,600,631</u>	<u>194,045,495</u>	<u>216,820,557</u>
259,971,015	271,033,357	292,549,409	301,091,673	302,552,091
60,289,032	54,798,182	45,107,066	50,594,730	55,821,818
101,189,273	108,523,634	117,833,906	124,521,916	152,378,567
<u>421,449,320</u>	<u>434,355,173</u>	<u>455,490,381</u>	<u>476,208,319</u>	<u>510,752,476</u>

Schedule 2
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
Expenses					
Governmental Activities:					
Community development	13,922,037	15,653,209	13,744,289	16,263,530	15,808,848
Human services	1,260,521	1,279,535	1,351,113	1,518,333	1,623,102
Public safety	39,677,167	41,264,413	42,600,983	45,450,681	48,500,457
Transportation	10,007,929	9,683,728	13,302,505	10,620,489	13,930,238
Environmental support and protection	2,804,327	3,715,183	2,930,603	2,010,545	2,890,119
Leisure, cultural and information services	18,186,423	18,879,833	19,520,000	20,994,657	23,947,621
Policy development and implementation	2,599,708	2,646,873	2,653,677	2,792,115	4,766,661
Interest on long term debt	3,702,727	3,599,533	3,450,169	3,251,324	2,986,613
Total governmental activities expenses	<u>92,160,839</u>	<u>96,722,307</u>	<u>99,553,339</u>	<u>102,901,674</u>	<u>114,453,659</u>
Business-type activities					
Water utility fund	16,692,690	19,846,801	19,341,678	22,594,685	21,595,698
Sewer utility fund	12,742,427	12,785,043	16,299,485	15,828,257	16,125,292
Parking fund	457,482	595,559	1,794,044	2,195,805	2,561,896
Port of Redwood City	4,468,366	4,207,224	4,053,686	3,937,037	3,896,043
Docktown Marina					
Total business-type activities expenses	<u>34,360,965</u>	<u>37,434,627</u>	<u>41,488,893</u>	<u>44,555,784</u>	<u>44,178,929</u>
Total primary government expenses	<u>126,521,804</u>	<u>134,156,934</u>	<u>141,042,232</u>	<u>147,457,458</u>	<u>158,632,588</u>
Program Revenues					
Governmental activities:					
Charges for services:					
Community Development	2,658,444	1,984,721	3,981,057	3,777,584	2,760,718
Public Safety	1,884,219	1,836,985	1,741,393	1,861,194	1,807,675
Transportation	87,945	161,112	250,265	522,453	298,955
Environmental support and protection	1,251,622	1,210,222	1,296,745	1,380,110	1,371,562
Leisure, cultural, and information services	2,709,142	3,023,953	3,169,556	2,515,117	2,508,597
Policy development and implementation	729,524	583,237	609,683	1,604,897	1,534,944
Operating grants and contributions	5,740,716	6,337,751	6,364,633	5,302,686	6,741,821
Capital grants and contributions	24,469,000	10,170,784	10,223,691	12,778,701	6,987,681
Total governmental activities program revenues	<u>39,530,612</u>	<u>25,308,765</u>	<u>27,637,023</u>	<u>29,742,742</u>	<u>24,011,953</u>
Business-type activities:					
Water utility fund	16,311,364	18,704,466	20,879,685	23,318,628	25,578,282
Sewer utility fund	10,274,952	11,772,513	14,104,270	16,818,581	20,259,668
Parking fund	550,611	607,515	862,328	1,098,340	840,414
Port of Redwood City	5,950,512	6,254,362	5,676,604	5,689,697	6,702,772
Docktown Marina					
Total business-type activities program revenues	<u>33,087,439</u>	<u>37,338,856</u>	<u>41,522,887</u>	<u>46,925,246</u>	<u>53,381,136</u>
Net (Expense)/Revenue					
Governmental activities	(52,630,227)	(71,413,542)	(71,916,316)	(73,158,932)	(90,441,706)
Business-type activities	(1,273,526)	(95,771)	33,994	2,369,462	9,202,207
Total primary government net expense	<u>(53,903,753)</u>	<u>(71,509,313)</u>	<u>(71,882,322)</u>	<u>(70,789,470)</u>	<u>(81,239,499)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes:					
Property taxes	29,831,476	36,256,452	39,899,711	43,329,876	47,082,041
Sales taxes	16,476,894	17,902,816	19,208,709	18,136,670	15,552,681
Other taxes	19,545,345	18,370,347	17,165,197	18,636,208	18,325,098
Investment Earnings	2,432,000	3,321,134	4,844,480	5,371,665	2,036,661
Other	1,774,027	1,751,381	1,710,333	1,630,933	1,813,256
Extraordinary item					
Gain (loss) on retirement of capital assets					
Transfers	34,964	38,310	(343,138)	(18,064,613)	(1,067,656)
Total governmental activities	<u>70,094,706</u>	<u>77,640,440</u>	<u>82,485,292</u>	<u>69,040,739</u>	<u>83,742,081</u>
Business-type activities:					
Property taxes	34,081	50,583	60,688	27,358	28,390
Investment Earnings	951,375	2,058,075	2,509,321	3,117,508	1,264,220
Incr. (decr.) in investment in sewer authority	3,272				
Other			230,215	713,444	27,537
Extraordinary item - pollution remediation					(19,796,522)
Gain (loss) on retirement of capital assets					
Transfers	(34,964)	(38,310)	343,138	18,064,613	1,067,656
Total business-type activities	<u>953,764</u>	<u>2,070,348</u>	<u>3,143,362</u>	<u>21,922,923</u>	<u>(17,408,719)</u>
Total primary government	<u>71,048,470</u>	<u>79,710,788</u>	<u>85,628,654</u>	<u>90,963,662</u>	<u>66,333,362</u>
Change in Net Position					
Governmental activities	17,464,479	6,226,898	10,568,976	(4,118,193)	(6,699,625)
Business-type activities	(319,762)	1,974,577	3,177,356	24,292,385	(8,206,512)
Total primary government	<u>17,144,717</u>	<u>8,201,475</u>	<u>13,746,332</u>	<u>20,174,192</u>	<u>(14,906,137)</u>

Schedule 2 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

2010	2011	2012	2013	2014
\$	\$	\$	\$	\$
18,412,550	17,702,202	22,954,181	9,090,251	8,150,880
1,554,411	1,582,251	1,495,964	1,562,157	1,462,300
46,093,823	46,022,760	50,621,439	51,355,424	59,435,400
13,535,438	11,650,032	11,352,844	11,332,401	11,572,619
4,124,316	2,919,735	2,327,751	1,996,098	2,746,600
22,168,928	21,547,087	21,681,720	21,548,736	22,823,528
4,726,541	5,528,602	4,773,768	6,030,657	5,982,346
2,762,933	2,551,146	1,616,333	314,022	48,341
<u>113,378,940</u>	<u>109,503,815</u>	<u>116,824,000</u>	<u>103,229,746</u>	<u>112,222,014</u>
20,702,048	21,889,834	28,680,794	31,123,859	30,591,894
17,776,510	19,900,464	20,017,426	19,287,430	19,989,758
2,476,991	2,420,716	2,420,029	2,430,359	2,471,222
4,038,336	4,251,855	4,739,397	5,628,403	5,091,265
			243,335	705,388
<u>44,993,885</u>	<u>48,462,869</u>	<u>55,857,646</u>	<u>58,713,386</u>	<u>58,849,527</u>
<u>158,372,825</u>	<u>157,966,684</u>	<u>172,681,646</u>	<u>161,943,132</u>	<u>171,071,541</u>
3,996,401	6,503,254	4,852,265	4,651,706	8,553,508
1,995,853	2,345,175	3,199,818	3,131,805	6,922,702
304,275	256,929	404,042	546,820	374,859
1,351,354	1,328,009	1,330,208	1,335,544	1,417,353
2,430,818	2,632,930	2,843,954	2,827,087	3,074,537
1,626,141	1,656,917	1,817,823	1,780,367	1,871,774
7,380,584	6,159,842	6,193,090	6,716,207	7,072,772
7,978,474	6,243,279	8,503,363	12,658,933	9,505,357
<u>27,063,900</u>	<u>27,126,335</u>	<u>29,144,563</u>	<u>33,648,469</u>	<u>38,792,862</u>
23,255,926	26,038,320	28,465,337	33,202,194	36,271,106
22,241,030	24,156,749	26,898,440	28,100,341	25,692,258
1,005,328	1,100,304	1,267,531	1,366,984	1,503,519
6,073,755	7,674,030	7,638,585	6,262,660	6,824,474
			493,262	665,819
<u>52,576,039</u>	<u>58,969,403</u>	<u>64,269,893</u>	<u>69,425,441</u>	<u>70,957,176</u>
(86,315,040)	(82,377,480)	(87,679,437)	(69,581,277)	(73,429,152)
7,582,154	10,506,534	8,412,247	10,712,055	12,107,649
<u>(78,732,886)</u>	<u>(71,870,946)</u>	<u>(79,267,190)</u>	<u>(58,869,222)</u>	<u>(61,321,503)</u>
48,052,021	46,614,369	42,432,818	38,379,963	41,708,668
15,023,882	15,671,238	16,998,443	19,240,290	20,781,613
18,034,397	18,440,213	19,595,982	20,335,928	21,612,376
1,629,298	1,042,032	579,394	301,171	992,221
2,093,288	1,598,452	1,260,652	1,069,894	1,205,727
		19,161,516		(3,359,063)
<u>(917,651)</u>	<u>(729,043)</u>	<u>(607,867)</u>	<u>(472,895)</u>	<u>2,314,350</u>
<u>83,915,235</u>	<u>82,637,261</u>	<u>99,420,938</u>	<u>78,854,351</u>	<u>85,255,892</u>
25,904	28,080	77,425	104,081	104,814
435,559	327,435	281,583	151,041	499,586
2,885	17,324	14,585	4,792	4,132
				13,700,440
917,651	729,043	607,867	472,895	(2,314,350)
1,381,999	1,101,882	981,460	732,809	11,994,622
<u>85,297,234</u>	<u>83,739,143</u>	<u>100,402,398</u>	<u>79,587,160</u>	<u>97,250,514</u>
(2,399,805)	259,781	11,741,501	9,273,074	11,826,740
8,964,153	11,608,416	9,393,707	11,444,864	24,102,271
<u>6,564,348</u>	<u>11,868,197</u>	<u>21,135,208</u>	<u>20,717,938</u>	<u>35,929,011</u>

Schedule 3
CITY OF REDWOOD CITY, CALIFORNIA
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Years			
	2005	2006	2007	2008
	\$	\$	\$	\$
General Fund				
Reserved	4,215,063	3,872,498	4,177,832	5,554,149
Unreserved	34,381,730	39,266,188	40,827,073	40,900,734
Total general fund	<u>38,596,793</u>	<u>43,138,686</u>	<u>45,004,905</u>	<u>46,454,883</u>
All Other Governmental Funds				
Reserved	38,919,889	35,256,257	40,323,695	25,925,282
Unreserved, reported in:				
Special revenue funds	21,745,503	17,875,037	19,220,633	24,369,952
Debt service funds	(29,697)	(50,285)	(41,058)	46,511
Capital projects funds	38,852,090	29,329,795	18,892,346	26,565,268
Total all other governmental funds	<u>99,487,785</u>	<u>82,410,804</u>	<u>78,395,616</u>	<u>76,907,013</u>
Total governmental funds	<u>138,084,578</u>	<u>125,549,490</u>	<u>123,400,521</u>	<u>123,361,896</u>
	2011	2012	2013	2014
	\$	\$	\$	\$
General Fund				
Nonspendable	5,522,056	1,902,685	1,785,184	1,608,733
Restricted				
Committed	864,057	551,640	370,927	536,108
Assigned	775,772	151,178	148,534	223,061
Unassigned	17,687,858	17,219,050	19,449,097	21,480,940
Total general fund	<u>24,849,743</u>	<u>19,824,553</u>	<u>21,753,742</u>	<u>23,848,842</u>
All Other Governmental Funds				
Nonspendable	16,740,323			
Restricted	39,829,153	39,468,697	43,969,746	49,268,810
Committed	22,014,259	24,806,534	22,494,438	29,788,888
Assigned	3,064,843	7,424,963	7,817,738	8,128,032
Unassigned	(3,181,518)			
Total all other governmental funds	<u>78,467,060</u>	<u>71,700,194</u>	<u>74,281,922</u>	<u>87,185,730</u>
Total governmental funds	<u>103,316,803</u>	<u>91,524,747</u>	<u>96,035,664</u>	<u>111,034,572</u>

Notes:

The City began to classify fund balances into specifically defined classifications when it implemented GASB Statement No. 54 in FY 2010/11.

Schedule 3 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 FUND BALANCES - GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Fiscal Years	
2009	2010
\$	\$
4,630,992	3,732,535
<u>34,464,505</u>	<u>20,991,436</u>
<u>39,095,497</u>	<u>24,723,971</u>
25,660,144	26,067,203
28,419,218	32,706,733
78,418	40,589
<u>21,189,395</u>	<u>18,520,889</u>
<u>75,347,175</u>	<u>77,335,414</u>
<u><u>114,442,672</u></u>	<u><u>102,059,385</u></u>

Schedule 4
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	Fiscal Years				
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
REVENUES					
Property taxes/special assessments	33,007,808	39,392,649	42,495,915	44,573,382	48,371,857
Sales and other taxes	29,920,574	32,954,880	34,234,028	34,567,051	31,674,430
Licenses and permits	1,086,454	1,167,735	1,519,504	1,557,547	902,723
Fines, forfeitures and penalties	1,012,208	948,858	972,557	977,774	921,566
Use of money and property	5,896,426	6,499,826	8,447,097	8,445,701	4,995,104
Intergovernmental	17,029,762	13,503,927	11,068,009	13,523,007	10,397,158
Contributions	13,265,096	182,492	736,549	1,190,376	540,186
Charges for current services	5,918,790	6,051,971	7,431,181	7,843,245	7,326,776
Other	1,297,216	1,193,120	1,281,626	1,166,364	2,173,942
Total Revenues	108,434,334	101,895,458	108,186,466	113,844,447	107,303,742
EXPENDITURES					
Current Operations:					
Community development	13,639,528	15,574,342	13,752,526	15,866,328	15,305,951
Human services	1,153,640	1,195,315	1,287,907	1,433,258	1,511,733
Public safety	37,901,952	40,631,780	40,929,708	44,390,736	46,713,987
Transportation	6,715,527	6,294,030	7,216,139	6,158,706	8,866,814
Environmental support and protection	2,778,068	3,699,378	2,954,547	1,958,690	2,863,738
Leisure, cultural and information services	16,149,697	16,844,333	17,804,190	19,236,180	21,873,848
Policy development and implementation	1,877,692	1,704,545	2,338,164	918,430	2,785,266
Capital outlay	33,524,241	22,341,941	15,600,102	17,326,293	9,894,551
Debt service:					
Principal retirement	4,662,321	4,887,321	4,822,321	4,067,321	3,747,321
Interest and fiscal charges	2,757,238	2,426,923	2,213,040	1,945,514	1,608,310
Bond issuance costs					
Total Expenditures	121,159,904	115,599,908	108,918,644	113,301,456	115,171,519
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,725,570)	(13,704,450)	(732,178)	542,991	(7,867,777)
OTHER FINANCING SOURCES (USES)					
Transfers in	18,731,139	14,945,169	14,819,568	13,557,675	14,275,221
Transfers (out)	(18,706,330)	(15,234,654)	(16,236,359)	(14,139,291)	(15,326,668)
Sale of property	25,387	5,100			
Bond proceeds/Refunding Lease					
Contribution from (to) other funds					
Gain from sale of land held for redevelopment	230,991				
Payment to bond refunding excrow agent					
Total Other Financing Sources (Uses)	281,187	(284,385)	(1,416,791)	(581,616)	(1,051,447)
Extraordinary gain (loss)					
NET CHANGE IN FUND BALANCES	(12,444,383)	(13,988,835)	(2,148,969)	(38,625)	(8,919,224)
Debt service as a percentage of non-capital expenditures	8.47%	7.84%	7.54%	6.26%	5.09%

Schedule 4 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Last Ten Fiscal Years

Fiscal Years				
2010	2011	2012	2013	2014
\$	\$	\$	\$	\$
49,351,469	47,906,240	43,732,410	39,709,199	43,092,377
30,964,483	31,575,135	34,231,492	37,072,870	39,970,312
875,019	1,097,906	1,266,183	1,897,584	2,561,642
1,216,604	1,404,168	1,313,826	1,198,611	887,309
4,264,447	3,813,336	2,302,262	2,476,647	1,771,829
13,711,717	9,126,252	10,223,281	10,505,927	10,835,761
829,561	1,850,469	3,971,547	7,743,498	8,301,860
8,395,583	11,227,564	10,830,462	10,411,028	15,345,006
1,608,439	1,028,902	750,414	557,739	623,242
<u>111,217,322</u>	<u>109,029,972</u>	<u>108,621,877</u>	<u>111,573,103</u>	<u>123,389,338</u>
18,155,500	17,440,348	22,125,748	8,595,743	7,864,788
1,465,105	1,504,568	1,389,422	1,462,092	1,347,136
45,500,450	45,470,647	49,175,285	49,368,709	56,115,246
8,552,901	6,729,077	6,472,378	6,452,755	6,714,370
4,152,609	2,916,577	2,260,457	1,959,881	2,601,280
20,479,455	19,876,261	19,585,039	19,778,480	20,789,647
3,299,086	3,979,560	2,617,522	5,470,098	3,598,453
5,025,308	4,902,938	7,665,302	10,502,338	5,310,292
14,657,321	3,182,321	3,275,000	5,880,000	324,742
1,378,637	1,007,650	930,487	326,059	31,755
			67,252	
<u>122,666,372</u>	<u>107,009,947</u>	<u>115,496,640</u>	<u>109,863,407</u>	<u>104,697,709</u>
<u>(11,449,050)</u>	<u>2,020,025</u>	<u>(6,874,763)</u>	<u>1,709,696</u>	<u>18,691,629</u>
28,655,915	13,288,203	18,062,351	13,223,617	13,632,786
(29,590,152)	(14,050,840)	(18,655,801)	(13,782,396)	(17,325,507)
	30			
			3,360,000	
<u>(934,237)</u>	<u>(762,607)</u>	<u>(593,450)</u>	<u>2,801,221</u>	<u>(3,692,721)</u>
		(4,323,843)		
<u>(12,383,287)</u>	<u>1,257,418</u>	<u>(11,792,056)</u>	<u>4,510,917</u>	<u>14,998,908</u>
13.63%	4.10%	3.90%	6.25%	0.36%

Schedule 5
CITY OF REDWOOD CITY, CALIFORNIA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property	Less: Tax Exempt Property	Total Taxable Assessed Value	% Increase/ (Decrease) Over Prior Year	Effective Direct Tax Rate*
	State Assessed	Locally Assessed	Locally Assessed				
	\$	\$	\$	\$	\$	%	%
2005	11,069,324	10,978,316,191	577,189,796	358,123,641	11,208,451,670	3.79	0.2429
2006	4,454,190	11,577,635,719	527,383,171	365,930,032	11,743,543,048	4.77	0.2389
2007	4,342,506	12,521,555,794	579,933,721	441,803,730	12,664,028,291	7.84	0.2420
2008	5,003,014	13,671,991,606	586,031,204	541,024,340	13,722,001,484	8.35	0.2439
2009	5,003,014	14,734,164,661	676,178,812	642,703,087	14,772,643,400	7.66	0.2350
2010	5,003,014	14,885,525,123	757,610,502	664,018,869	14,984,119,770	1.43	0.2397
2011	5,003,014	14,673,871,469	770,364,641	704,940,601	14,744,298,523	(1.60)	0.2373
2012	1,466,946	14,712,120,582	674,899,038	646,459,575	14,742,026,991	(0.02)	0.2030
2013	1,466,946	15,154,966,352	763,901,657	766,118,316	15,154,216,639	2.80	0.2101
2014	1,466,946	16,187,528,735	785,538,767	726,787,642	16,247,746,806	7.22	0.1921

Note: In 1978 the voters of the State of California passed Proposition 13 which limited basic property tax to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is the purchase price. The estimated market value of taxable property is not available.

The amount shown above includes assessed value data for both the City and the Redevelopment Agency.

* The direct tax rate calculation does not include the property tax amount that is shifted from local agencies by the State of California to the Educational Revenue Augmentation Fund used to support K-14 education.

Source: San Mateo County Assessor's records

Schedule 6

CITY OF REDWOOD CITY, CALIFORNIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years

(rate per \$100 of assessed values)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Direct Rates										
City	0.2429	0.2389	0.2420	0.2439	0.2350	0.2397	0.2373	0.2030	0.2101	0.1921
County and All Others*	0.7571	0.7611	0.7580	0.7561	0.7650	0.7603	0.7627	0.7970	0.7899	0.8079
Total Direct Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Overlapping Rates										
Elementary School	0.0065	0.0279	0.0265	0.0250	0.0229	0.0238	0.0249	0.0255	0.0256	0.0240
High School	0.0164	0.0223	0.0208	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356	0.0313
Community College	0.0282	0.0065	0.0184	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194
Total Overlapping Rate	0.0511	0.0567	0.0657	0.0626	0.0676	0.0697	0.0753	0.0812	0.0806	0.0747
Total Direct and Overlapping Rate	1.0511	1.0567	1.0657	1.0626	1.0676	1.0697	1.0753	1.0812	1.0806	1.0747

Source: San Mateo County Assessor's records (tax rate area 9-001)

* Elementary School, High School, Community College, MidPeninsula Open Space District, Bay Area Air Pollution, County Harbor District, Mosquito Abatement District, Sequoia Hospital District, and County Education tax.

Schedule 7
CITY OF REDWOOD CITY, CALIFORNIA
PRINCIPAL PROPERTY TAX PAYERS
Current Year and Nine Years Ago

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$			\$		
Oracle Corporation	590,221,772	1	3.63%	729,507,982	1	6.51%
Pacific Shores Investors LLC	408,654,895	2	2.52%	422,859,936	2	3.77%
Westport Office Park LLC	266,009,011	3	1.64%			
Slough Redwood City LLC	241,982,979	4	1.49%	211,921,902	7	1.89%
Electronic Arts Inc	204,086,925	5	1.26%			
SPK - Redwood Shores	193,010,865	6	1.19%	188,145,700	9	1.68%
SRI Eight Pacific Shores LLC	181,719,875	7	1.12%			
Informatica Corp.	158,972,725	8	0.98%			
Irvine Co. LLC	135,947,863	9	0.84%	241,054,237	5	2.15%
Metropolitan Life Insurance Co.	130,360,408	10	0.80%	189,092,041	8	1.69%
Arrillage, John Tr et al				330,808,342	3	2.95%
Selco Service Corporation				298,256,051	4	2.66%
Credit Agricole et al				231,620,318	6	2.07%
Security Capital Pacific Trust				118,192,184	10	1.05%
	<u>2,510,967,318</u>		<u>15.45%</u>	<u>2,961,458,693</u>		<u>26.42%</u>

Source: San Mateo County Assessor via MuniServices, LLC. and the City's previous audited financials.

Schedule 8
CITY OF REDWOOD CITY, CALIFORNIA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections	
		Amount ¹	Percentage of Levy	Delinquent Tax Collections ²	Amount	Percentage of Levy
2005	19,306,928	19,289,656	99.91	NA	19,289,656	99.91
2006	20,217,010	19,687,100	97.38	NA	19,687,100	97.38
2007	21,825,495	21,688,365	99.37	NA	21,688,365	99.37
2008	23,599,098	23,230,333	98.44	NA	23,230,333	98.44
2009	25,185,881	24,732,667	98.20	NA	24,732,667	98.20
2010	25,402,023	25,081,429	98.74	NA	25,081,429	98.74
2011	25,027,079	24,734,718	98.83	NA	24,734,718	98.83
2012	25,004,405	24,713,562	98.84	NA	24,713,562	98.84
2013	25,724,570	25,478,547	99.04	NA	25,478,547	99.04
2014	27,363,041	27,345,209	99.93	NA	27,345,209	99.93

Source: Audited City financial records - general fund

¹ Amount collected is less than levy as refunds are deducted from the current year tax apportionment and tax roll adjustments are initiated by the County of San Mateo after the levy has been established.

² San Mateo County assesses properties and bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied for secured property taxes and handles all delinquencies, retaining interest and penalties.

Schedule 9

CITY OF REDWOOD CITY, CALIFORNIA

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

	<u>Governmental Activities</u>					<u>Business-Type Activities</u>		Total Primary Govt	Per Capita	Debt/ Personal Income
	Revenue Bonds	Refunding Lease	GID Bonds	Tax Increment Bonds*	Loans*	Revenue Bonds	Loans			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2005	28,834		4,005	44,694	339	45,815	1,975	125,662	1,659	4.58
2006	26,794		2,305	45,780	296	70,775	1,952	147,902	1,944	5.20
2007	24,679		800	45,878	254	84,403	1,928	157,942	2,059	5.35
2008	22,493		170	45,998	212	81,981	1,903	152,757	1,977	4.95
2009	20,228			46,133	169	80,141	1,876	148,547	1,909	4.79
2010	9,807			43,423	127	78,236	1,848	133,441	1,698	4.37
2011	7,892			43,767	85	76,266	1,819	129,829	1,671	4.20
2012	5,882					84,217	1,789	91,888	1,174	2.94
2013		3,360				81,346	1,758	86,464	1,093	2.70
2014		3,035				80,393	424	83,852	1,038	NA

*Tax Increment Bonds and Loans were transferred from Governmental Funds to a Private Purpose Trust Fund in 2012.

Schedule 10
 CITY OF REDWOOD CITY, CALIFORNIA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 As of June 30, 2014

<u>Governmental Unit</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
	%	\$
City Overlapping Debt		
Debt Repaid with Property Taxes		
San Mateo Community College District	10.399	58,584,846
Sequoia Union High School District	25.002	82,165,323
Belmont-Redwood Shores School District	43.682	14,146,131
Belmont-Redwood Shores School District School Facilities Improvement Distr.	93.328	21,572,767
Redwood City School District	61.241	24,559,389
San Carlos School District	1.385	977,420
Redwood City Community Facilities District 2000-1	100.000	4,215,000
Redwood City Redwood Shores Community Facilities District No. 99-1	100.000	9,700,000
Redwood City Community Facilities District 2010-1	100.000	5,760,000
TOTAL DEBT REPAYED WITH PROPERTY TAXES		<u>221,680,876</u>
Other Debt		
San Mateo County General Fund Obligations	10.399	49,267,323
San Mateo County Board of Education Certificates of Participation	10.399	1,138,691
Belmont-Redwood Shores School District Certificates of Participation	61.241	405,459
Midpeninsula Regional Park District General Fund Obligations	8.436	11,237,572
Menlo Park Fire Protection District	0.024	2,764
TOTAL OTHER DEBT		<u>62,051,809</u>
Total City Overlapping Debt		<u>283,732,685</u>
City Direct Debt		
City of Redwood City General Fund Obligations	100.000	3,035,258
Total City Direct Debt		<u>3,035,258</u>
Total Overlapping and Direct Debt		<u><u>286,767,943</u></u>

Source: California Municipal Statistics and City's Audited Financials

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

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

Schedule 12
 CITY OF REDWOOD CITY, CALIFORNIA
 PLEDGED-REVENUE COVERAGE
 Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					Coverage Ratio
	Gross Revenue \$	Less: Operating Expenses \$	Net Available Revenue \$	Debt Service		
				Principal \$	Interest \$	
2005	16,664,486	13,838,208	2,826,278			N/A
2006	19,096,962	14,064,659	5,032,303	830,000	1,198,016	2.48
2007	21,573,646	16,216,165	5,357,481	1,325,000	2,207,065	1.52
2008	23,440,411	17,862,037	5,578,374	1,560,000	2,690,956	1.31
2009	23,631,719	17,304,434	6,327,285	1,620,000	2,754,920	1.45
2010	23,232,886	17,421,424	5,811,462	1,675,000	2,938,691	1.26
2011	26,119,782	18,597,779	7,522,003	1,730,000	2,930,765	1.61
2012	28,234,480	22,103,449	6,131,031	1,795,000	2,868,003	1.31
2013	33,167,498	25,992,025	7,175,473	1,865,000	2,802,852	1.54
2014	35,655,559	25,032,582	10,622,977	1,845,000	2,269,566	2.59

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses. Special assessment bonds were paid off in 2008.

Schedule 12 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 PLEDGED-REVENUE COVERAGE
 Last Ten Fiscal Years

Port Revenue Bonds						
Fiscal Year	Gross	Less:	Net	Debt Service		Coverage
	Revenues	Operating Expenses¹	Available Revenue	Principal	Interest	Ratio²
	\$	\$	\$	\$	\$	
2005	6,079,416	2,576,993	3,502,423	222,231	555,917	4.50
2006	6,665,761	2,367,549	4,298,212	233,246	545,937	5.52
2007	6,443,530	2,505,950	3,937,580	239,292	535,231	5.08
2008	6,188,729	2,529,213	3,659,516	250,385	524,033	4.73
2009	5,967,743	2,516,939	3,450,804	266,528	512,090	4.43
2010	5,729,278	2,648,046	3,081,232	277,721	499,137	3.97
2011	5,820,715	2,561,439	3,259,276	288,969	485,389	4.21
2012	6,159,871	2,746,082	3,413,789	305,273	471,085	4.40
2013	6,262,660	2,703,564	3,559,096	644,144	875,483	2.34
2014	6,824,474	2,786,181	4,038,293	646,186	819,930	2.75

Tax Increment Bonds				
	Property Tax Increment	Debt Service		Coverage Ratio
	\$	Principal	Interest	
	\$	\$	\$	
2005	6,169,024	1,060,000	1,279,409	2.64
2006	6,422,792	1,105,000	1,094,898	2.92
2007	7,346,699	1,160,000	1,043,515	3.33
2008	8,416,294	1,210,000	988,415	3.83
2009	7,921,159	1,270,000	929,730	3.60
2010 ³	7,953,318	4,195,000	886,687	1.57
2011	7,552,777	1,225,000	632,713	4.07
2012 ⁴		1,265,000	585,975	
2013 ⁴		2,480,000	511,075	
2014 ⁴		2,895,000	385,481	

¹ Port operating expenses above exclude \$409,468 subvention to the City and depreciation.

² Debt service coverage is calculated using maximum annual debt service as required for the annual disclosure report.

³ In FY 2009-10, the 1997 Tax Increment Bonds were paid off resulting in additional principal payment of \$2,865,000.

⁴ As a result of the California Supreme Court upholding AB X1 26, Redevelopment Agencies were eliminated as of January 31, 2012. Consequently, all former tax increment revenue is retained by the County of San Mateo Controller's Office and deposited into the "Redevelopment Property Tax Trust Fund" (RPTTF) and is disbursed according to the provisions of AB X1 26 and AB 1484, the clean-up legislation that became law effective June 27, 2012. Under these laws the Successor Agencies to the Redevelopment Agencies now receive funding from the RPTTF to pay these types of debt obligations as the Redevelopment Agency is no longer in existence to receive tax increment revenue.

Schedule 13
 CITY OF REDWOOD CITY, CALIFORNIA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Fiscal Years

Calendar Year	Population	Personal Income (\$000)	Per Capita Personal Income	Unemployment Rate	Number of Water System Customers
		\$	\$	%	
2005	75,763	2,746,333	36,249	4.50	23,520
2006	76,086	2,846,986	37,418	3.90	23,566
2007	76,695	2,951,530	38,484	3.90	23,650
2008	77,269	3,087,824	39,962	5.00	23,710
2009	77,819	3,098,753	39,820	8.90	23,718
2010	78,568	3,052,053	38,846	9.10	23,784
2011	77,712	3,091,772	39,785	8.70	23,972
2012	78,244	3,125,218	39,942	7.10	24,119
2013	79,074	3,204,632	40,527	5.40	24,296
2014	80,768	3,342,018	41,378	4.20	24,347

Sources:

Population is provided by the State of California Department of Finance. Population numbers in this schedule reflect the Department of Finance's annual adjustments.

Personal income and per capita personal income is provided by United States Census Data via MuniServices, LLC and is adjusted for inflation.

The unemployment rate for the City of Redwood City is provided by the State of California Employee Development Department and is not seasonally adjusted.

The number of water system customers is provided by the City's utility billing system.

Note:

The most recent fiscal year personal income and per capita income figures are not available until the following fiscal year.

Schedule 14
CITY OF REDWOOD CITY, CALIFORNIA
PRINCIPAL EMPLOYERS
Current and Eight Years Ago (Historical data not available)

Employer	2014			2006		
	Employees*	Rank	% of Total City Employment	Employees**	Rank	% of Total City Employment
Oracle Corporation	6,750	1	15.70%	8,000	1	20.73%
Electronic Arts	2,367	2	5.50%	1,826	3	4.73%
Kaiser Permanente Medical Group	911	3	2.12%	1,800	4	4.66%
Kaiser Foundation Hospitals	773	4	1.80%			
Stanford Hospital & Clinics	750	5	1.74%			
Silver Spring Networks	602	6	1.40%			
Equinix	532	7	1.24%			
Genomic Health	479	8	1.11%			
Pacific Data Images (Dreamworks)	449	9	1.04%			
Abbott Vascular	347	10	0.81%			
County of San Mateo				2,200	2	5.70%
Sequoia Hospital				1,154	5	2.99%
Redwood City School District				1,050	6	2.72%
Informatica				1,000	7	2.59%
OpenWave Systems				900	8	2.33%
Broad Vision				759	9	1.97%
Sequoia Union High School District				700	10	1.81%

Source: *2014 Data from City of Redwood City Business License Database; non-profit organizations' data is not available.
 **2006 Data from Redwood City Chamber of Commerce.

Notes: The top ten principal employers for previous years are not available, but will be memorialized from 2006 going forward in this document.

Schedule 15
CITY OF REDWOOD CITY, CALIFORNIA
FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Years									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Community Development	68.45	70.25	71.00	71.63	73.48	72.68	71.53	69.33	62.63	64.76
Human Services	7.08	7.08	7.20	7.20	7.92	7.92	7.82	7.82	7.82	7.82
Public Safety*	202.00	202.00	202.00	203.42	204.32	194.57	178.50	180.34	181.84	207.00
Transportation	20.45	20.45	20.90	22.90	23.10	18.85	17.15	16.05	16.05	16.09
Environmental Support/Protection	8.25	15.00	8.25	8.25	8.25	7.95	5.95	5.85	3.15	3.55
Leisure/Cultural/Information Services	131.85	131.35	131.24	135.16	156.96	142.08	128.65	127.94	124.74	103.80
Policy Development/Implementation	61.46	53.02	62.95	63.57	65.54	63.94	59.52	60.42	59.57	80.90
Water	36.05	36.69	35.90	35.90	35.35	35.45	32.45	30.85	35.05	30.97
Sewer	15.35	15.35	15.20	15.20	16.20	16.20	16.20	15.70	18.40	17.88
Parking	1.90	2.65	5.20	5.47	5.55	5.45	5.35	5.65	5.65	5.65
Port	9.00	9.00	9.00	11.00	10.00	10.00	10.00	10.00	10.00	9.00
Total	561.84	562.84	568.84	579.70	606.67	575.09	533.12	529.95	524.90	547.42

* Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Source: Redwood City Adopted Budget

Schedule 16
CITY OF REDWOOD CITY, CALIFORNIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Community Development:										
Building permits	2,437	2,349	2,366	2,143	2,038	2,003	2,191	1,972	2,320	2,549
Building inspections conducted	16,200	16,415	15,422	14,283	13,122	10,732	13,502	13,391	11,844	16,669
Public Safety:										
Police:										
Moving citations (per 1,000 population)	163	202	217	217	170	131	114	112	94	97
Fire:										
Emergency responses - all calls*	6,492	6,738	6,688	7,073	6,671	6,683	6,733	7,111	7,656	9,096
Leisure/Cultural/Information Services:										
Number of items in collection	263,198	291,270	335,590	336,339	329,296	324,672	295,444	326,251	332,776	299,673
Water:										
Average daily consumption (thousands of gallons)	10,614	10,295	10,879	10,465	9,962	9,193	9,337	9,446	9,402	9,910

* Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Sources: Various City departments

Schedule 17
CITY OF REDWOOD CITY, CALIFORNIA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
Public Safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Number of stations*	5	5	5	5	5	5	5	5	5	7
Transportation										
Miles of streets	154	154	155	155	155	155	155	155	155	155
Number of street lights**	8,500	8,500	8,500	8,500	8,500	8,500	8,500	4,512	4,512	5,035
Leisure/Cultural/Information Services										
Number of parks	30	30	30	37	23	23	24	24	24	24
Number of libraries	4	4	4	4	4	4	4	4	4	4
Number of recreation center facilities	8	8	8	5	5	5	5	5	5	5
Water										
Miles of water mains	263	264	264	264	264	264	264	264	264	262
Miles of recycled water system lines***			3	13	15	15	15	15	15	17
Sewer										
Miles of sanitary sewers	185	185	185	185	193	193	193	193	193	196
Miles of storm sewers	103	103	103	103	129	129	129	129	129	130

Sources: Various city departments

Notes:

* In FY 2013-14 Redwood City entered into a shared services agreement with the City of San Carlos. Redwood City provides fire services to the residents of San Carlos out of the two fire stations located in San Carlos.

**In 2012 the Public Works Services division employed a consultant to create a physical inventory of street lights. Criteria was updated and applied for a more accurate count of the number of street lights in the City's right-of-way. Inventories were refined and lights were added through the LED conversion process in 2014.

***The recycled water system lines were built starting in FY 2006-07.

Schedule 18
 CITY OF REDWOOD CITY, CALIFORNIA
 CONSTRUCTION VALUES
 Last Ten Fiscal Years

Fiscal Year	Residential Construction		All Other Construction		Residences/Additions and Alterations		Other Buildings Additions/Alterations		Total Property Values
	Number of Units	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	
		\$		\$		\$		\$	\$
2005	15	5,557,587	5	16,168,717	1,375	28,805,766	252	36,685,451	87,217,521
2006	63	14,557,510	10	7,028,000	1,209	29,180,052	287	53,593,643	104,359,205
2007	21	6,466,202	14	20,756,000	1,196	32,351,149	320	113,440,767	173,014,118
2008	33	10,698,818	14	38,772,000	1,002	24,882,578	291	79,925,295	154,278,691
2009	36	17,739,134	2	590,000	1,028	20,000,165	972	36,405,222	74,734,521
2010	39	15,495,398	5	6,048,354	1,098	21,065,615	861	26,436,017	69,045,384
2011	47	25,629,952	5	1,078,000	1,088	25,554,042	1,051	35,938,801	88,200,795
2012	200	40,914,805	22	402,509	912	21,119,778	1,011	64,738,238	127,175,330
2013	605	126,141,306	3	19,333,650	1,226	28,200,872	1,041	56,330,964	230,006,792
2014	426	82,816,188	5	94,930,847	1,270	30,617,300	1,213	73,184,001	281,548,336

Source: Redwood City's Community Development Department

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

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Redwood City, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California
Page 2

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates
Certified Public Accountants
Oakland, California
December 22, 2014

APPENDIX K

**Comprehensive Annual Financial Report for the City of San Carlos –
Fiscal Year Ended June 30, 2014**

[see attached]

[THIS PAGE INTENTIONALLY LEFT BLANK]



The City of San Carlos



Comprehensive Annual Financial Report

*For the Fiscal Year ended
June 30, 2014*



CITY OF SAN CARLOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

PREPARED BY
CITY OF SAN CARLOS FINANCE DIVISION

CITY OF SAN CARLOS, CALIFORNIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i
List of Principal Officials	vii
The Citizens of the City of San Carlos	viii
Administrative Services Department.....	ix
Certificate of Achievement for Excellence in Financial Reporting (GFOA).....	x
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	21
Statement of Activities.....	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	27
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	28
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	31
Budgetary Comparison Statement by Department – General Fund.....	32
Statement of Net Position - Proprietary Funds	37
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds.....	38
Statement of Cash Flows - Proprietary Funds	39
Statement of Fiduciary Net Position - Fiduciary Funds.....	42
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	43
Notes to Financial Statements.....	45

CITY OF SAN CARLOS, CALIFORNIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	84
Budgetary Comparison Schedules (Budgetary Basis) –	
Special Revenue Funds:	
NPDES	86
Police Grants	87
San Carlos Library Tenant.....	88
Capital Project Funds:	
Capital Improvement	89
Housing.....	90
Equipment Replacement	91
Measure A	92
Gas Tax	93
Park Fee	94
Parking In-Lieu	95
Debt Service Funds:	
San Carlos Library Bonds.....	96
Combining Statement of Net Position – Internal Service Funds	99
Combining Statement of Revenues, Expenses and Changes in Net Position – Internal Service Funds.....	100
Combining Statement of Cash Flows – Internal Service Funds.....	101
Combining Statement of Net Position – All Agency Funds	104
Combining Statement of Changes in Assets and Liabilities – All Agency Funds.....	105

CITY OF SAN CARLOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
STATISTICAL SECTION	
Net Position by Component – Last Ten Fiscal Years	108
Changes in Net Position– Last Ten Fiscal Years	110
Fund Balances of Governmental Funds – Last Ten Fiscal Years	112
Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years	114
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	116
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	117
Top Ten Property Tax Payers- Current Year and Ten Years Ago.....	118
Property Tax Levies and Collections – Last Ten Fiscal Years	119
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years.....	120
Ratio of General Bonded Debt Outstanding – Last Ten Fiscal Years	121
Pledged-Revenue Coverage – Last Four Fiscal Years	122
Computation of Direct and Overlapping Debt	123
Computation of Legal Bonded Debt Margin	124
Demographic and Economic Statistics – Last Ten Fiscal Years	125
Principal Employers	126
Full-Time Equivalent City Government Employees by Function.....	127
Operating Indicators by Function/Program – Last Ten Fiscal Years	128
Capital Asset Statistics by Function/Program – Last Ten Fiscal Years.....	129

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

CITY COUNCIL

MARK OLBERT, MAYOR
RON COLLINS, VICE MAYOR
ROBERT GRASSILLI
MATTHEW GROCOTT
CAMERON JOHNSON



ADMINISTRATIVE SERVICES DEPT

600 ELM STREET
SAN CARLOS, CALIFORNIA 94070-1309
Email: rmendenhall@cityofsancarlos.org
TELEPHONE (650) 802-4213
FAX (650) 595-6767

November 12, 2014

To the Members of the City Council and Citizens of the City of San Carlos:

It is the policy of the City of San Carlos to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of San Carlos (“the City”) for the fiscal year ended June 30, 2014.

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City’s assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City’s financial statements in conformity with the Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by Lance Soll & Lunghard, LLP, a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City’s financial statements for the fiscal year ended June 30, 2014, were fairly presented in conformity with generally accepted accounting principles. The independent auditor’s report is presented as the first component of the financial section of this report.

GAAP require 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 City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, incorporated in 1925, is located in the San Francisco Bay Area region of the State of California, which is considered to be one of the most expensive areas of the State and country in which to live. The area also is renowned worldwide for technological innovation as home to Silicon Valley. The City currently occupies a land area of six square miles and serves a population of approximately 29,200. The City is a General Law city, and empowered to levy a transient occupancy tax on hotel/motel stays and a business registration fee on for-profit businesses within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1925. Policy-making and legislative authority are vested in a City Council consisting of the Mayor, selected by the Council, and four other Council Members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing advisory commissions/committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan, at large basis. Council Members serve four-year staggered terms, with two or three Council Members elected every two years. The Mayor and Vice-mayor are selected from among the five Council Members to serve one-year terms.

The City provides a full range of services, including police and fire; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events.

Budget Process

The biennial budget serves as the foundation for the City's financial planning and control. Twice a year, the City Council participates in a Strategic Planning Session with the Executive Management staff. The FY 13-14 sessions resulted in the review of the City's three-year goals and the creation of numerous accompanying six-month implementation objectives. The six-month objectives are included in the budget process.

All departments of the City are required to submit requests for appropriation to the City Manager each spring. The City Manager uses these requests to develop a proposed budget. The City Manager then presents this proposed budget to the Council for review prior to the end of May.

The Council holds a public hearing on the proposed budget and adopts a final budget by the end of June, the close of the City's fiscal year. The appropriated budget is prepared by fund, function/program (e.g., public safety), and department (e.g., Community Development). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, but within the same fund, can be approved administratively (by the Administrative Services Director or City Manager). Transfers between funds require the approval of the City Council. Budget-to-actual comparisons are presented in the supplementary section of the accompanying financial statements for each individual governmental fund for which an appropriated annual budget has been adopted.

During the last biennial budget cycle, the City established a two-year program-based operating budget, maintained the existing line-item department budgets and developed a new format for the five-year capital budget. During the FY14-16 biennial budget cycle, the City expanded the details of each department to represent the financial data by program and identified performance measures. During the next biennial budget cycle and the final phase in our transition, the City will expand the performance measures by program to reflect future objectives as compared to prior performance.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment of which the City operates.

Local economy

The unemployment rate in San Mateo County has fallen from 5.4% in 2013 to 4.2% in 2014. The San Carlos unemployment rate has dropped from 3.6% to 2.8%. This compares with an unemployment rate of 7.3% for California and 6.3% for the nation during the same period. As of June 2014, there were an estimated 388,100 jobs in the County, an increase of 9,800 jobs from a year earlier. According to the California Employment Development Department, the total number of jobs located in the West Bay counties of Marin, San Francisco, and San Mateo expanded by 11,400 to total 1,037,000 between June 2013 and June 2014.

The National Association of Realtors released a report that shows the national median existing home price of \$223,300 in June 2014. This number reflects an increase of 4.2% from June 2013. However, the median sales price of existing homes in San Carlos is \$1,250,000, a 5.7% increase from the same period a year ago.

In November 2012, California voters passed Proposition 30. This measure raises the state sales tax by a quarter-cent for four years and increases income tax rates for individuals who earn more than \$250,000 a year for seven years. Passage of the measure is said to have offset the need to make \$6 billion per year in cuts in the State budget. The passage of Proposition 30, coupled with growth in the State economy, has enabled the Governor and the State Legislature to predict a balanced budget and a record surplus at the State level for the upcoming 2014-15 fiscal year.

This has lessened the likelihood of looking to the local agencies' revenue sources to balance the State budget. However, there are still problems ahead with the State budget. The Governor has talked about the need to be conservative in State spending as plans are made to pay off some of the State's bonded debt. There is also the need for the State to increase payments into the teacher's "STRS" pension system. The shortfall in State payments is somewhere between \$4.5 and \$6 billion per year. These challenges suggest that the State may yet be looking for additional revenues to address its budget in the years ahead.

Sales Tax

Sales tax is a critical general fund revenue as it accounts for approximately 20% of total general fund revenues. Local general sales tax in FY 2014 was \$6.55 million, a 14.7% increase as compared to FY 2013, reflecting a stable economic growth and an expanded sales tax base from a new State mandate requiring certain out-of-state internet retailers to collect sales tax. Based on the latest sales tax data, sales tax growth will be higher in the coming year than the prior year. Receipts from building and construction categories show solid gains, reflecting the increase in new construction and remodeling activity. Other categories, such as restaurants and office furniture are also projected to have modest growth. The increase in the countywide use tax allocation also contributes to higher sales tax revenues.

Property Tax

Property tax projections for FY 2015 include a 2% increase in revenue based on the annual inflationary factor on the property tax assessment rolls in January 2014. According to the information from our independent third-party consultant, while the median existing home prices have increased, the inventory of homes available for sale remains tight, keeping the growth at moderate level. The gross assessed values of properties in the City of San Carlos have increased by 3.8% in 2014 as compared to the 5.6% increase countywide. The annual median single family residential sales price in 2014 was 5.7% higher than the 2013 median price.

Long-term Financial Planning and Major Initiatives

Long-term financial planning

The City Council and City management continue to emphasize "structural balance" in the City's financial planning. The City has established economic reserves to meet future opportunities and unexpected changes. The City has structurally aligned its revenues and expenditures to provide for a sustainable financial balance. To that end, the City has taken the following steps over the years:

- Budget revenues conservatively and expenditures at full cost;
- Maintain the condition of City facilities and infrastructure in order to optimize the use, as well as minimize future repair/replacement costs;
- Maintain a highly motivated, talented and well trained workforce to serve the needs of the community;

- Retain municipal ownership of commercial properties and utilize ground leases to diversify the City's revenue stream;
- Secure outside funding and/or low-cost debt financing, and set aside City resources to pay for capital improvement projects; and
- Limit the growth of on-going expenses for City services to a financially sustainable level.

Major events and initiatives

Highlights of the City's major events and initiatives that were completed or in progress as of June 30, 2014 or soon after the year-end are as follows:

- In June 2014, the City finalized the purchase of three parcels for approximately \$14 million with the intent to consolidate the properties and sell the land to a hotel developer within two years. During the economic downturn in the past several years, very few hotel rooms were added to the market. Private developers across the state are struggling to maintain pace with demand for room nights. The City has identified increasing transient occupancy tax (TOT) revenues as an obvious opportunity. It is estimated that the development of regional-serving hotel will bring the City approximately \$1 million in TOT per year.
- The City has received clearance from the State Department of Finance to proceed with the development of Wheeler Plaza. The development includes 108 new housing units, new commercial space along San Carlos Avenue and a new parking structure with an increase of 50 public parking spaces for the downtown. Next steps include preparation of final design and the planning and building permit process.
- Phase I of the Sewer Capacity Assurance Plan (CAP) was completed at the end of June. The project upsized various sewer pipelines and replaced/rehabilitated 26 sanitary sewer manholes along Brittan Avenue and Arroyo Avenue. The project provided a better and more reliable sewer system. The next priority in the CAP is the Industrial Road Parallel Sanitary Sewer Project. This project will improve approximately 5,500 feet of sanitary sewer pipe from Skyway Road, crosses under U.S. Hwy 101, moves south along Industrial Road to Brittan Avenue. This project is designed to decrease potential overflows during storms and construction is expected to complete by April 2016.
- The Crestview Park Renovation project is finally underway after two years of design reviews and careful consideration of public input. This project incorporates many ideas and suggestions from the community and is expected to be completed in fall 2014.
- The Eastside Connect Project is currently underway. This project includes installation of new sidewalks and streetlights, widening existing sidewalks, planting new trees, and bicycle improvements on East San Carlos Avenues for the entire length of Old County Road. This project is also expected to be completed in fall 2014.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the 20th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. We believe that 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.

This report represents the culmination of months of work by dedicated staff in the Administrative Services Department-Finance Division. Special thanks go to Financial Services Manager, Tracy Kwok, Senior Accountants Tammy Mak and Deepa Gopalan, Accounting Technicians Linda Navarro, and Mary Nakamura, Administrative Assistant Melissa Keefe, City Treasurer Michael Galvin, as well as Bryan Gruber and the audit staff at Lance, Soll & Lunghard, LLP. Credit also must be given to City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Jeff D. Maltbie
City Manager



Rebecca Mendenhall
Administrative Services Director

City of San Carlos

Directory of Officials

June 30, 2014

CITY COUNCIL

Mark Olbert, Mayor
Ron Collins, Vice Mayor
Cameron Johnson, Councilmember
Bob Grassilli, Councilmember
Matthew Grocott, Councilmember

CITY CLERK

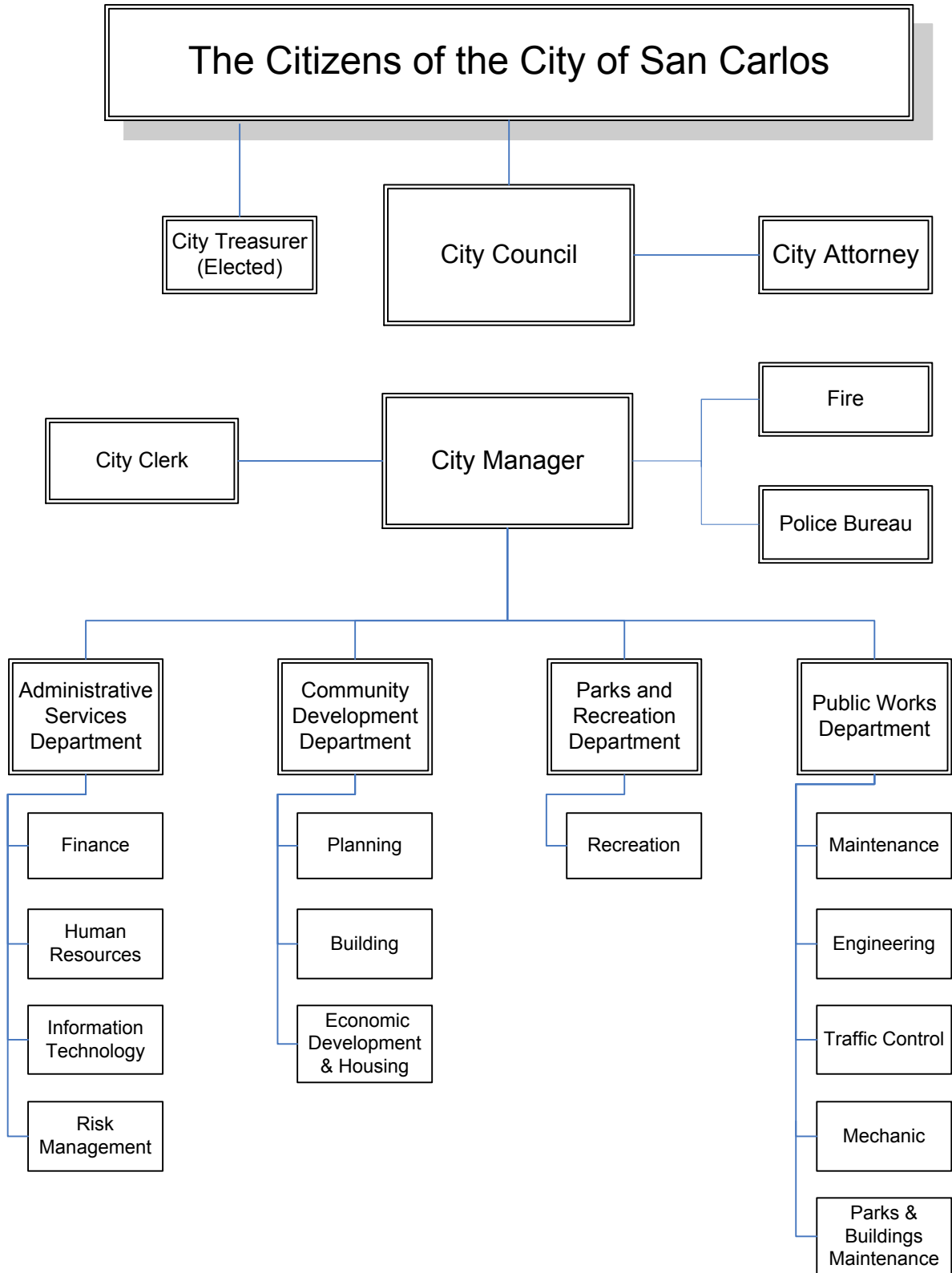
Crystal Mui, City Clerk/Community Relations Director

CITY TREASURER

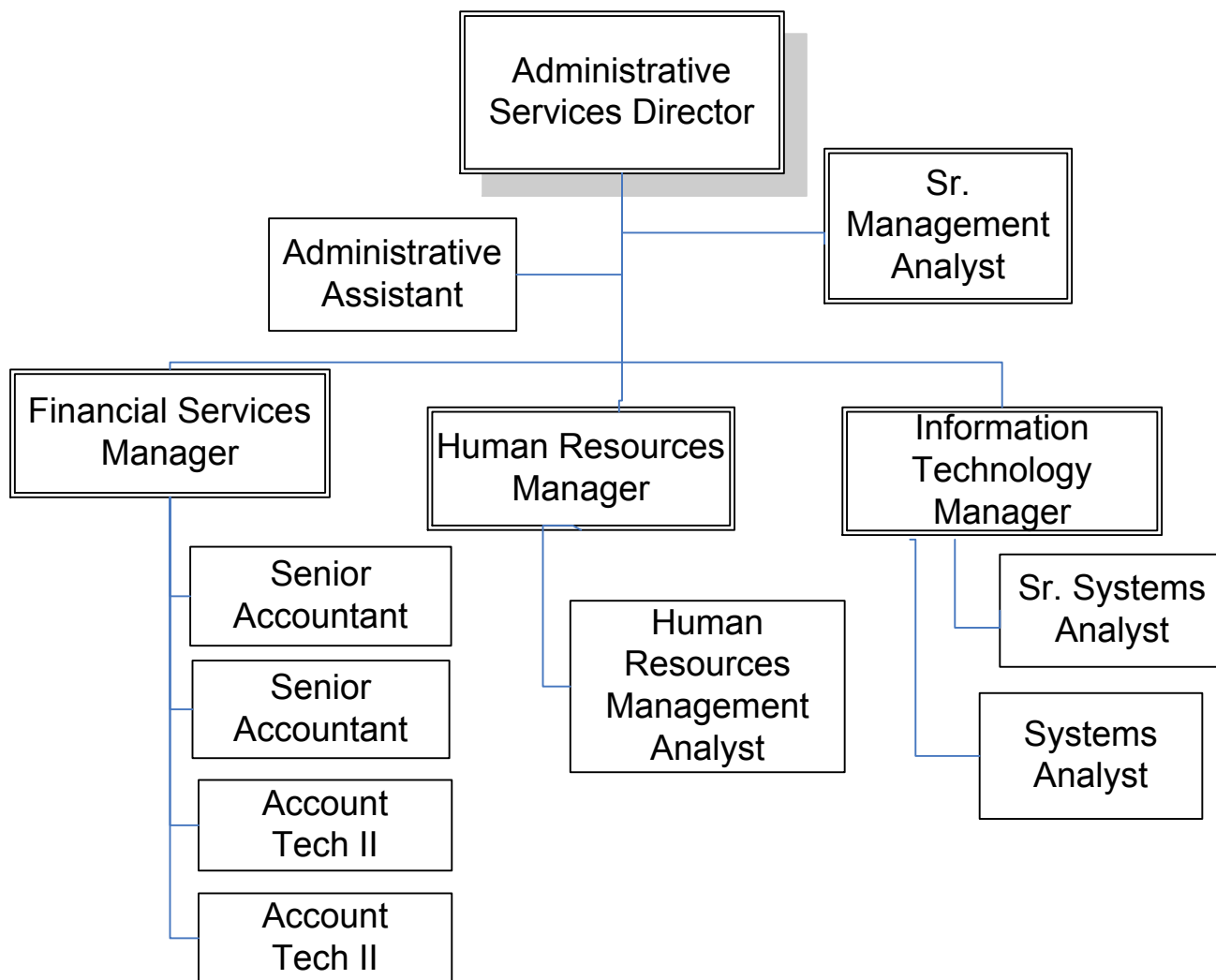
Michael J. Galvin, City Treasurer

ADMINISTRATION

Jeff Maltbie, City Manager
Gregory J. Rubens, City Attorney
Greg Rothaus, Police Chief
Rebecca Mendenhall, Administrative Services Director
Christine Boland, Parks & Recreation Director
Jay Walter, Public Works Director
Al Savay, Community Development Director
Jim Skinner, Fire Chief



Administrative Services Department





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of San Carlos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of San Carlos, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of San Carlos, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



To the Honorable Mayor and Members of the City Council
City of San Carlos, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Carlos, California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



To the Honorable Mayor and Members of the City Council
City of San Carlos, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Brea, California
November 12, 2014

THIS PAGE INTENTIONALLY LEFT BLANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$22 million or 11.6%, primarily from the capital lease financing for the Landmark site acquisition, higher property tax and sales tax revenues, sewer rate increases, and the reporting restatement in the Sewer Fund for the change of reporting investment in Silicon Valley Clean Water (SVCW) joint venture.
- The total expenses for governmental programs increased by \$4.6 million or 14.9% over the prior year mainly due to an increase in capital project related expenses. The total revenues for governmental programs increased by \$7.1 million or 19.1%.
- In the business-type activities, the revenues exceeded expenses by \$4.3 million in the current fiscal year, which is \$2.4 million higher than the prior year as a result of rate increases.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$56.5 million, an increase of \$12.3 million or 27.8% in comparison with the prior year. Approximately \$3 million of this amount is classified as unassigned fund balance in the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates like businesses, such as the sewer system.
 - *Fiduciary fund* statements provide information about fiduciary relationships – like the agency funds of the City – in which the City acts solely as *agent* or *trustee* for the benefit of others, to whom the resources in question belong.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
City of San Carlos Comprehensive Annual Financial Report (CAFR)

Comprehensive Annual Financial Report (CAFR)	<i>Introductory Section</i>	Introductory Sections			
	<i>Financial Section</i>	Management’s Discussion and Analysis			
		Government-wide Financial Statements	Fund Financial Statements		
		Statement of Net Position	Governmental Funds	Proprietary Funds	Fiduciary Funds
			Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
			Reconciliation of the Governmental Funds Balance Sheet	Statement of Revenue, Expenses and changes in Fund Net Position	
		Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Cash Flows	Statement of Changes in Fiduciary Net Position
			Reconciliation of the Net Changes in Fund Balances		
		NOTES TO THE FINANCIAL STATEMENTS			
	INFORMATION ON INDIVIDUAL NON-MAJOR FUNDS AND OTHER SUPPLEMENTARY INFORMATION				
<i>Statistical Section</i>	STATISTICAL SECTION				

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City’s finances is, “Is the City, as a whole, better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City’s net position and changes in them. You can think of the City’s net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources –as one way to measure the City’s financial health, or *financial position*. Over time, *increases and decreases* in the City’s net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City’s property tax base and the condition of the City’s roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City services into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in the reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency Funds include: the Pulgas Drainage Assessment District Special Tax Bonds; the City/County Association of Governments; and the South Bayside Waste Management Authority (SBWMA). Private Purpose Trust Fund is used to report resources held in trust for the Successor Agency of the former RDA.

Government-Wide Statement Summaries

Net position may over time serve as a useful indicator of a City's financial position. The City's assets exceeded liabilities by \$210.9 million at June 30, 2014.

Net Position

Table 1 below reflects the City's net position as of June 30, 2013 and June 30, 2014:

Table 1
City's Comparative Statement of Net Position
June 30, 2013 and 2014
(Amounts in Millions)

	Governmental Activities		Business - Type Activities		All Government		Total % Change
	2013	2014	2013	2014	2013	2014	
Current and other assets	\$ 55.3	\$ 68.7	\$ 8.1	\$ 19.9	\$ 63.4	\$ 88.6	39.7%
Capital assets, net of depreciation	125.9	130.9	22.7	14.8	148.6	145.7	-2.0%
Total Assets	\$ 181.2	\$ 199.6	\$ 30.8	\$ 34.7	\$ 212.0	\$ 234.3	10.5%
Long-term debt outstanding	6.7	15.2	9.4	-	16.1	15.2	-5.6%
Other liabilities	6.5	7.4	0.5	0.8	7.0	8.2	17.1%
Total Liabilities	\$ 13.2	\$ 22.6	\$ 9.9	\$ 0.8	\$ 23.1	\$ 23.4	1.3%
Net Position:							
Invested in capital assets- net of related debt	\$ 119.2	\$ 124.5	\$ 13.3	\$ 14.8	\$ 132.5	\$ 139.3	5.1%
Restricted	8.9	9.8	-	-	8.9	9.8	10.1%
Unrestricted	39.9	42.7	7.6	19.1	47.5	61.8	30.1%
Total Net Position	\$ 168.0	\$ 177.0	\$ 20.9	\$ 33.9	\$ 188.9	\$ 210.9	11.6%

The largest portion of the net position (66%) reflects the City's \$139.3 million investment in capital assets less any capital-related outstanding debt. Capital assets are the aggregated value of land, buildings and improvements that are used to provide services. Their value is reported net of related debt because the funds to repay the debt come from other sources. The City's capital assets cannot be sold and used to liquidate liabilities. This portion increased by \$6.8 million or 5.1% from prior year mainly because of the addition in capital assets associated with the construction projects that were underway. The adjustments in participation rights and the long-term debt under the Business-type activities resulted from a change in the way the City reports its investment in the SVCW joint venture.

Another portion of the City's net position is subject to external restrictions, such as debt covenants, grantor's stipulations, or enabling legislation, on how they may be used. As of June 30, 2014, the restricted assets were 4.6% or \$9.8 million of the total net position. Of this amount, \$4.6 million is restricted for low and moderate income housing, \$2.7 million for capital projects such as street repair and maintenance, and \$2 million for debt services. The remaining amount relates to Police grant and the Park In-Lieu fees. The unrestricted net position of \$61.8 million represents the remaining balance of the net position. Included in this portion of the net position are the property held for resale (\$14 million) under the governmental activities and the investment in the SVCW joint venture (\$9.1 million) under the business-type activities; neither of which are readily available

for day-to-day operational spending. The remaining portion of the unrestricted net position may be used to meet the government's ongoing and unexpected expenses, including sewer expenses, facility and infrastructure improvements, pension related liabilities, property acquisition, and emergency repairs and replacement.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Statement of Activities and Changes in Net Position

The City's net position increased by \$13.3 million during the current fiscal year as indicated in the Statement of Activities and Changes in Net Position (see Table 2 below).

Table 2
Statement of Activities and Changes in Net Position
June 30, 2013 and 2014
(Amounts in Millions)

	Governmental Activities		Business-Type Activities		All Government		% change	
	2013	2014	2013	2014	2013	2014		
Program Revenues:								
Charges for Services	\$ 6.3	\$ 7.6	\$ 10.0	\$ 12.7	\$ 16.3	\$ 20.3	24.5%	
Operating Grants & Contributions	1.6	1.9	0.2	-	1.8	1.9	5.6%	
Capital Grants & Contributions	1.1	5.0	-	-	1.1	5.0	354.5%	
General Revenues:								
Property Taxes	11.2	12.9	-	-	11.2	12.9	15.2%	
Other Taxes	10.8	11.9	-	-	10.8	11.9	10.2%	
Other General Revenues	6.2	5.0	-	0.1	6.2	5.1	-17.7%	
Total Revenues	\$ 37.2	\$ 44.3	\$ 10.2	\$ 12.8	\$ 47.4	\$ 57.1	20.5%	
Program Expenses:								
General Government	\$ 6.5	\$ 5.3	\$ -	\$ -	\$ 6.5	\$ 5.3	-18.5%	
Community Development	2.7	3.0	-	-	2.7	3.0	11.1%	
Public Safety	14.6	15.6	-	-	14.6	15.6	6.8%	
Public Works	2.7	8.3	-	-	2.7	8.3	207.4%	
Parks & Recreation	4.1	3.0	-	-	4.1	3.0	-26.8%	
Sewer Operations	-	-	7.8	8.3	7.8	8.3	6.4%	
Interest Expenses	0.3	0.3	-	-	0.3	0.3	0.0%	
Total Expenses	\$ 30.9	\$ 35.5	\$ 7.8	\$ 8.3	\$ 38.7	\$ 43.8	13.2%	
Inc/(Dec) in Net Position before transfers	\$ 6.3	\$ 8.8	\$ 2.4	\$ 4.5	\$ 8.7	\$ 13.3	52.9%	
Transfers	0.5	0.2	(0.5)	(0.2)	-	-	0.0%	
Change in Net Position	\$ 6.8	\$ 9.0	\$ 1.9	\$ 4.3	\$ 8.7	\$ 13.3	52.9%	
Beginning Net Position	\$ 161.2	\$ 168.0	\$ 19.0	\$ 20.9	\$ 180.2	\$ 188.9	4.8%	
Restatement of Net Position	-	-	-	8.7	-	8.7	100.0%	
Ending Net Position	\$ 168.0	\$ 177.0	\$ 20.9	\$ 33.9	\$ 188.9	\$ 210.9	11.6%	

The Statement of Activities presents program revenues and expenses, and general revenues in detail. All of these are elements in the Changes in Net Position summarized in Table 2 of the previous page.

As of June 30, 2014 the City's total net position was \$210.9 million. This is an increase of \$22 million or 11.6% over the prior year. The changes in net position are explained in the following paragraphs. Total revenue for all government-wide activities was \$57.1 million, an increase of \$9.7 million or 20.5%, while the total expense of all government-wide activities rose by \$5.1 million or 13.2% to \$43.8 million.

Governmental Activities

Net position in the governmental activities totaled \$177 million, an increase of \$9 million or 5.4% over the prior year. The increase is a result of higher total revenue generated from taxes, charges for services and grants, offset by an increase in public safety and infrastructure repair and maintenance expenses.

Total revenue for the City's governmental activities before transfers has increased by 19.1% to \$44.3 million. Total governmental activity expenses increased by 14.9% to \$35.5 million.

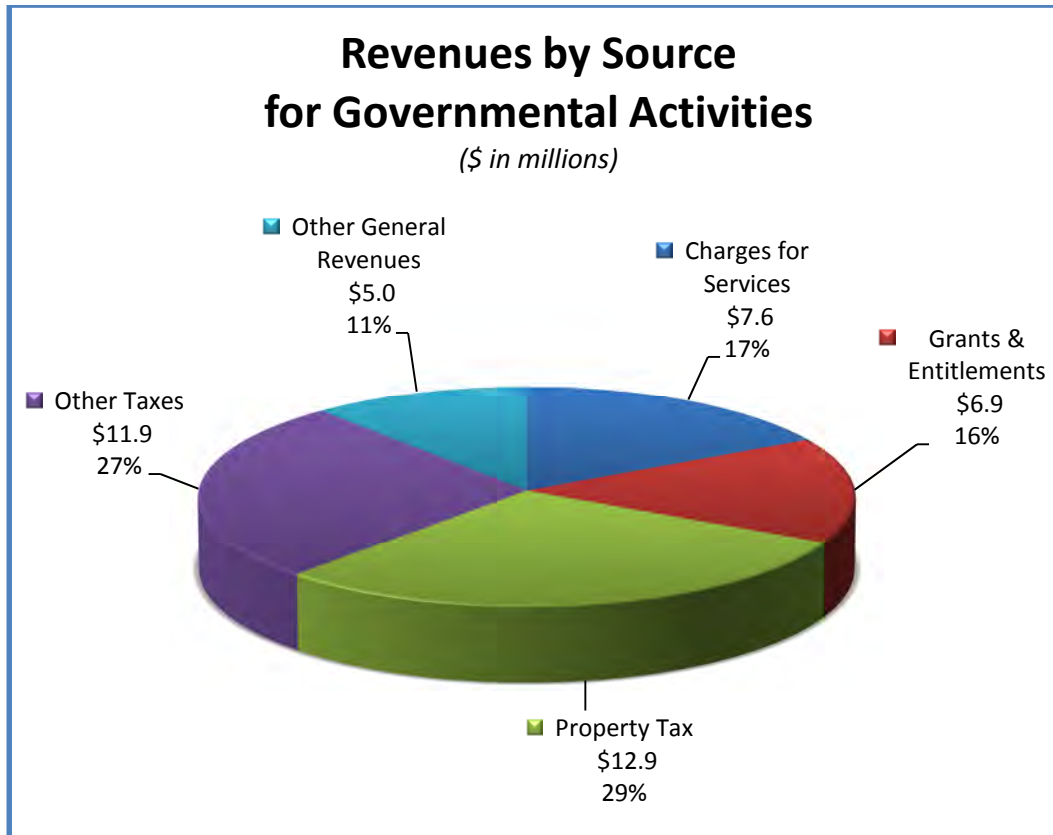
As shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through City taxes was \$24.8 million as some of the cost was paid by those who directly benefited from the programs (\$7.6 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.9 million), or by other general revenues (\$5 million).

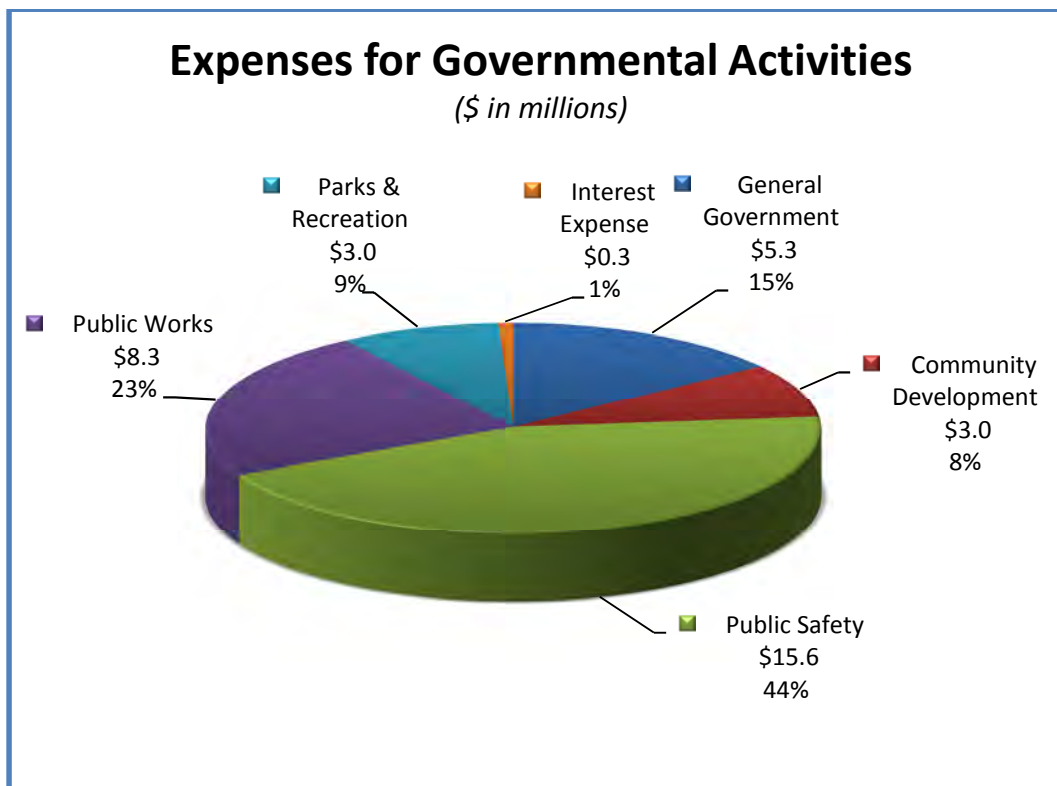
The reasons for significant changes in the revenues and expenses of the City's governmental activities are as follows:

- The combined amount of operating and capital grants and contributions received in the fiscal year 2013-14 is \$4.2 million more than in the prior year. The increase is mainly due to grantors' reimbursements for the Bransten Road Green Street project, the East Side Connect project, the Holly Street/101 Interchange project, the Industrial Road Underground Utilities project, and the Old County Road Underground Utilities project.
- Property taxes increased by \$1.7 million or 15.2% in comparison with the prior year mainly because of increases in assessed values and receipts from property transfers.
- Charges for Services increased by \$1.3 million or 20.6% to \$7.6 million, mainly from increased revenues for plan check reviews and zoning as well as building permits.
- The overall increase in other taxes that include sales taxes, transient occupancy taxes, and franchise taxes was \$1.1 million. Sales tax revenue rose by \$0.9 million or 14.1% because of increase in building and construction supply sales, electronics/appliances, home furnishings sales, and distribution from the countywide use tax allocation. Transient occupancy taxes increased by \$0.2 million which represents a 18.2% increase over the prior year as a result of higher occupancy rates.
- Other general revenues decreased by \$1.2 million or 19.4% from prior year. In the fiscal year 2012-13, the City received one-time revenues in rebates from the Sheriff's Office, claim settlements from the school districts after the dissolution of the RDA, and refund from the

County for excess property tax administration fees charged in prior years. No such one-time revenues were received in the fiscal year 2013-14.

- Governmental expenses totaled \$35.5 million in the fiscal year 2013-14, an increase of \$4.6 million from the prior year's expenses of \$30.9 million. The increase is mainly associated with public safety, infrastructure repair and large maintenance expenses.





Business-Type Activities

Business-type activities' total net position for the fiscal year 2013-14 was \$33.9 million, an increase of \$13 million or 62.2% from the prior fiscal year.

The increase is mainly a result of a restatement of net position in the fiscal year 2013-14. The restatement is associated with the way in which the SVCW (formerly known as South Bayside System Authority) joint venture was being reported. The City had been reporting the participation rights and long-term debt in the Sewer Fund. After discussions with our auditors, it was determined that a better reporting method would be to report just the net investment in the joint venture. As a result, the Sewer Fund's beginning net position for the fiscal year 2013-14 was increased by \$8.7 million.

The other main factor that contributed to the increase in net position is higher sewer revenue collection as a result of the Proposition 218 sewer rate increase. The sewer rates were increased to reduce the number of sanitary sewer overflows from the wastewater collection system, to fund the sewer treatment operations, to build up the reserves for emergencies and unforeseen repairs, and to pay the City's portion of debt services issued by SVCW for reconstruction of its wastewater treatment plant. However, due to the delay by SVCW to issue additional bond for the rehabilitation of the sewer treatment facilities from the original anticipated date in the fall of 2013 to March 2014, the additional interest payment that the City expected to make did not occur in FY2013-14. Instead, the City will begin making interest payment for the 2014 bond in FY2014-15. Similar to the prior year, the current year expenses reflect the ongoing operating expenses such as personnel costs, payments for wastewater treatment, and other regular maintenance and repairs. The expenses for major construction projects such as the City's sewer system rehabilitation project and the

wastewater capacity assurance project, totaling \$2.4 million in the current fiscal year, have been capitalized.

The unrestricted portion of the Sewer Fund ending net position includes \$9.1 million in Investment in the SVCW joint venture that is not readily available for day-to-day operational spending. As of June 30, 2014, SVCW has a balance of \$120.5 million in long-term debt that it reports in its financial statements. Of that amount, the City's share of the obligation is approximately \$19.2 million. Since the City reports the SVCW joint venture as net investment, this obligation is not directly reported in the City's financial statements as long-term debt.

The City uses internal service funds to account for risk management including worker's compensation and general liability and property insurances. The longevity benefits fund is used to account for other post-employment benefits (OPEB) for retired employees.

Financial Analysis of the City's Funds

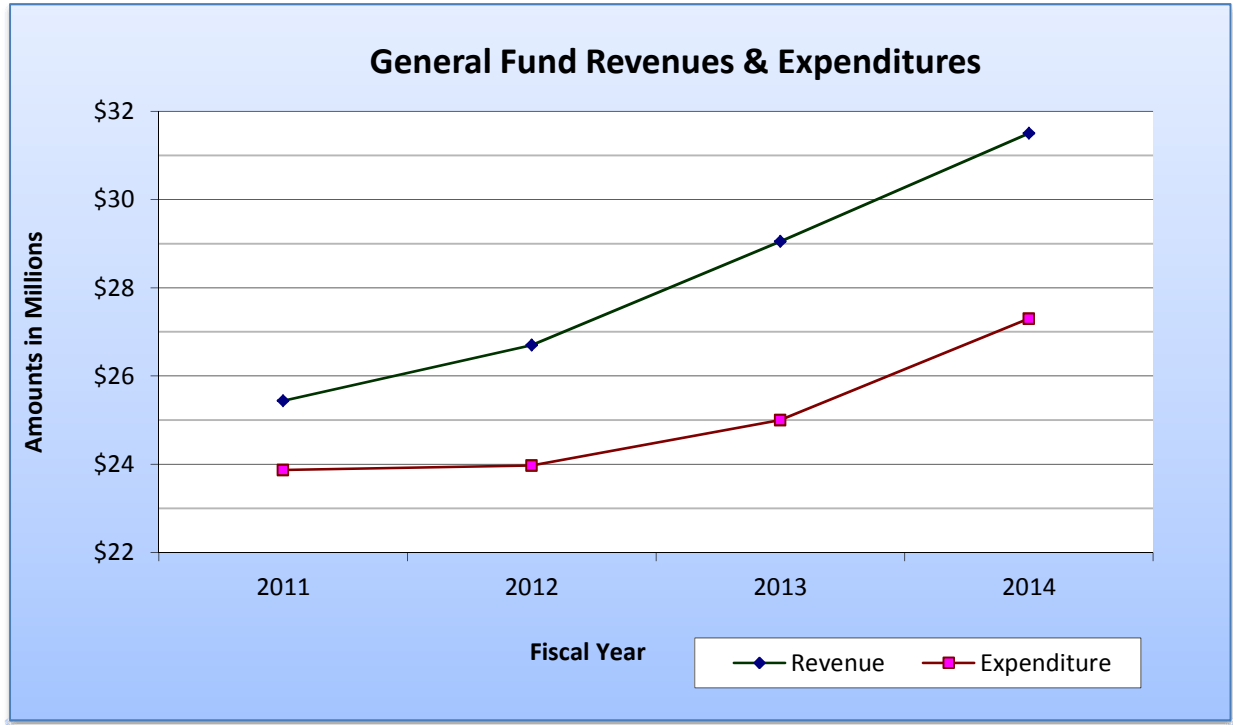
As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance of the general fund was \$34.3 million, representing an increase of \$13.3 million or 63.3% over the fiscal year 2012-13 fund balance of \$21 million. This increase is explained in the following paragraphs.

In June 2014, the City entered into a lease financing agreement in the amount of \$8.8 million with the ABAG Financing Authority for the purchase of real property located at 595 Industrial Road and 850 East San Carlos Avenues. The lease financing is reported as Other Financing Sources in the financial statements. See Note 8 for the use of the properties and Note 9b for the term of the lease financing agreement.

Total revenues were \$4.2 million higher than the total expenditures. The general fund revenues this year were \$31.5 million, an increase of \$2.4 million or 8.2% from prior year. Expenditures totaled \$27.3 million, an increase of \$2.3 million or 9.1% increase from prior year expenditures of \$25 million. As a comparison, the increase in revenue between the fiscal years 2012 and 2013 year was 9%, and the increase in expenditures was 4.2%.



General Fund Actual Revenues
(Amounts in Millions)

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Total Revenue	\$ 25.4	\$ 26.7	\$ 29.1	\$ 31.5
Dollar Change	N/A	\$ 1.3	\$ 2.4	\$ 2.4
Percentage Change	N/A	5.1%	9.0%	8.2%

Significant changes in the revenues of the City's General Fund from prior year are as follows:

- Property tax revenues have increased by \$1.5 million or 15.8% from the previous year. The increase is mainly due to increases in assessed values and receipts from property transfers.
- Sales tax revenues increased by \$0.8 million or 14.0% are largely a result of increases in building and construction supplies sales. Sales in electronics/appliances and home furnishings were also higher than a year ago. The double digit increase in the countywide use tax allocation also contributed to the increase.
- Use of Money and Property increased by \$0.5 million or 55.6%. The increase is a result of higher interest earnings and increase in the monthly property rental rates.
- Charges for services increased by 13.8% or \$0.4 million. The increase reflects revenues from plan check fees for zoning and plan check reviews.
- Revenues from Licenses and Permits increased by \$0.3 million or 25%. The increase is primarily due to the increase in volume of activities for building, electrical, plumbing and mechanical permits.

- Transient Occupancy Tax increased by \$0.2 million or 18.2% from the previous year due to higher demand for hotel occupancy as the local economy continues to rebound.
- Vehicle In-Lieu (VLF) revenue was \$0.2 million or 9.1% higher than last year due to an increase in apportionment from the County. In the fiscal year 2012-13, the County estimated a shortfall in VLF allocation from the State and withheld a total of \$6.4 million from the County and cities. A revised estimate in the fiscal year 2013-14 showed that no VLF shortfall occurred and the County resumed the VLF distributions.
- Other Revenue decreased by \$1.5 million or 51.7%. The decrease is associated with the one-time rebate and settlement received in the fiscal year 2012-13; no such one-time revenues were received in the fiscal year 2013-14.

General Fund Actual Expenditures

(Amounts in Millions)

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Total Expenditures	\$ 23.9	\$ 24.0	\$ 25.0	\$ 27.3
Dollar Change	N/A	\$ 0.1	\$ 1.0	\$ 2.3
Percentage Change	N/A	0.4%	4.2%	9.1%

Significant changes in the expenditures of the City's General Fund from the prior year are as follows:

- Public Safety expenditures are \$1.1 million or 7.7% higher than the previous year, primarily due to the \$0.5 million increase in City's share of pension costs for the dissolved Belmont-San Carlos Fire JPA and \$0.5 million associated with the transfer of full fire and emergency services to the City of Redwood City.
- General Government expenditures have increased by \$0.6 million or 18.2%. The increase is mainly associated with legal and other expenditures incurred to address the condition of PG&E's high pressure gas pipeline 147 in San Carlos, the one-time information technology project management, and the addition of a full-time systems analyst position.
- Public Works expenditures that included park and building maintenance in the fiscal year 2013-14 have increased by \$0.4 million or 16.4%, mainly as a result of having all engineer positions filled in the fiscal year. In prior year, a few of the positions were vacant for several months.
- Community Development expenditures rose by \$0.2 million or 8.3% as a result of additional plan checks services associated with increased volume of building permits. This cost increase was offset by fees collected. The increased economic development activities also contributed to the higher expenditures.
- Parks & Recreation expenditures and the capital outlay remained at the same level as in the prior year.

Capital Improvement Capital Projects Fund has a fund balance of \$9.4 million at the close of fiscal year 2013-14, which represents a decrease of \$1.5 million from the prior year. The main reason for the decrease in fund balance is because several major construction projects, such as City Hall first

floor remodel, Crestview Park playground equipment renovation, storm drainage improvements and cleaning, were underway and did not have any outside funding to offset the expenditures.

Housing Capital Projects Fund is used to account for affordable housing related financial activities. As of June 30, 2014, it has a fund balance of \$4.6 million which is restricted for housing purposes. The fund balance increased by \$0.6 million from prior year mainly due to the interest payments received for the notes and loans.

Other Governmental Funds – The total fund balance of the Other Governmental Funds for the fiscal year 2013-14 remains at the same level as the previous year.

Major Enterprise Fund - The City's proprietary fund statements provide the same type of information found in the governmental wide financial statements. The Sewer Fund is the only enterprise fund reported in the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Position.

The Sewer Fund's total net position at the end of the fiscal year was \$33.9 million, an increase of \$13 million over the prior year. The increase is largely a result of a restatement of beginning net position in the amount of \$8.7 million and higher sewer revenue collection from sewer rate increase. The restatement reflects a change in the way the City reports its participation in the SVCW joint venture. The sewer rates were increased to fund the sewer treatment operations and sewer system networks improvements as well as to build up the reserve level. The increase is also used to pay for the City's portion of debt services issued by SVCW. However, due to delay by SVCW to issue additional bond for the rehabilitation of the sewer treatment facilities from the original anticipated date in the fall of 2013 to March 2014, the additional interest payment that the City expected to make did not occur in FY2013-14. The City will begin making interest payment for the 2014 bond in FY2014-15. The current expenses reflect ongoing operating expenses including sewer treatment costs, personnel costs, and regular maintenance and repairs. The costs of the major construction projects such as the sewer system rehabilitation and the wastewater capacity assurance have been capitalized.

Included in the \$33.9 million ending net position is \$9.1 million in investment in the SVCW joint venture that is not readily available for day-to-day operational spending.

General Fund Budgetary Highlights

The final General Fund budget differs from the original adopted budget by \$6.7 million mainly because of the amendments approved by City Council during the year. The increase consisted of the following changes:

- Increase in the capital outlay budget by \$5.8 million for the acquisition of the properties at the Landmark site.
- Increase in fire department costs in the amount of \$0.3 million for the City's share of the pension costs associated with Belmont-San Carlos Fire dissolution.
- Increase in the General Government budget by \$0.3 million to address the issue with PG&E's high pressure gas pipeline in the city.

Major deviations between the final budget of the General Fund and its actual operating results were as follows: (see accompanying financial statements)

Total revenues were greater than the final budget by \$3.7 million or 13.4%. The City's policy is to budget conservatively. Revenues are estimated using accepted standards and estimates provided by the State, other governmental agencies and outside consultants.

- Property taxes exceeded budget by \$1.6 million or 17%. The increases reflect higher secured tax rolls and property transfer activities.
- Sales taxes exceeded budget by \$1.1 million or 20.4%. This is primarily due to stable economic growth and an expanded sales tax base from a new State mandate requiring certain out-of-state internet retailers to collect sales tax.
- Transient occupancy taxes exceeded budget by \$0.3 million or 33.3% because of higher hotel occupancy as a result of economic recovery.
- VLF exceeded budget by \$0.3 million because San Mateo County released the previously withheld funding after determining no VLF shortfall occurred.
- Franchise taxes exceeded budget by \$0.2 million or 12.5% due to the higher utility rates.
- Licenses and permits exceeded budget by \$0.2 million or 15.4% primarily due to increase in volume of activities for building, electrical, plumbing, and mechanical permits.
- Fines and forfeitures were \$0.1 million below budget mainly because of decrease in vehicle and parking fine revenues. The decrease is a result of increased enforcement over time that has changed behavior patterns.

Total expenditures, excluding the one-time capital outlay, were under budget by \$2.3 million or 7.7%.

- Salaries and benefits were under budget by \$1.2 million due to the salary and benefit savings realized from vacant positions during the fiscal year and lower actual costs to fund public safety pensions.
- Operating expenditures were under budget by \$1 million, primarily due to reductions in worker's compensation and general liability transfers to the internal service fund as well as reductions in professional services spending.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for government and business-type activities amounts to \$145.7 million as of June 30, 2014. The investment in capital assets includes land, buildings, machinery and equipment, park facilities, roads and streets. Due to a change in the way the City reports its investment in the SVCW joint venture, \$10 million in participation rights have been removed from the business-type capital assets. See Notes 15c and 16 for additional information.

Capital Assets
June 30, 2013 and 2014
(Amounts in Millions)

	Governmental Activities		Business Type Activities		All Government		% Change
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	
Land and other assets not being depreciated	\$ 66.6	\$ 70.2	\$ 10.9	\$ 0.2	\$ 77.5	\$ 70.4	-9.2%
Facilities, infrastructure and equipment, net of depreciation	59.3	60.7	11.8	14.6	71.1	75.3	5.9%
Total	\$ 125.9	\$ 130.9	\$ 22.7	\$ 14.8	\$ 148.6	\$ 145.7	-2.0%

For the government-wide statement of net position presentation, all depreciable capital assets are depreciated from the acquisition date to the end of the current fiscal year.

Governmental fund financial statements record capital asset purchases as expenditures. Ongoing infrastructure projects are accounted for in construction-in-progress. Additional information about the City's capital assets can be found in Note 7 to the financial statements.

Long-Term Obligations

At the end of the fiscal year 2013-14, the City had total outstanding long-term obligations of \$15.2 million, a decrease of 5.6%. The contributing factors of the decrease are: (1) a new capital lease of \$8.8 million for the Landmark site (see Note 9b for additional information), and (2) adjustments of the 2008 and 2009 financing agreements to reflect a change in the way the City reports its investment in the SVCW joint venture (see Notes 15c and 16 for additional information).

Outstanding Long-Term Obligations
June 30, 2013 and 2014
(Amounts in Millions)

	Governmental Activities		Business Type Activities		All Government		% Change
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	
2005 GO Bond	\$ 6.7	\$ 6.4	\$ -	\$ -	\$ 6.7	\$ 6.4	-4.5%
ABAG Lease Agreement	-	8.8	-	-	-	8.8	100.0%
2008 Financing Agreement	-	-	1.4	-	1.4	-	-100.0%
2009 Financing Agreement	-	-	8.0	-	8.0	-	-100.0%
Total	\$ 6.7	\$ 15.2	\$ 9.4	\$ -	\$ 16.1	\$ 15.2	-5.6%

On April 24, 2014, Standard & Poor's raised rating on the City's General Obligation debt from "AA+" to "AAA". As of June 30, 2014, the City's general obligation limit is \$287 million, 3.75% of total assessed valuation subject to taxation. With outstanding debt of \$6.4 million is subject to the legal debt limit, the City is not at risk of exceeding its legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 to the accompanying financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic factors were considered in developing the fiscal year 2014-15 budget:

- **Revenue Projections:** The overall growth of the general fund revenue is projected to be approximately 4.1% higher than the fiscal year 2013-14 based on the steady recovery of the local economy, the increased construction and remodeling activities, the upward sales tax trends.
- **Expenditures:** The overall general fund expenditure is budgeted to be 10% lower than the fiscal year 2013-14. The fiscal year 2013-14 expenditures include \$5.8 million in one-time expenditures for the Landmark Site acquisition while the fiscal year 2014-15 budget includes only \$0.4 million for one-time expenditures. The salary and benefits expenditures are based on the known MOU provisions negotiated with bargaining groups. To respond to the rising cost of employee pensions, the City has made several changes to retirement benefits in prior years. The employee costs in the fiscal year 2014-15 budget continue to reflect these changes as well as the changes resulting from the passage of the State's Pension Reform Act.
- **Capital Improvement Project Funds:** An update of the five-year capital improvement plan was included as part of the fiscal year 2014-15 budget process. Changes to the existing project budget as well as addition of new projects totaling \$8.1 million were approved. The new projects include (1) Holly street west of El Camino Real improvements, (2) seismic upgrade of the fire station #16, (3) purchase of new recreation software for registration of activities, classes and events, (4) traffic calming improvements at Cordilleras avenue, (5) street light conversion to LED and (6) the purchase of a citizen request management software to track resident and community concerns and to provide a knowledge base for frequently asked questions.
- **Sewer Rate Adjustments:** The City Council has approved three-year sewer rate increases for the fiscal years 2013-14 through 2015-16. The increase for the fiscal year 2014-15 is approximately 20%. These increases will be used to pay for the sewer system rehabilitation and the City's share of the SVCW's sewer treatment plant improvements.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Department. All inquiries can be made to:

City of San Carlos
Administrative Services Department
600 Elm Street
San Carlos, CA 94070.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 43,569,059	\$ 10,485,167	\$ 54,054,226
Receivables:			
Accounts	4,215,067	379,893	4,594,960
Notes	1,157,045	-	1,157,045
San Carlos Development Corporation	3,800,000	-	3,800,000
Down payment assistance loan program	955,674	-	955,674
Prepaid items	350,300	-	350,300
Internal balances	117,614	(117,614)	-
Net OPEB asset - Healthcare	107,006	-	107,006
Property held for resale	14,425,522	-	14,425,522
Investment in joint Sewer Authority	-	9,089,714	9,089,714
Capital assets, not being depreciated			
Land	62,243,493	153,734	62,397,227
Rights of way	2,413,714	-	2,413,714
Construction in progress	5,554,280	-	5,554,280
Capital assets, net of depreciation	60,660,596	14,686,346	75,346,942
Total Assets	199,569,370	34,677,240	234,246,610
Liabilities:			
Accounts payable and accrued liabilities	3,675,117	732,371	4,407,488
Accrued benefits	120,775	-	120,775
Deposits payable	788,292	-	788,292
Unearned revenue	399,347	-	399,347
Claims payable			
Due within one year	237,423	-	237,423
Due in more than one year	286,472	-	286,472
Compensated absences			
Due within one year	274,691	45,476	320,167
Due in more than one year	183,127	30,317	213,444
Bonds, notes and loans			
Due within one year	310,000	-	310,000
Due in more than one year	14,895,000	-	14,895,000
Net OPEB liability due more than one year			
Longevity	1,382,492	-	1,382,492
Total Liabilities	22,552,736	808,164	23,360,900
Net Position:			
Net investment in capital assets	124,467,083	14,840,080	139,307,163
Restricted for:			
Public safety	243,214	-	243,214
Parks and recreation	213,447	-	213,447
Public works	2,717,542	-	2,717,542
Debt service	2,044,334	-	2,044,334
Housing	4,641,359	-	4,641,359
Unrestricted	42,689,655	19,028,996	61,718,651
Total Net Position	\$ 177,016,634	\$ 33,869,076	\$ 210,885,710

CITY OF SAN CARLOS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Governmental Activities:				
General government	\$ 5,321,121	\$ 1,071,289	\$ 15,913	\$ -
Public safety	15,592,529	527,366	124,055	-
Community development	2,991,374	2,625,860	267,497	52,528
Parks and recreation	3,043,648	2,206,374	10,000	554,414
Public works	8,255,888	1,201,650	1,524,555	4,300,550
Interest on long-term debt	276,859	-	-	-
Total Governmental Activities	35,481,419	7,632,539	1,942,020	4,907,492
Business-Type Activities:				
Sewer	8,320,370	12,685,252	-	-
Total Business-Type Activities	8,320,370	12,685,252	-	-
Total Primary Government	\$ 43,801,789	\$ 20,317,791	\$ 1,942,020	\$ 4,907,492

General Revenues:

Taxes:

- Property taxes, levied for general purpose
- Transient occupancy taxes
- Sales taxes
- Franchise taxes
- Motor vehicle in lieu - unrestricted
- Use of money and property
- Other

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position at Beginning of Year

Restatement of Net Position

Net Position at End of Year

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (4,233,919)	\$ -	\$ (4,233,919)
(14,941,108)	-	(14,941,108)
(45,489)	-	(45,489)
(272,860)	-	(272,860)
(1,229,133)	-	(1,229,133)
(276,859)	-	(276,859)
(20,999,368)	-	(20,999,368)
-	4,364,882	4,364,882
-	4,364,882	4,364,882
(20,999,368)	4,364,882	(16,634,486)
12,907,307	-	12,907,307
1,270,072	-	1,270,072
7,287,136	-	7,287,136
3,351,838	-	3,351,838
2,438,078	-	2,438,078
1,918,054	91,110	2,009,164
686,427	32,358	718,785
172,200	(172,200)	-
30,031,112	(48,732)	29,982,380
9,031,744	4,316,150	13,347,894
167,984,890	20,893,955	188,878,845
-	8,658,971	8,658,971
\$ 177,016,634	\$ 33,869,076	\$ 210,885,710

THIS PAGE INTENTIONALLY LEFT BLANK

FUND FINANCIAL STATEMENTS

Only individual major funds are presented in the Fund Financial Statements, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND – This is the primary fund of the City and is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND - This fund is used to account for major capital projects not provided for in one of the other capital projects funds.

HOUSING CAPITAL PROJECTS FUND - This fund is used to account for development fees which must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former redevelopment agency was dissolved.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Capital Projects Funds			Other Governmental Funds	Total Governmental Funds
	General	Capital Improvement	Housing		
Assets:					
Cash and investments	\$21,009,336	\$ 9,077,000	\$ 3,425,500	\$ 8,495,191	\$ 42,007,027
Receivables:					
Accounts	2,023,478	1,567,485	46,302	577,802	4,215,067
Notes	-	-	1,157,045	-	1,157,045
San Carlos Development Corporation	-	-	3,800,000	-	3,800,000
Down payment assistance loan program	-	-	955,674	-	955,674
Prepaid items	350,300	-	-	-	350,300
Advances to other funds	710,000	-	-	-	710,000
Property held for resale	14,070,523	-	354,999	-	14,425,522
Total Assets	\$38,163,637	\$ 10,644,485	\$ 9,739,520	\$ 9,072,993	\$ 67,620,635
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 2,483,182	\$ 849,088	\$ 78,168	\$ 136,627	\$ 3,547,065
Accrued benefits	120,775	-	-	-	120,775
Deposits payable	779,021	-	9,271	-	788,292
Unearned revenues	399,347	-	-	-	399,347
Advances from other funds	-	-	-	610,000	610,000
Total Liabilities	3,782,325	849,088	87,439	746,627	5,465,479
Deferred Inflows of Resources:					
Unavailable revenues	108,441	376,699	5,010,722	148,790	5,644,652
Total Deferred Inflows of Resources	108,441	376,699	5,010,722	148,790	5,644,652
Fund Balances:					
Nonspendable:					
Prepaid items	350,300	-	-	-	350,300
Property held for resale	14,070,523	-	-	-	14,070,523
Advances to other funds	710,000	-	-	-	710,000
Restricted for:					
Public safety	-	-	-	243,214	243,214
Parks and recreation	-	-	-	213,447	213,447
Public works	-	-	-	2,717,542	2,717,542
Debt service	-	-	-	2,044,334	2,044,334
Housing	-	-	4,641,359	-	4,641,359
Committed to:					
General government	-	-	-	1,087,729	1,087,729
Community development	-	-	-	69,456	69,456
Capital projects	-	9,418,698	-	1,801,854	11,220,552
Emergency reserve	3,200,000	-	-	-	3,200,000
Assigned to:					
Unfunded liabilities	3,200,000	-	-	-	3,200,000
Facility/infrastructure improvements	7,000,000	-	-	-	7,000,000
Property acquisitions	2,701,565	-	-	-	2,701,565
Unassigned	3,040,483	-	-	-	3,040,483
Total Fund Balances	34,272,871	9,418,698	4,641,359	8,177,576	56,510,504
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$38,163,637	\$ 10,644,485	\$ 9,739,520	\$ 9,072,993	\$ 67,620,635

CITY OF SAN CARLOS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Fund balances of governmental funds	\$ 56,510,504
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	130,872,083
Long-term debt and compensated absences that have not been included in governmental fund activity.	
Bonds payable	(15,205,000)
Compensated Absences	(457,818)
Governmental funds report all OPEB contributions as expenditures, however in the statement of net position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.	(1,382,492)
Longevity	107,006
Healthcare	
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(125,757)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	5,644,652
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.	<u>1,053,456</u>
Net Position of governmental activities	<u><u>\$ 177,016,634</u></u>

CITY OF SAN CARLOS

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	<u>Capital Projects Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Improvement</u>	<u>Housing</u>		
Revenues:					
Sales taxes	\$ 6,548,812	\$ -	\$ -	\$ 738,324	\$ 7,287,136
Property taxes	10,979,456	1,232,649	-	695,202	12,907,307
Transient occupancy taxes	1,270,072	-	-	-	1,270,072
Franchise taxes	1,840,618	1,511,220	-	-	3,351,838
Vehicle in-lieu	2,438,078	-	-	-	2,438,078
Business registration	685,909	-	-	-	685,909
Licenses and permits	1,452,285	75,796	-	57,467	1,585,548
From other agencies	38,903	1,522,281	-	2,557,902	4,119,086
Charges for services	3,276,334	112,773	-	-	3,389,107
Fines and forfeitures	219,944	-	-	-	219,944
Use of money and property	1,373,705	2,244	594,220	206,339	2,176,508
Other revenue	1,365,623	708,570	249,355	562,586	2,886,134
Total Revenues	31,489,739	5,165,533	843,575	4,817,820	42,316,667
Expenditures:					
Current:					
General government	3,942,606	-	-	772,712	4,715,318
Community development	2,608,095	-	251,654	11,073	2,870,822
Public safety	15,268,586	-	-	92,407	15,360,993
Public works	2,837,125	2,393,543	-	1,548,344	6,779,012
Parks and recreation	2,574,917	-	-	-	2,574,917
Capital outlay	48,963	6,203,690	-	1,438,610	7,691,263
Debt service:					
Principal	-	-	-	285,000	285,000
Interest and fiscal charges	-	-	-	258,604	258,604
Total Expenditures	27,280,292	8,597,233	251,654	4,406,750	40,535,929
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,209,447	(3,431,700)	591,921	411,070	1,780,738
Other Financing Sources (Uses):					
Transfers in	520,200	358,965	-	766,000	1,645,165
Transfers out	(265,165)	-	-	(1,207,800)	(1,472,965)
Capital Lease issued	8,800,000	-	-	-	8,800,000
Capital contributions	-	1,550,695	-	-	1,550,695
Total Other Financing Sources (Uses)	9,055,035	1,909,660	-	(441,800)	10,522,895
Net Change in Fund Balances	13,264,482	(1,522,040)	591,921	(30,730)	12,303,633
Fund Balances, Beginning of Year	21,008,389	10,940,738	4,049,438	8,208,306	44,206,871
Fund Balances, End of Year	\$ 34,272,871	\$ 9,418,698	\$ 4,641,359	\$ 8,177,576	\$ 56,510,504

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds \$ 12,303,633

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	7,610,210
Depreciation expense	(2,445,578)
Retirement of capital assets	(154,148)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal repaid on bonds	285,000
Debt Issued	(8,800,000)

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.

(18,255)

Compensated absences 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.

824

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.

(115,150)

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.

444,006

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.

(78,798)

Change in net position of governmental activities

\$ 9,031,744

CITY OF SAN CARLOS

**BUDGETARY COMPARISON STATEMENT BY DEPARTMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 5,432,500	\$ 5,432,500	\$ 6,548,812	\$ 1,116,312
Property taxes	9,416,500	9,416,500	10,979,456	1,562,956
Transient occupancy taxes	940,500	940,500	1,270,072	329,572
Franchise taxes	1,640,800	1,640,800	1,840,618	199,818
Vehicle in lieu	2,144,000	2,144,000	2,438,078	294,078
Business registration	659,700	659,700	685,909	26,209
Licenses and permits	1,294,100	1,294,100	1,452,285	158,185
From other agencies	37,000	37,000	38,903	1,903
Charges for services	3,208,500	3,208,500	3,276,334	67,834
Fines and forfeitures	328,600	328,600	219,944	(108,656)
Use of money and property	1,363,500	1,363,500	1,373,705	10,205
Other revenue	1,280,000	1,280,000	1,365,623	85,623
Total Revenues	27,745,700	27,745,700	31,489,739	3,744,039
Expenditures:				
General government:				
City Council	149,900	149,900	111,535	38,365
City Manager	664,000	681,650	608,440	73,210
City Clerk	430,700	437,300	289,157	148,143
Administrative services	2,657,650	2,713,450	2,328,618	384,832
City Treasurer	13,100	13,100	9,107	3,993
City Attorney	273,500	273,500	272,742	758
General government	2,700	252,700	323,007	(70,307)
Total general government	4,191,550	4,521,600	3,942,606	578,994
Community development:				
Administration	413,000	471,650	465,726	5,924
Building	1,101,200	1,133,200	1,133,176	24
Planning	593,100	656,700	590,620	66,080
Economic development	582,500	587,500	418,573	168,927
Total community development	2,689,800	2,849,050	2,608,095	240,955
Public safety:				
Police patrol	5,400	5,400	4,833	567
Police investigation	44,000	44,000	43,327	673
Police administration	7,834,400	7,834,400	7,328,784	505,616
Fire	7,442,400	7,718,587	7,431,973	286,614
Communications	584,315	584,315	459,669	124,646
Total public safety	15,910,515	16,186,702	15,268,586	918,116
Public works:				
Public works	663,650	694,350	600,456	93,894
Garage	81,000	83,600	60,706	22,894
Street maintenance	114,600	114,600	98,752	15,848
Traffic control	287,200	287,200	250,652	36,548
Park maintenance	1,163,500	1,161,300	1,098,015	63,285
Building maintenance	666,200	728,600	728,544	56
Total public works	2,976,150	3,069,650	2,837,125	232,525

CITY OF SAN CARLOS

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT
 GENERAL FUND
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration	378,485	389,785	343,081	46,704
Recreation	2,435,700	2,454,100	2,231,836	222,264
Total parks and recreation	2,814,185	2,843,885	2,574,917	268,968
Capital outlay	106,800	96,600	48,963	47,637
One-time capital outlay ¹	-	5,800,000	-	5,800,000
Total expenditures	28,689,000	35,367,487	27,280,292	8,087,195
Excess (Deficiency) of Revenues Over (Under) Expenditures	(943,300)	(7,621,787)	4,209,447	11,831,234
Other Financing Sources (Uses):				
Transfers out	(302,900)	(302,900)	(265,165)	37,735
Transfers in	520,200	520,200	520,200	-
Capital lease issued	-	-	8,800,000	8,800,000
Total other financing sources (uses)	217,300	217,300	9,055,035	8,837,735
Net Change in Fund Balance	<u>\$ (726,000)</u>	<u>\$ (7,404,487)</u>	13,264,482	<u>\$ 11,868,969</u>
Beginning Fund Balance			21,008,389	
Ending Fund Balance			<u>\$ 34,272,871</u>	

¹ Expenditures were reclassified as property held for resale, see Note 8 for more information.

THIS PAGE INTENTIONALLY LEFT BLANK

MAJOR PROPRIETARY FUND

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds extends to Proprietary Funds.

Budget versus actual comparisons regarding proprietary funds that are major funds are not presented.

SEWER ENTERPRISE FUND - This fund is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
Assets:		
Current:		
Cash and investments	\$ 10,485,167	\$ 1,562,032
Receivables:		
Accounts	379,893	-
Total Current Assets	10,865,060	1,562,032
Noncurrent:		
Investment in Sewer Authority	9,089,714	-
Capital assets, net		
Land	153,734	-
Depreciable capital assets, net	14,686,346	-
Total Noncurrent Assets	23,929,794	-
Total Assets	\$ 34,794,854	\$ 1,562,032
Liabilities and Net Position:		
Liabilities:		
Current:		
Accounts payable	\$ 732,371	\$ 2,295
Compensated absences	45,476	-
Claims payable	-	237,423
Total Current Liabilities	777,847	239,718
Noncurrent:		
Advances from other funds	100,000	-
Compensated absences	30,317	-
Claims payable	-	286,472
Total Noncurrent Liabilities	130,317	286,472
Total Liabilities	908,164	526,190
Net Position:		
Net investment in capital assets	14,840,080	-
Unrestricted (Note 15c)	19,046,610	1,035,842
Total Net Position	33,886,690	1,035,842
Total Liabilities and Net Position	\$ 34,794,854	\$ 1,562,032
Reconciliation of Net Position to the Statement of Net Position		
Net Position per Statement of Net Position - Proprietary Funds		
Accumulated adjustment to reflect the consolidation of internal service funds activities related to the enterprise funds	\$ (17,614)	
Current years' adjustments to reflect the consolidation of internal service activities related to enterprise funds		
Net Position per Statement of Net Position	\$ 33,869,076	

CITY OF SAN CARLOS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
Operating Revenues:		
Charges for services	\$ 12,685,252	\$ 527,470
Cost reimbursement	-	433,150
Total Operating Revenues	12,685,252	960,620
Operating Expenses:		
Salaries and benefits	1,570,056	-
Sewer operations	4,521,076	-
Insurance premiums	-	592,028
Claims expense	-	597,000
Depreciation expense	352,480	-
Miscellaneous	1,741,900	14,843
Total Operating Expenses	8,185,512	1,203,871
Operating Income (Loss)	4,499,740	(243,251)
Nonoperating Revenues (Expenses):		
From other agencies	-	15,913
Investment income	91,110	13,682
Other non operating revenue	2,558	-
Increase in Investment in Sewer Authority	29,800	-
Total Nonoperating Revenues (Expenses)	123,468	29,595
Income (Loss) Before Transfers	4,623,208	(213,656)
Transfers in	348,000	-
Transfers out	(520,200)	-
Changes in Net Position	4,451,008	(213,656)
Net Position:		
Beginning of Year, as previously reported	20,776,711	1,249,498
Restatements	8,658,971	-
Beginning of Fiscal Year, as restated	29,435,682	1,249,498
End of Fiscal Year	\$ 33,886,690	\$ 1,035,842
Reconciliation of Changes in Net Position to the Statement of Activities:		
Changes in Net Position, per the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	\$ 4,451,008	
Adjustment to reflect the consolidation of current fiscal year internal service funds activities related to enterprise funds	(134,858)	
Changes in Net Position of Business-Type Activities per Statement of Activities	\$ 4,316,150	

CITY OF SAN CARLOS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 12,587,016	\$ -
Cash received from/(paid to) interfund service provided	-	961,875
Cash paid to suppliers for goods and services	(5,962,848)	(1,255,753)
Cash paid to employees for services	(1,573,895)	-
Net Cash Provided (Used) by Operating Activities	5,050,273	(293,878)
Cash Flows from Non-Capital Financing Activities:		
Cash transfers in	348,000	-
Cash transfers out	(520,200)	-
From other agencies	-	15,913
Net Cash Provided (Used) by Non-Capital Financing Activities	(172,200)	15,913
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(2,445,201)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,445,201)	-
Cash Flows from Investing Activities:		
Investment in joint venture	191,615	-
Interest received	91,110	13,682
Net Cash Provided (Used) by Investing Activities	282,725	13,682
Net Increase (Decrease) in Cash and Cash Equivalents	2,715,597	(264,283)
Cash and Cash Equivalents at Beginning of Year	7,769,570	1,826,315
Cash and Cash Equivalents at End of Year	\$ 10,485,167	\$ 1,562,032
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 4,499,740	\$ (243,251)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	352,480	-
(Increase) decrease in accounts receivable	(98,236)	1,255
Increase (decrease) in accounts payable	300,128	1,119
Increase (decrease) in claims and judgments	-	(53,001)
Increase (decrease) in compensated absences	(3,839)	-
Total Adjustments	550,533	(50,627)
Net Cash Provided (Used) by Operating Activities	\$ 5,050,273	\$ (293,878)
Non-Cash Investing, Capital, and Financing Activities:		
Gain/(Loss) on Investment in Sewer Authority	\$ 29,800	\$ -

THIS PAGE INTENTIONALLY LEFT BLANK

FIDUCIARY FUNDS

Fiduciary Funds are presented separately from the Government-wide and Fund Financial Statements.

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

AGENCY FUNDS - Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY OF THE FORMER RDA PRIVATE PURPOSE TRUST FUND – This fund is used to account for the activities related to the dissolution of the former San Carlos Redevelopment Agency.

CITY OF SAN CARLOS

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2014

	Agency Funds	Private- Purpose Trust Fund Successor Agency of the Former RDA
Assets:		
Cash and investments	\$ 34,043,706	\$ 1,223,359
Cash and investments with fiscal agents	6,257,859	3,846,461
Receivables:		
Accounts	6,804,910	-
Prepaid items	724,780	-
Capital assets:		
Capital assets, not being depreciated	-	1,331,751
Capital assets, net of accumulated depreciation	-	3,875,467
Total Assets	\$ 47,831,255	10,277,038
Liabilities:		
Accounts payable and accrued liabilities	\$ 9,710,899	239,558
Due to members	36,868,740	-
Deposits payable	1,239,826	-
Due to assessment district bondholders	11,790	-
Long-term liabilities:		
Due in one year	-	486,647
Due in more than one year	-	16,595,990
Total Liabilities	\$ 47,831,255	17,322,195
Net Position:		
Held in trust for other purposes		(7,045,157)
Total Net Position		\$ (7,045,157)

CITY OF SAN CARLOS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2014

	<u>Private- Purpose Trust Fund Successor Agency of the Former RDA</u>
Additions:	
Taxes	\$ 1,639,986
Use of money and property	107,999
Miscellaneous	<u>3,169</u>
Total Additions	<u>1,751,154</u>
Deductions:	
Administrative expenses	235,268
Contractual services	73,411
Interest expense	980,324
Depreciation expense	<u>79,006</u>
Total Deductions	<u>1,368,009</u>
Changes in Net Position	383,145
Net Position - Beginning of the Year	<u>(7,428,302)</u>
Net Position - End of the Year	<u>\$ (7,045,157)</u>

THIS PAGE INTENTIONALLY LEFT BLANK

Note 1: Summary of Significant Accounting Policies

a. Reporting Entity

The **City of San Carlos** ("City") is a general-law City which operates under the Council-Manager form of government, with five elected Council members served by a full time City Manager and staff. The City provides many services including public safety, streets and roads, parks and recreation and planning and community development. The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The financial statements include the City and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and data from these units are combined with data of the City. Their financial activities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements.

The **San Carlos Housing Authority** ("Housing Authority") is a separate government entity whose purpose is to provide housing to low and moderate income families within certain areas of the City. The Housing Authority is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Housing Authority. The Housing Authority is financially dependent on the City. The financial activities of the Housing Authority have been included in these financial statements.

Separate statements for the Housing Authority are not prepared.

b. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The *Government Accounting Standards Board* is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. All fiduciary activities are reported only in the fund financial statements. Eliminations have been made to minimize the double counting of internal activities; however, interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. 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 (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and

Note 1: Summary of Significant Accounting Policies (Continued)

contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and salaries & benefits, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as investment earnings and interest expense, result from nonexchange transactions or ancillary activities.

c. Major Funds

The City's major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column.

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

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

General Fund is the primary fund of the City which is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Council, City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

Capital Improvement Capital Projects Fund is used to account for major capital projects not provided for in one of the other capital projects funds.

Housing Capital Projects Fund is used to account for development fees which must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former redevelopment agency was dissolved.

The City reports the following major enterprise funding the accompanying financial statements:

Sewer Enterprise Fund is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

Note 1: Summary of Significant Accounting Policies (Continued)

The City also reports the following fund types:

Internal Service Fund: The funds account for worker's compensation, general liability and other post employment benefits; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds: Agency Funds are used to account for assets held by the City as an agent for 1988 Special Tax Bonds Assessment Districts, City/County Association of Governments of San Mateo County (C/CAG) and South Bayside Waste Management Authority (SBWMA). Private-purpose trust funds are used to account for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated. All fiduciary funds, including agency funds, use the accrual, rather than the modified accrual, basis of accounting.

The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

d. Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales and use, transient occupancy, franchise and gas taxes, intergovernmental revenues, grants and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until collected.

Non-exchange transactions are those in which the City gives or receives value without directly receiving or giving equal value in exchange; include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first

Note 1: Summary of Significant Accounting Policies (Continued)

apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

e. Property Taxes and Sewer Charges

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and sewer charges for the City; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above, generally within 60 days.

f. Assets, Liabilities, Deferred inflows/outflows, and Net Position or Equity

Investments

For financial reporting purposes, investments are adjusted to their fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Some investments are valued on an unamortized cost basis. For these investments, there is no material difference from fair value.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary fund's share in the cash and investment pool of the City. Cash equivalents have an original maturity date

Note 1: Summary of Significant Accounting Policies (Continued)

of three months or less from the date of purchase. For purposes of the statement of cash flows, the entire balance of cash and investments on the combined balance sheet for the proprietary funds is considered cash and cash equivalents.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

All capital assets are valued at historical cost or 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. The City's policy is to capitalize all assets with costs exceeding the \$5,000 threshold and a useful life of more than one year.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Building and Improvements	10-50 years
Equipment	5-10 years
Infrastructure and Sewer System Network	75-100 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Deferred outflows/inflows of resources

In addition to assets, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 12 working days of vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 4 years. Maximum accumulation of vacation is two years of vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The compensated absences are reported in governmental funds only if they are matured. The liability for compensated absences is determined annually. For governmental funds, the portion expected to be permanently liquidated is recorded as fund liabilities.

Compensated absences are liquidated by the fund that has recorded the liability, primarily the General Fund.

Fund Balance

In the fund financial statements, governmental funds report the following fund balance classification:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is Council resolution.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose, which was established by the governing body by resolution.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

The City Council adopts and amends committed fund balance amounts through resolution. The City Council authorizes assigned amounts for specific purposes pursuant to the policy-making powers granted through resolution.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net position is the excess of all the City's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

Net investment in capital assets describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net position which is not restricted to use.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

g. Budgets and Budgetary Accounting

The City adopts an annual operating budget on or before June 30 for the ensuing fiscal year for the General Fund, all Special Revenue Funds, and all Debt Service Funds. Expenditures for the Capital Projects Funds are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements. The City follows a budgeting process in which the City's plans and objectives are outlined and budgeted. This work program is reviewed with the City Council to determine the priority and timing of plans and objectives. Revisions are made to the work program, which in its final form, is adopted by the City Council as an operating budget, effective July 1 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

City Council may amend the budget by resolution during the fiscal year. The City Manager may transfer appropriations from one program, activity, or object to another within the same department or between departments. However, transfers of appropriations which change total fund appropriations must be approved by the City Council. Expenditures which exceed appropriations at the fund level must be approved by the City Council. Budgets are adopted on a basis consistent with generally accepted accounting principles.

h. Expenditures in Excess of Budget

For the year ended June 30, 2014, there were no functional expenditures exceeding the budgeted amounts in the General Fund.

Note 2: Cash and Investments

The City pools cash from all sources and all funds except cash and investments held by trustees so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

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

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

b. Classification

Cash and investments as of June 30, 2014, are classified in the following financial statements as follows:

Statements of Net Position:	
Cash and investments	\$ 54,054,226
Subtotal	<u>54,054,226</u>
Fiduciary Funds:	
Cash and investments	35,267,065
Cash and investments with fiscal agent	10,104,320
Subtotal	<u>45,371,385</u>
Total cash and investments	<u>\$ 99,425,611</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 2: Cash and Investments (Continued)

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	\$ 6,000
Deposits with financial institutions	3,806,508
Investments	<u>95,613,103</u>
Total cash and investments	<u>\$ 99,425,611</u>

c. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of bond indentures of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund	Upon Demand	N/A	\$40 million per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	\$40 million per account	N/A
U.S. Treasury Bonds/Notes/Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A),(B)
Commercial Paper	270 Days	AA	25%	(A),(B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A),(B)
Time Certificates of Deposit -				
Banks or Savings and Loans	5 Years	N/A	25%	(A),(B)
Medium Term Corporate Notes	5 Years	AA	30%	(A),(B)

A) 5% of outstanding paper of issuing corporation

B) 5% of the portfolio in one corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)

d. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Securities of the U.S. government or its agencies	None
Time certificates of deposit	None
Bankers acceptances	A1+
Commercial paper	A1
California Local Agency Investment Fund	None
Repurchase agreements	None
Small Business Administration loans	None
Money market funds	AA-m ¹ , AAA-m ²
Negotiable certificates of deposit	None
Investment agreement	None
Tax-exempt obligations	AAA
Medium-term notes	AAA

¹ SBWMA Series 2009A Bond

² San Carlos RDA 2007 TAB Series A & B

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy is to hold investments to maturity to mitigate the interest rate risk.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	6 Months or Less	6 Months to 1 Year	1 to 3 Years	Total
San Mateo County Investment Pool	\$ 41,173,047	\$ -	\$ -	\$ 41,173,047
California Local Agency Investment	44,336,573	-	-	44,336,573
California Asset Management Program	1,065,454	-	-	1,065,454
Money market mutual funds	7,550,029	-	-	7,550,029
Certificates of Deposit	-	-	1,488,000	1,488,000
Total Investments	\$ 94,125,103	\$ -	\$ 1,488,000	95,613,103
Cash in bank and cash on hand				3,812,508
Total Cash and Investments				\$ 99,425,611

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)**f. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standards and Poor, as of June 30, 2014, for each investment type:

Investment Type	AAA-m	Total
Money market (U.S. Securities)	\$ 7,550,029	\$ 7,550,029
Totals	\$ 7,550,029	7,550,029
Not rated:		
California Local Agency Investment Fund		44,336,573
San Mateo County Investment Pool		41,173,047
California Asset Management Program		1,065,454
Certificates of deposit		1,488,000
Total Investments		95,613,103
Cash on hand and cash in bank		3,812,508
Total Cash and Investments		\$ 99,425,611

g. Local Agency Investment Fund

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

h. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The City reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

Note 2: Cash and Investments (Continued)

i. California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code.

The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2014, the fair value approximated is the City's cost.

Note 3: San Carlos Development Corporation Receivable

The San Carlos Development Corporation (SCDC) operates a senior care residential facility for low and moderate income residents of the City. In September 2003, the Agency issued a Residual Receipts Note in connection with an FHA-issued mortgage loan being made to refinance the San Carlos Elms. The terms of the note called for interest only payments at a rate of 9.75% per year with the entire amount of principal due August 1, 2037. On February 1, 2012, this receivable was transferred to the City who took over the housing function of the Agency upon dissolution of the San Carlos Redevelopment Agency. As of June 30, 2014, the balance owed to the City by SCDC totaled \$3,800,000.

Note 4: Down Payment Assistance Loan (DAL) Program Receivable

The Agency offers first time home buyers who qualify as having low and moderate income loans for use as a down payment on the purchase of a home. These loans bear interest at 3% and are secured by second deeds of trust on the underlying property. No payments are due until five years after the date of purchase, at which time the buyer has the option of converting the loan into shared equity in the property or extending the loan for an additional ten years with monthly payments and a balloon payment for the unpaid balance at the end of the ten year term. On February 1, 2012, this receivable was transferred to the City when it took over the housing function of the Agency upon dissolution. At June 30, 2014, the City has recorded a receivable totaling \$453,398 for loans given out to 8 buyers, consisting of \$383,318 principal and \$70,080 in accrued interest.

On April 27, 2009, the City Council approved revisions to the terms of DAL for the first time home buyer program. Payments are deferred for the term of the loan. Homeowners of units other than a Below Market Rate unit and/or any unit subject to a resale restriction agreement will be required to pay shared appreciation in addition to the repayment of principal and accrued interest at the time the DAL Program loan repayment is due. Interest rate and loan term remain unchanged. At June 30, 2014, the City has recorded a receivable totaling \$502,276 for loans given out to 9 buyers, consisting of \$448,600 principal and \$53,676 in accrued interest.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 5: Employee Housing Assistance Loans

In accordance with Council resolution, the City has assisted several employees in purchasing new residences through a loan program. These loans become due within 90 days if employment is terminated. The loans bear interest of 4.80%. Some loans have rates which are adjusted annually to equal the Local Agency Investment Fund rate earned as of July 1. The loans are secured by a second deed of trust on the underlying residence. Interest only is due bi-weekly until the sixth year, when principal and interest payments are due. The unpaid balance is due in the eighth year of the loan. In fiscal year 2014, no employees participated in the program.

Note 6: Interfund Transactions

a. Transfers Between Funds

The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2014, were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Sewer Fund	\$ 520,200 B
Capital Improvement	Non-Major Governmental Fund	350,000 A
Capital Improvement	General Fund	8,965 A
Non-Major Governmental Fund	General Fund	256,200 A
Sewer Enterprise Fund	Non-Major Governmental Fund	348,000 A
Non-Major Governmental Fund	Non-Major Governmental Fund	<u>509,800 A</u>
Total		<u>\$ 1,993,165</u>
(A) Capital projects		
(B) Sewer right of way		

b. Interfund Advances

At June 30, 2014, the amounts of interfund advances were as follows:

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount</u>
Non-Major Governmental Fund	General Fund	\$ 610,000
Sewer Enterprise Fund	General Fund	<u>100,000</u>
Total		<u>\$ 710,000</u>

General Fund has advanced non-major governmental funds to cover storm drain maintenance. The advance does not bear interest.

General Fund has advanced Sewer Enterprise Fund to cover OPEB trust contribution payment. The advance does not bear interest.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 7: Capital Assets

Capital assets as of June 30, 2014, consisted of the following:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Governmental Activities:					
Capital assets not depreciated:					
Land	\$ 62,243,493	\$ -	\$ -	\$ -	\$ 62,243,493
Rights of way	2,341,714	72,000	-	-	2,413,714
Construction in progress	2,030,784	7,407,910	(154,148)	(3,730,266)	5,554,280
Total capital assets not depreciated	<u>66,615,991</u>	<u>7,479,910</u>	<u>(154,148)</u>	<u>(3,730,266)</u>	<u>70,211,487</u>
Capital assets being depreciated:					
Buildings and improvements	30,324,065	-	-	1,143,000	31,467,065
Equipment	5,066,036	130,300	-	-	5,196,336
Infrastructure	55,679,845	-	-	2,587,266	58,267,111
Total capital assets being depreciated	<u>91,069,946</u>	<u>130,300</u>	<u>-</u>	<u>3,730,266</u>	<u>94,930,512</u>
Less accumulated depreciation:					
Buildings and improvements	(12,128,234)	(813,029)	-	-	(12,941,263)
Equipment	(4,020,600)	(334,082)	-	-	(4,354,682)
Infrastructure	(15,675,504)	(1,298,467)	-	-	(16,973,971)
Total accumulated depreciation	<u>(31,824,338)</u>	<u>(2,445,578)</u>	<u>-</u>	<u>-</u>	<u>(34,269,916)</u>
Depreciable capital assets, net	<u>59,245,608</u>	<u>(2,315,278)</u>	<u>-</u>	<u>3,730,266</u>	<u>60,660,596</u>
Capital assets, net	<u>\$ 125,861,599</u>	<u>\$ 5,164,632</u>	<u>\$ (154,148)</u>	<u>\$ -</u>	<u>\$ 130,872,083</u>

Depreciation expense was charged to governmental functions based on their usage of the related assets. The amounts allocated to each function or program as follows:

Governmental Activities:	
General government	\$ 316,924
Public safety	203,222
Public works	1,332,954
Community development	96,110
Parks and recreation	496,368
Total Governmental Activities	<u>\$ 2,445,578</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7: Capital Assets (Continued)

	Balance June 30, 2013	Adjustments*	Additions	Retirements	Transfers	Balance June 30, 2014
Business-type Activities:						
Capital assets not depreciated:						
Land	\$ 153,734	\$ -	\$ -	\$ -	\$ -	\$ 153,734
Participation rights	9,960,000	(9,960,000)	-	-	-	-
Construction in progress	739,837	-	2,088,927	-	(2,828,764)	-
Total capital assets not depreciated	<u>10,853,571</u>	<u>(9,960,000)</u>	<u>2,088,927</u>	<u>-</u>	<u>(2,828,764)</u>	<u>153,734</u>
Capital assets being depreciated:						
Equipment	1,247,744	-	389,845	(191,799)	-	1,445,790
Sewer network system	16,262,695	-	-	(61,535)	2,828,764	19,029,924
Total capital assets being depreciated	<u>17,510,439</u>	<u>-</u>	<u>389,845</u>	<u>(253,334)</u>	<u>2,828,764</u>	<u>20,475,714</u>
Less accumulated depreciation:						
Equipment	(549,872)	-	(155,549)	191,799	-	(513,622)
Sewer network system	(5,106,779)	-	(196,931)	27,964	-	(5,275,746)
Total accumulated depreciation	<u>(5,656,651)</u>	<u>-</u>	<u>(352,480)</u>	<u>219,763</u>	<u>-</u>	<u>(5,789,368)</u>
Depreciable capital assets, net	<u>11,853,788</u>	<u>-</u>	<u>37,365</u>	<u>(33,571)</u>	<u>2,828,764</u>	<u>14,686,346</u>
Capital assets, net	<u>\$ 22,707,359</u>	<u>\$ (9,960,000)</u>	<u>\$ 2,126,292</u>	<u>\$ (33,571)</u>	<u>\$ -</u>	<u>\$ 14,840,080</u>

*Adjustment made in the current year relating to the City's investment in the Silicon Valley Clean Water joint venture. See Note 15c for more information.

Depreciation expense of \$352,480 was charged to the Sewer enterprise fund as of June 30, 2014.

Note 8: Property Held for Resale

Property held for resale is stated at the lower of historical cost or net realizable value (equal to agreed-upon sales price if a disposition and development agreement has been reached with a developer).

In October 2009, the Agency purchased a low income housing unit property. On February 1, 2012, this property was transferred to the City when it took over the housing function of the Agency upon dissolution. The unit is being held for future resale to an individual who is eligible for the low income housing program.

On November 25, 2013 City Council approved the acquisition of three parcels referred to as "Landmark Sites" for hotel development. The intent is to consolidate the properties and to sell the land to a developer in order to increase City's Transient Occupancy Tax.

The properties are reported in governmental activities in the statement of net position as Assets Held for Resale. The carrying value at June 30 is:

Property Name	Property Address	Amount
Housing Unit	633 Elm St #305, San Carlos	\$ 354,999
Landmark Site	595 Industrial Road, San Carlos	5,050,859
Landmark Site	850 East San Carlos Avenue, San Carlos	5,441,885
Landmark Site	810 East San Carlos Avenue, San Carlos	3,577,779
		<u>\$ 14,425,522</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 9: Long-Term Debt

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2013	Adjustments*	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental Activities:						
2005 Refunding General Obligation Bonds	\$ 6,690,000	\$ -	\$ -	\$ (285,000)	\$ 6,405,000	\$ 310,000
ABAG Lease Agreement	-	-	8,800,000	-	8,800,000	-
Total Governmental Activities	\$ 6,690,000	\$ -	\$ 8,800,000	\$ (285,000)	\$ 15,205,000	\$ 310,000
Business-type Activities:						
2008 Financing Agreement	\$ 1,355,000	\$ (1,355,000)	\$ -	\$ -	\$ -	\$ -
2009 Financing Agreement	8,015,000	(8,015,000)	-	-	-	-
Total Business-type Activities	\$ 9,370,000	\$ (9,370,000)	\$ -	\$ -	\$ -	\$ -

*Adjustments made in the current year relating to the City's investment in the Silicon Valley Clean Water joint venture. See Note 15c for more information.

a. General Obligation Bonds

On December 6, 2005, the City issued \$8,115,000 of general obligation bonds (2005 Refunding Bonds). The 1996 Public Library Bonds were defeased by placing the proceeds from the 2005 Refunding Bonds in an irrevocable trust to provide for future debt payments. Accordingly, the trust account assets and the liability for the defeased 1996 Public Library Bonds are not included in the financial statements. On August 1, 2006, all outstanding principal of the 1996 Public library Bonds were repaid.

Principal payments for the 2005 Refunding Bonds are due annually on August 1. Interest payments are due semi-annually on February 1 and August 1 ranging from 3.50% to 4.15%. These bonds are payable from the proceeds of ad valorem property taxes.

Annual debt service requirements for the general obligation bonds are shown below:

	Principal	Interest
2015	\$ 310,000	\$ 247,288
2016	330,000	235,525
2017	365,000	222,576
2018	385,000	208,514
2019	415,000	193,410
2020-2024	2,580,000	688,378
2025-2029	2,020,000	128,820
Total	\$ 6,405,000	\$ 1,924,511

b. ABAG Lease Agreement

On June 1, 2014, the City entered into a Lease Agreement with ABAG Financing Authority for Nonprofit Corporations to financing its acquisition of real property located at 595 Industrial Boulevard and 850 East San Carlos Avenue in San Carlos in the amount of \$8,800,000. The land is recorded in the general fund as property held for resale. The Lease Agreement shall end December 2019. Interest is calculated at 3.62% to June 1, 2016 and the rate due on the principal after June 1, 2016 shall be reset to a fixed rate based on the three year LIBOR swap rate as of June 1, 2016, plus 3.0%.

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 9: Long-Term Debt (Continued)

Lease payments are payable semiannually on June 1 and December 1, commencing in December 2014. Principal payment will commence in December 2015.

Annual debt service requirements for the ABAG lease agreement are shown below:

	Principal	Interest
2015	\$ -	\$ 302,632
2016	1,846,729	301,997
2017	1,889,302	259,425
2018	1,965,630	183,097
2019	2,045,042	103,686
2020-2024	1,053,297	21,066
Total	\$ 8,800,000	\$ 1,171,903

Note 10: Compensated Absences

The changes in compensated absences for the year ending June 30, 2014, are as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 458,642	\$ 364,936	\$ (365,760)	\$ 457,818	\$ 274,691
Total Governmental Activities	\$ 458,642	\$ 364,936	\$ (365,760)	\$ 457,818	\$ 274,691
Business-Type Activities:					
Compensated absences	\$ 79,632	\$ 45,547	\$ (49,386)	\$ 75,793	\$ 45,476
Total Business-type Activities	\$ 79,632	\$ 45,547	\$ (49,386)	\$ 75,793	\$ 45,476

Note 11: Fund Balances

a. Fund Balance Commitments

The City has the following committed fund balance shown on the governmental balance sheet:

Committed to emergency reserve - the City established the amount of 10% of the General Fund expenditures with a target of increasing to 20% of General Fund expenditures. Appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to: catastrophic disaster (declared by Governor), budgeted revenue taken by another government entity, or a more than 5% drop in projected revenue to the General Fund. The balance as of June 30, 2014, was \$3,200,000.

The City also has commitments for community development projects, general government, and capital projects totaling \$12,377,737.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 12: Retirement Benefits**a. CALPERS Safety and Miscellaneous Plans**

All employees meeting membership requirements must participate in pension plans. The City participates in the California Public Employers Retirement System (CALPERS), a cost-sharing multiple-employer defined benefit pension plan. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (fire services) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

	Safety (Fire)		Miscellaneous		
	1st Tier	1st Tier	2nd Tier	3rd Tier	(4th Tier)PEPRA
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55	55	55	62
Monthly benefits, as a % of annual salary	2%	2.70%	2.50%	2.00%	2.00%
Required employee contribution rates	9.0%	8.0%	8.0%	7.0%	6.5%
Required employer contribution rates	19.900%	22.167%	15.133%	10.773%	6.500%

On January 12, 2009, the council adopted the resolution authorizing an amendment to the contract between the City and the Board of Administration of the California Public Employees' Retirement System to provide a 2.5% at age 55 supplemental formula (2nd Tier) for local miscellaneous members entering membership in the miscellaneous classification. The change took effect on March 15, 2009.

Effective July 1, 2012, the City consolidated its safety plan to achieve a reduced employer contribution rate.

The City Council adopted resolution authorizing an amendment to the contract between the City and the Board of Administration of the California Public Employees' Retirement System to provide a 2% at 55 supplemental formula (3rd Tier) for local miscellaneous members entering membership in the miscellaneous classification. The change took effect on April 23, 2012.

On September 12, 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA takes effect January 1, 2013. The new defined retirement formula for all new miscellaneous members hired after January 1, 2013 is 2% at age 62. With an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67. New employees are required to pay least 50 percent of annual normal costs. Employers are precluded from paying any part of the required employee contribution.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 12: Retirement Benefits (Continued)

actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. The required contributions, representing annual pension cost, and related rates for the year ended June 30 were as follows:

Fiscal Year	Contribution Amount	Contribution Rate				
		Safety	Miscellaneous			
		Fire	1st Tier	2nd Tier	3rd Tier	4th Tier (PEPRA)
2012	\$ 2,000,814	19.169%	20.160%	13.817%	10.019%	N/A
2013	2,301,816	19.204%	20.433%	14.383%	10.197%	6.500%
2014	1,590,218	19.900%	22.167%	15.133%	10.773%	6.500%

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

The State-Wide Miscellaneous Plan Tier 1, 2 and 3 actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their latest available actuarial valuation date of June 30:

State-wide Miscellaneous Plan 2.7% at 55:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$ 2,297,871,345	\$ 1,815,671,616	\$ 482,199,729	79.0%	\$ 434,023,381	111.1%
2011	2,486,708,579	1,981,073,089	505,635,490	79.7%	427,300,410	118.3%
2012	2,680,181,441	2,178,799,790	501,381,651	81.3%	417,600,034	120.1%

State-wide Miscellaneous Plan 2.5% at 55:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$ 1,972,910,641	\$ 1,603,482,152	\$ 369,428,489	81.3%	\$ 352,637,380	104.8%
2011	2,135,350,204	1,724,200,585	411,149,619	80.7%	350,121,750	117.4%
2012	2,254,622,362	1,837,489,422	417,132,940	81.5%	339,228,272	123.0%

CITY OF SAN CARLOS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Note 12: Retirement Benefits (Continued)

State-wide Miscellaneous Plan 2% at 55:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$ 3,309,064,934	\$ 2,946,408,106	\$ 362,656,828	89.0%	\$ 748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%
2012	4,175,139,166	3,686,598,343	488,540,823	88.3%	757,045,663	64.5%

As required by State law, effective July 1, 2005, the City's Safety Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry was that the City true-up any unfunded liabilities or overfunded assets in the former Plan, either by paying cash or by increasing or decreasing its future contribution rates through a Side Fund offered by CALPERS.

The latest available actuarial values of the Safety Plan State-wide pools (which differs from market value) and funding progress were set forth as follows. The information presented below relates to the Safety Plan State-wide pools as a whole, of which the City is one of the participating employers:

State-wide Safety Plan 2% at 50:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	\$ 469,525,634	\$ 396,740,091	\$ 72,785,543	84.5%	\$ 61,878,177	117.6%
2011	503,491,275	421,374,729	82,116,546	83.7%	63,392,685	129.5%
2012	475,963,729	407,411,936	68,551,793	85.6%	59,986,230	114.3%

In October 2012, the City received written notice from CalPERS that the City's police pension liabilities were moved to the Statewide Inactive Agency Risk Pool. As a result of this decision, the City's total annual required contribution for the police unfunded liabilities was \$1,012,588 in the fiscal year 2013-14.

State-Wide Inactive Agency Risk Pool

Valuation Date	Accrued Liability (AL)	Actuarial Value of Assets (AVA)	Unfunded Liability (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	Unfunded Liability as % of Payroll
2011	\$ 677,648,972	\$ 608,911,358	\$ 68,737,614	89.9%	\$0	0.0%
2012	839,968,292	743,174,027	96,794,265	88.5%	\$0	0.0%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The 2014 Actuarial data for the above retirement plan are not made available by CALPERS at the time this financial statement was issued.

Note 13: Other Post-Employment Benefits

a. Provisions and Benefits

OPEB Healthcare – During fiscal year 2008-2009, the City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. City Council authorized a deposit of \$1,575,000 with CERBT on October 10, 2008 to begin funding its OPEB liability.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under Public Employees' Medical Healthcare Act (PEMHCA). A summary of eligibility and retiree contribution requirements are described below:

Employees are eligible for retiree health benefits if they retire from the City with a CalPERS pension.

For retirees who retired on or before 12/31/2008, the City will reimburse the retiree only premium, up to the active employee single cap. The cap amount is \$694.22 per month for 2014. The cap for safety (Police) retirees is \$718.11 and is not expected to be increased.

The City will continue to pay the CalPERS minimum contribution for surviving spouses of retirees as long as they remain enrolled in a health plan sponsored by CalPERS (PEMHCA)

For employees retiring on or after 1/1/2009 from the City of San Carlos and choose to enroll in a CalPERS retiree health plan, the City contributes the minimum monthly premium amount specified by CalPERS towards the cost of CalPERS (PEMHCA) medical premiums. The minimum is \$119.00 per month for 2014.

As of June 30, 2014, 70 retired employees participated in the retiree healthcare benefits. Additionally, 90 current employees have met the criteria for the retiree healthcare benefits and are eligible to participate in the program if they retire from the City of San Carlos in future years.

OPEB Longevity Recognition Program (Program) - The Program's provisions and benefits in effect at June 30, 2014, are summarized as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 13: Other Post-Employment Benefits (Continued)

Miscellaneous				Safety
AFSCME		Teamsters	Management and Confidential	Fire
Clerical Technical	MID Management			
- Hired before 1/1/2009 and 10 years City Service *2014: \$694.22/month *Adjusted annually by same % as Section 125 plan for active single employee				*Not Eligible
- Hired after 1/1/2009 and retire with 15 years continuous City Service *\$350/month *No future increases			-Hired after 1/1/2009: *Not Eligible	
-Hired after 2/28/2011: *Not Eligible	-Hired after 12/13/2010: *Not Eligible	-Hired after 3/28/2011: *Not Eligible		

As of June 30, 2014, 25 retired employees were eligible to receive the longevity recognition benefits. Additionally, 38 current employees have met the criteria for this program and will receive benefits from this program if they retire from the City of San Carlos in future years.

b. Funding Policy and Actuarial Assumptions

OPEB Healthcare - The annual required contribution (ARC) was determined as part of a June 30, 2013, actuarial valuation using the projected unit credit actuarial cost method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current active and retirees and is calculated based on the assumptions and census data from the actuarial report. The actuarial assumptions included (a) 7% investment rate of return, (b) 3% projected annual salary increase, and (c) 2.5% health inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's unfunded actuarial accrued liability is amortized as a level dollars amount on a closed basis using a 30 year amortization period.

In accordance with the City's budget, the ARC is to be funded throughout the year as a percentage of payroll. During the fiscal year 2008-2009, the City Council passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

OPEB Longevity Recognition Program (Program) - The annual required contribution (ARC) was determined as part of a June 30, 2013 actuarial valuation using the projected unit credit actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.5% investment rate of return,

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 13: Other Post-Employment Benefits (Continued)

(b) 3.0% projected annual salary increase, and (c) 2.5% inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount using a 30-year (closed period) amortization period.

On September 12, 2011, the City amended the agreement with the Public Agency Retirement Services (PARS) to include the longevity Recognition Program (OPEB program), and Renaming the Existing Plan to the City of San Carlos PARS Supplementary Retirement Plan. To complete this change and amend the Services Agreement with PARS, the City transferred funds of \$1,200,000 on September 12, 2011, to PARS and set up an irrevocable trust to fund future benefit costs.

c. Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. In fiscal year 2014, the City made contribution and amortized its net OPEB asset and obligation as presented below:

	Healthcare	Longevity
Annual required contribution (ARC)	\$ 285,822	\$ 620,227
Interest on net OPEB asset	(7,546)	49,191
Adjustment to annual required contribution	8,519	(69,063)
Annual OPEB cost (expense)	286,795	600,355
Contributions	461,000	311,000
Increase (decrease) in net OPEB asset	(174,205)	289,355
Net OPEB obligation (asset) - beginning of year	67,199	1,093,137
Net OPEB obligation (asset) - end of year	<u>\$ (107,006)</u>	<u>\$ 1,382,492</u>

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 13: Other Post-Employment Benefits (Continued)

The City's annual required contributions and actual contributions for the three most recent fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Obligation (Asset)
Healthcare				
6/30/2012	\$ 367,514	\$ -	0%	\$ (346,902)
6/30/2013	414,101	-	0%	67,199
6/30/2014	286,795	461,000	161%	(107,006)
Longevity				
6/30/2012	487,300	1,225,722	252%	768,433
6/30/2013	499,704	175,000	35%	1,093,137
6/30/2014	600,355	311,000	52%	1,382,492

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the January 1, 2009, 2011 and 2013 actuarial study are presented below:

(in Thousands)

Actuarial Valuation Date	Ending Actuarial Value of Assets (A)	Entry Age Actuarial Liability (B)	Overfunded (Underfunded) Actuarial Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
Healthcare						
6/30/2009	\$ 1,629	\$ 5,356	\$ (3,727)	30.41%	\$ 8,974	-41.53%
6/30/2011	1,140	5,197	(4,057)	21.94%	5,863	-69.20%
6/30/2013	1,073	3,895	(2,822)	27.55%	4,751	-59.40%
Longevity						
6/30/2009	-	3,993	(3,993)	0.00%	6,380	-62.59%
6/30/2011	1,200	4,714	(3,514)	25.46%	5,863	-59.94%
6/30/2013	1,325	6,584	(5,259)	20.12%	4,751	-110.69%

Note 14: Risk Management

a. Liability Coverage

The City participates in the Association of Bay Area Governments (ABAG), a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of general and automobile liability coverage per occurrence and 20,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. For the year ended June 30, 2014, the City paid ABAG Plan \$403,059 in premiums.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 14: Risk Management (Continued)

Financial statements may be obtained from ABAG Services, PO Box 2050, Oakland, CA 94604-2050.

b. Workers' Compensation Coverage

The City participates in the Cities Group, created by a joint powers agreement to provide workers compensation coverage of up to \$10,000,000 per occurrence in excess of \$1,500,000 for safety officers and \$1,000,000 for miscellaneous employees. The Group acts as administrator, claim adjuster and provides other risk management services as required by State law. Each member of the Group pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the Group. During the year ended June 30, 2014, the City paid the Group \$187,055 in premiums. At June 30, 2014, the Group reported that the City's equity for Workers' Compensation program amounted to \$230,308.

Financial statements may be obtained from the Cities Group, P.O. Box 111, Burlingame, CA 94011-0111.

c. Liability for Uninsured Claims

The City's liability for uninsured claims at June 30, 2014, was estimated by management based on ABAG Plan's claims experience and recorded in the Liability Insurance Internal Service Fund.

For the years ended June 30, 2014 and 2013, the amount of settlements did not exceed insurance coverage.

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years' claims experience as follows for the year's ended June 30:

	2014	2013
Balance, July 1	\$ 576,896	\$ 551,818
Net change in liability for claims and claims paid but not reported	273,661	335,919
Claims paid	<u>(326,662)</u>	<u>(310,841)</u>
Balance, June 30	<u>523,895</u>	<u>576,896</u>
Current Portion	<u>237,423</u>	<u>212,348</u>
Long-term Portion	<u>\$ 286,472</u>	<u>\$ 364,548</u>

Note 15: Joint Ventures

The City participates in joint ventures through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of

Note 15: Joint Ventures (Continued)

these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

a. Belmont-San Carlos Fire Department

South County Fire Authority was formed in 1979 between the Cities of San Carlos and Belmont on an equal basis to provide more efficient fire protection services for the two cities. Any assets used by the Fire Authority but owned by the member agencies prior to the creation of the Fire Authority remain the property of the members. Each member contributes its pro rata share of operating costs to the Fire Authority.

On April 12, 2010, the City Council adopted a resolution authorizing the City Manager to send notice to Belmont Fire Protection District of the City's intent to dissolve the joint powers authority establishing Belmont-San Carlos Fire Department. The service termination of the Belmont-San Carlos Fire Department took effect on October 1, 2011.

As a result of the termination service with the Belmont-San Carlos Fire Department, the City is required to make the annual contribution paying for other post-employment benefits for retirees who have earned lifetime medical coverage; unfunded liabilities of the safety and miscellaneous retirement plans with CALPERS; outstanding workers compensation claims from past employees and liability claims or other obligations of the former Fire Department. The City's contribution during the year ended June 30, 2014, was \$1,705,602.

b. Fire and Emergency Services Agreement with the City of Redwood City

In July 2011 the City of San Carlos and the City of Redwood City entered into an agreement for fire and emergency services. This original agreement provided the City of San Carlos to maintain a fire department, including personnel and infrastructure, at its sole cost sufficient to provide certain emergency and non-emergency services. The City of Redwood City provided certain fire and emergency services such as fire administration and support, fire prevention, investigation, and training. The City of San Carlos pays the City of Redwood City a fee for the services provided which will be reviewed in January of each year and amended to reflect actual increases or decreases in cost.

On June 24, 2013, the City Council adopted a resolution to the execution of the amended and restated agreement between the Cities of Redwood City and San Carlos on full service model for fire and emergency services. The restated agreement also includes the transfer of fire services personnel from the City of San Carlos to City of Redwood City on July 1, 2013. The term of the agreement is 5 years commencing on July 1, 2013 and expiring on June 30, 2018. Costs of services will be reviewed annually and brought forward for Council approval each year.

c. Silicon Valley Clean Water

Silicon Valley Clean Water (formerly the South Bayside System Authority) was formed in 1975 between the cities of San Carlos, Belmont, Redwood City and the Menlo Park Sanitary District to operate a wastewater treatment facility. The cost of operating and maintaining the facility is divided in proportion to the volume of sewage entering from each member entity. During the year ended June 30, 2014, the City contributed \$3,035,598 toward the cost of operating and maintaining the facility; paid debt principal and interest of \$999,138 that included the State revolving fund loan and the financing agreements to finance the construction and rehabilitation of the SVCW's wastewater

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 15: Joint Ventures (Continued)

system. For the fiscal year 2014-2015, the City is obligated to pay debt principal and interest payments totaling \$1,559,000.

The condensed financial information of the JPA as of June 30, 2014, is as follows:

Total Assets	\$ 229,171,497
Total Liability	(154,339,444)
Total Net Position	<u>\$ 74,832,053</u>
Total Operating Revenues	\$ 36,298,128
Total Operating Expenses	(26,937,851)
Total Operating Income (loss)	9,360,277
Other Income (loss)	(5,755,321)
Net Income (loss)	<u>\$ 3,604,956</u>
Cumulative Agency Balances:	
Belmont	\$ 12,415,848
San Carlos	9,089,714
Redwood City	35,436,691
West Bay Sanitation District	17,889,800
Total Net Position	<u>\$ 74,832,053</u>

Of the \$154,339,444 liability, \$120,520,000 is related to the 2008, 2009 and 2014 revenue bonds, of that amount the City's direct obligation is \$19,187,027.

The City entered into financing agreements with SVCW for repayment of the City's allocated share of the 2008, 2009 and 2014 bonds in the amount of \$19,992,026. The financing agreements are secured by a pledge of the City's Sewer Enterprises Fund Net Revenue as defined under the financing agreements. For the fiscal year 2013-2014, gross Sewer Fund Revenues including operating revenues and non-operating interest earnings amounted to \$13,022,397. The operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but excluding interest, and depreciation or amortization amounted to \$7,721,717. Net revenues available for debt services amounted to \$5,300,680 which represented coverage of 6.06 times over the total of debt services of \$875,254.

Financial statements may be obtained by mailing a request to the Silicon Valley Clean Water, 1400 Radio Road, Redwood City, CA 94065.

d. City/County Association of Governments of San Mateo County (C/CAG)

City/County Association of Governments of San Mateo County was formed in 1990 between the various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The City's contribution to C/CAG was \$118,553 for the year ended June 30, 2014. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

Note 15: Joint Ventures (Continued)

e. South Bayside Waste Management Authority (SBWMA)

The South Bayside Waste Management Authority (the Authority) is a joint powers agreement formed in October 13, 1999. Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary District and the County of San Mateo. The Members are required by AB939 to reduce, recycle and reuse solid waste generated within their respective jurisdictions and to provide source reduction, recycling and composting activities. The Authority's purpose is to assist its members in meeting these requirements. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

Note 16: Restatement to Net Position

The Sewer Fund reported a restatement of beginning net position of \$8,658,971 to change the way in which the Silicon Valley Clean Water joint venture was being reported. The City was reporting participation rights and long term debt in the Sewer Fund when only an investment in the joint venture should have been reported. As a result, beginning net position was increased due to the reduction in long term debt.

Note 17: Commitments and Contingent Liabilities

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal, State and local grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

a. Palo Alto Medical Foundation Development Agreement

After an extensive 3 1/2 year process, on October 8, 2007, the City Council approved a proposal by the Palo Alto Medical Foundation (PAMF) to develop a regional Medical Clinic, Medical Office Building and Hospital on an 18 acre site at 301 Industrial Road in San Carlos that formerly housed the Varian - CPI Eimac plant.

The purchase and transfer of the 18-acre site at 301 Industrial Road took a major parcel in San Carlos off of the property tax rolls of the City. This occurred when the title to the site passed from 301 Industrial LLC (the entity performing the site clearance and remediation activities) to PAMF, which is a tax-exempt entity. In addition, the PAMF San Carlos Center would generate very little in sales tax revenue to the City.

To offset this impact, a Development Agreement with PAMF was entered into to ensure that the City would be in substantially the same position financially as the City would likely have been with use of the Project Site instead for another, economically productive use.

Note 17: Commitments and Contingent Liabilities (Continued)

The key components of the Development Agreement are described in the table below. In short, the Development Agreement guarantees the City nearly \$91,000,000 in revenue over a 50-year period. When factoring in costs for City services, the Development Agreement would net the City \$43,939,000 over 50 years, resulting in a positive net present value of \$11,642,000. The net amount does not include one-time payments of \$1 million to the City for athletic fields and \$1.5 million to the San Carlos Education Foundation for educational purposes. This amount also does not include the City's share of any excess returns of the \$9 million principal amount to be funded by PAMF under the agreement, which could be substantial depending on the investment returns received on the fund.

In May 2009, in their annual report to the City, PAMF stated that funding for the San Carlos project had been temporarily frozen as a result of the economic environment. PAMF has the right under the Agreement to an early termination of the Agreement at any time prior to the issuance of the first building permit for construction of the medical office/clinic building or hospital building.

In late 2011, Sutter Health, PAMF's parent organization approved funding for the first phase construction of their medical facility in San Carlos. This will include construction of site improvements including utilities, loop access road, landscaping, the parking garage to serve full facility build-out and the Medical Center which would provide medical offices, urgent care services, and out-patient surgery. A second phase of the project, which would construct the Hospital on this site remains unfunded. In May 2012, PAMF received permits from the City and began construction work including grading and pile installation on the site. The Medical Center will be open to the public in November 2014.

The financial impacts of these developments are beneficial to the City. The Guaranteed Minimum Payments (item "C" in the table below) began in 2010-11 with a payment of \$630,000 in April 2011 after receipt of \$250,000 per year payments in the two years prior as described in the development agreement. Guaranteed Minimum Payments continued the following year with a payment of \$678,400 in April 2014. The next guaranteed payment will be \$695,400 in April 2015.

In addition to receiving the Year 3 Guaranteed Minimum Payments of \$630,000 in April 2011 as specified in the development agreement, the start of construction triggered two more events.

First, the City will receive the "construction period revenue" for all portions of the PAMF development except the hospital component during the Phase I construction period (see item "D" in the table below). Members of the City's Administrative Services and City Manager Departments have met with PAMF, Skanska (PAMF's project management firm) and HDL Companies (the City's Sales Tax audit and consultant) to review the mechanics of this process. PAMF and Skanska are now implementing systems needed to comply with these provisions of the development agreement.

Under the terms of the Development Agreement, PAMF is obligated to deliver a quarterly report on use tax payments by their contractors to the City, 90 days after the end of each quarter. The City will review these reports to verify the amounts of use tax paid to the City and report the findings to PAMF. Use tax payments made to San Carlos from the project's contractors will be credited to PAMF and will reduce the amount of Use Tax (\$722,000) that will be received by the City by the end of the project construction. This is outlined in item "D".

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 17: Commitments and Contingent Liabilities (Continued)

Second, the start of construction will trigger payment to the City of the "guaranteed minimum annual operational use tax revenue" one year after construction is completed (see item "E" in the table below).

The revenue sources contained in the Development Agreement are summarized in the following table:

	Funding Source	Summary Description	Current Status
A	\$9 million endowment fund (called the Designated Fund)	At the end of 50 years, the Designated Fund becomes the City's to administer	No change
B	50% of excess returns on the Designated Fund at the end of the payment term	In addition to receiving the \$9 million Designated Fund at the end of the term of the agreement, the City will then receive 50% of the amount of the Designated Fund that exceeds \$9 million	No change
C	Guaranteed minimum payments from the revenue on the Designated Fund	\$250,000 in each of Years 1 and 2 \$630,000 in Year 3 \$630,000 inflated by 2.5% per year for the next 49 years	The City has received a total of \$3,116,100 from years 1 through 6. City will receive the year 7 payment of \$695,400 in April 2015 as scheduled.
D	Guaranteed minimum construction-related use tax revenue	\$722,000 for the principal construction period	Upcoming - \$722,000 of "construction period revenue" is dependent on the construction of the facility. With the start of construction in May 2012, these funds (use tax assigned to the project by the contractors) will begin to flow to the City's sales tax account by the State during 2012 and will continue until the end of the project's construction period.
E	Guaranteed minimum annual operational use tax revenue	\$152,000/year inflated by 3% per year for 50 years	Deferred — \$152,000 per year is guaranteed for 50 years starting 1 year after construction of both the Medical Clinic and Hospital facilities are completed.
F	\$1.5 million	One-time payment to the San Carlos Education Foundation for health-related school programs	Received - by San Carlos Education Foundation on Feb 5, 2008.
G	\$1 million	One-time payment to the City to improve athletic facilities and fields	Received — by City of San Carlos on Feb 5, 2008 and the funds were used to install a synthetic turf field at Lower Highlands Park Field.

Total: \$90,804,000 (minimum) over 50 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 17: Commitments and Contingent Liabilities (Continued)**b. San Francisco Baykeeper Commitment**

On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring and these obligations have been met. The agreement also commits the City to certain actions regarding SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root control program. An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement set forth stipulates payments for failure to file required reports.

c. Construction Commitments

Construction commitments as of June 30, 2014, consisted of the following projects:

Project	Authorized	Expended	Future Commitment
Eastside Connect Project	\$ 2,915,000	\$ 1,695,000	\$ 1,220,000
Holly 101 Interchange Study	1,458,500	949,000	509,500
Old County Road Underground Utility District	1,511,685	1,101,900	409,785

Note 18: Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provided for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of San Carlos that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provided that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of

CITY OF SAN CARLOS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 18: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Additional Information for the Successor Agency of the Former RDA

a. Cash and Investments

Cash and investments reported in the Successor Agency in the accompanying financial statements consisted of the following:

Cash and investments	\$ 1,223,359
Cash and investments with fiscal agent	3,846,461
	<u>\$ 5,069,820</u>

b. Capital Assets

Capital assets of the Successor Agency as of June 30, 2014, consisted of the following:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Fiduciary Funds:					
Capital assets not depreciated					
Land	\$ 1,050,075	\$ -	\$ -	\$ -	\$ 1,050,075
Construction in progress	481,272	-	-	(199,596)	281,676
Total capital assets not depreciated	<u>1,531,347</u>	<u>-</u>	<u>-</u>	<u>(199,596)</u>	<u>1,331,751</u>
Capital assets being depreciated:					
Buildings and improvements	3,950,285	-	-	199,596	4,149,881
Total capital assets being depreciated	<u>3,950,285</u>	<u>-</u>	<u>-</u>	<u>199,596</u>	<u>4,149,881</u>
Less accumulated depreciation:					
Buildings and improvements	(195,408)	(79,006)	-	-	(274,414)
Total accumulated depreciation	<u>(195,408)</u>	<u>(79,006)</u>	<u>-</u>	<u>-</u>	<u>(274,414)</u>
Depreciable capital assets, net	<u>3,754,877</u>	<u>(79,006)</u>	<u>-</u>	<u>199,596</u>	<u>3,875,467</u>
Capital assets, net	<u>\$ 5,286,224</u>	<u>\$ (79,006)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,207,218</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 18: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

c. Long-term Debt

The Successor Agency long-term debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance			Balance	Due Within
	June 30, 2013	Additions	Retirements	June 30, 2014	One Year
Fiduciary Funds:					
Installment Purchase Agreement	\$ 2,761,322	\$ -	\$ (37,832)	\$ 2,723,490	\$ 41,690
Richard A. Berghella Trust Agreement	627,754	-	(13,607)	614,147	14,957
2007 Non-Taxable Revenue Bonds, Series A	12,230,000	-	(130,000)	12,100,000	135,000
2007 Taxable Revenue Bonds, Series B	1,925,000	-	(280,000)	1,645,000	295,000
Total Fiduciary Funds	\$ 17,544,076	\$ -	\$ (461,439)	\$ 17,082,637	\$ 486,647

Installment Purchase Agreement

On October 1, 1994, the Redevelopment Agency purchased real property and provided the bulk of the financing required to construct and equip an 85 unit residential care facility for elderly low income persons. As part of the transaction, the San Carlos Development Corporation (SCDC) agreed to purchase and operate the facility, as discussed in Note 3. The Agency signed an Installment Purchase Agreement in the amount of \$2,800,000 to finance its purchase of the land. Payments are made out of receipts from SCDC. Interest payments on the Installment Agreement are due monthly and principal payments will commence on May 1, 2012 through June 1, 2035, bearing interest of 10.9%. As of June 30, 2014, the total principal and interest remaining on the debt is \$6,404,083.

Richard A. Berghella Trust Agreement

In October 2001, the Agency entered into a purchase agreement for \$720,156 to purchase a parcel of land to be used for the construction of a residential facility for low and moderate income residents of the City. The agreement calls for monthly principal and interest payments of \$6,055 due on the 15th day of each month through August 15, 2032, bearing interest at 9.50% per annum. As of June 30, 2014, the total principal and interest remaining on the debt is \$1,247,378.

Tax Allocation Bonds

In December 2007, the Redevelopment Agency issued \$12,875,000 of 2007 Series A Revenue Bonds, and \$3,135,000 of 2007 Series B Taxable Revenue Bonds, to refinance the 1995 and 1997 Tax Allocation Bonds and to finance various Redevelopment activities within or of benefit to the Project area. The refunding resulted in an overall debt service increase of \$75,767. The net present value of the savings resulted in an economic gain of \$416,051. The 1995 and 1997 Tax Allocation Revenue Bonds were subsequently retired in December 2007.

The 2007 Series A and Series B Bonds are special obligations of the Redevelopment Agency payable solely from and secured by a pledge of tax revenues, including *ad valorem* taxes and incremental taxes that are required to be deposited into the housing fund, generated within the project area. Principal payments are payable annually

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 18: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

on September 1 and the last principal payment is scheduled to occur in 2033. Interest payments are due semi-annually on September 1 and March 1 and bear interest between 3.25% and 5.5%. The pledge of future tax revenue ends upon repayment of the total 2007 Series A and Series B bonds in the amount of \$27 million.

On February 1, 2012, this debt was transferred to the Successor Agency which took over responsibility of winding down the operations of the former Agency upon dissolution.

The Agency pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue that it receives. The bonds were issued to provide financing for various capital projects. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$21,247,583 with annual debt service requirements as included below. For the current year, the total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$1,639,986 and the debt service obligation on the bonds was \$1,066,983.

In the prior fiscal year, Moody's Investors Service ("Moody's") downgraded all California tax allocation bonds rated 'Baa3' and above. As such, the Bonds' insured rating was downgraded from 'A3' to 'Ba1' and underlying rating was downgraded from 'A3' to 'Ba1'. According to Moody's, all California tax allocation bond ratings remain on review for possible withdrawal.

Debt Service Requirements

The following schedule illustrates the debt service requirements to maturity for the debt outstanding as of June 30:

	Bonds			Agreements		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 430,000	\$ 636,663	\$ 1,066,663	\$ 56,647	\$ 321,418	\$ 378,065
2016	455,000	615,125	1,070,125	62,383	315,682	378,065
2017	475,000	592,450	1,067,450	68,700	309,366	378,066
2018	500,000	568,444	1,068,444	75,656	302,409	378,065
2019	520,000	542,913	1,062,913	83,317	294,748	378,065
2020-2024	2,985,000	2,342,300	5,327,300	561,582	1,328,746	1,890,328
2025-2029	3,715,000	1,598,813	5,313,813	909,660	980,668	1,890,328
2030-2034	4,665,000	605,875	5,270,875	1,238,282	446,113	1,684,395
2035-2039	-	-	-	281,410	14,673	296,083
Total	\$ 13,745,000	\$ 7,502,583	\$ 21,247,583	\$ 3,337,637	\$ 4,313,824	\$ 7,651,461

Note 18: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

d. Commitments and Contingent Liabilities

The Successor Agency is subject to litigation arising in the normal course of business. In the opinion of the Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Successor Agency.

Note 19: Subsequent Events

a. State Controller Office Asset Transfer Review

In October 2014, the State Controller office completed the fieldwork for its review of the asset transfers between the City and Redevelopment Agency made from January 1, 2011 through January 31, 2012 in accordance with Health and Safety Code section 34167.5. Through the review the State Controller office has identified the repayment of principal and interest on a loan with the City in the amount of \$3,308,092 was deemed unallowable and should be returned. The results of the review was based on the State Controller interpretations and understanding of the Code. The City disagreed with the finding and will appeal once we receive the formal report.

b. Settlement of Litigation in Connection with Event Occurring before Year-End

The City was named as a defendant in a sidewalk trip and fall injury occurring on September 20, 2012. The plaintiff sustained significant bodily injuries to several parts of her body as a result of the fall. As a result, on October 24, 2014, the City agreed to pay \$175,000 to the plaintiff in a compromise settlement. The amount is included in the claims liability of the City as of June 30, 2014.

c. Residual Receipts Note Early Payment

In October 2014, San Carlos Development Corporation notified the City of its intent to pay off the residual receipts note in November 2014. As of November 12, 2014, a partial payment has been received and the City expects full payment soon.

THIS PAGE INTENTIONALLY LEFT BLANK

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

NPDES FUND - Used to account for revenues received from assessments levied by the county on property and disburses funds in compliance with the provisions of the National Pollutant Discharge Elimination System.

POLICE GRANTS FUND - Used to account for grant activities and services paid for and reimbursed by grant funding. This fund includes grants from the following funding sources:

- **Supplemental Law Enforcement Services Funds (SLESF)** - Under the SLESF program, cities and counties receive state funds to augment public safety expenditures.
- **Office of Traffic Safety (OTS) state funding** - The program funds a variety of traffic related projects including equipment, personnel and overhead reimbursement.

SAN CARLOS LIBRARY TENANT FUND - Used to account for the San Carlos Library tenants activities.

CAPITAL PROJECTS FUNDS:

EQUIPMENT REPLACEMENT FUND - Used to account for the anticipated replacement of general equipment needs.

MEASURE A FUND - Used to account for the City's share of a one-half cent sales tax restricted for transportation purposes.

GAS TAX FUND - Used to account for revenue received and expended under the State of California, Street and Highways Code Sections 2106, 2107, and 2107.5. These revenues must be expended for maintenance or construction of streets.

PARK FEE FUND - Used to account for development fees collected and used to finance the acquisition and construction of City parks.

PARKING IN-LIEU FUND - Used to account for fees charged to business in lieu or required parking. These revenues are used to pay for parking lot improvements and repairs.

DEBT SERVICE FUND:

SAN CARLOS LIBRARY BONDS FUND - Used to accumulate the annual tax levies earmarked for payment of principle and interest on the general obligation bonds.

CITY OF SAN CARLOS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds			Capital Projects Funds	
	NPDES	Police Grants	San Carlos Library Tenant	Equipment Replacement	Measure A
Assets:					
Cash and investments	\$ 725,982	\$ 235,101	\$ 1,090,813	\$ 1,802,133	\$ 433,182
Receivables:					
Accounts receivable	49,903	8,127	-	-	-
Total Assets	\$ 775,885	\$ 243,228	\$ 1,090,813	\$ 1,802,133	\$ 433,182
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,016	\$ 14	\$ 3,084	\$ 279	\$ -
Advances from other funds	610,000	-	-	-	-
Total Liabilities	613,016	14	3,084	279	-
Deferred inflows of resources:					
Unavailable revenues	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-
Fund Balances:					
Restricted for:					
Public safety	-	243,214	-	-	-
Parks and recreation	-	-	-	-	-
Public works	162,869	-	-	-	433,182
Debt service	-	-	-	-	-
Committed to:					
General government	-	-	1,087,729	-	-
Community development	-	-	-	-	-
Capital projects	-	-	-	1,801,854	-
Total Fund Balances	162,869	243,214	1,087,729	1,801,854	433,182
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 775,885	\$ 243,228	\$ 1,090,813	\$ 1,802,133	\$ 433,182

CITY OF SAN CARLOS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Capital Projects Funds			Debt Service Funds	Total Governmental Funds
	Gas Tax	Park Fee	Parking In-Lieu	San Carlos Library Bonds	
Assets:					
Cash and investments	\$ 1,880,743	\$ 213,447	\$ 69,456	\$ 2,044,334	\$ 8,495,191
Receivables:					
Accounts receivable	519,772	-	-	-	577,802
Total Assets	\$ 2,400,515	\$ 213,447	\$ 69,456	\$ 2,044,334	\$ 9,072,993
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 130,234	\$ -	\$ -	\$ -	\$ 136,627
Advances from other funds	-	-	-	-	610,000
Total Liabilities	130,234	-	-	-	746,627
Deferred inflows of resources:					
Unavailable revenues	148,790	-	-	-	148,790
Total Deferred Inflows of Resources	148,790	-	-	-	148,790
Fund Balances:					
Restricted for:					
Public safety	-	-	-	-	243,214
Parks and recreation	-	213,447	-	-	213,447
Public works	2,121,491	-	-	-	2,717,542
Debt service	-	-	-	2,044,334	2,044,334
Committed to:					
General government	-	-	-	-	1,087,729
Community development	-	-	69,456	-	69,456
Capital projects	-	-	-	-	1,801,854
Total Fund Balances	2,121,491	213,447	69,456	2,044,334	8,177,576
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,400,515	\$ 213,447	\$ 69,456	\$ 2,044,334	\$ 9,072,993

CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			Capital Projects Funds	
	NPDES	Police Grants	San Carlos Library Tenant	Equipment Replacement	Measure A
Revenues:					
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 738,324
Property taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
From other agencies	549,718	112,461	-	-	-
Use of money and property	6,341	-	159,741	-	3,778
Other revenue	8,172	-	420,000	-	-
Total Revenues	564,231	112,461	579,741	-	742,102
Expenditures:					
Current:					
General government	-	-	772,712	-	-
Community development	-	-	-	-	-
Public safety	-	92,407	-	-	-
Public works	467,709	-	-	-	103,681
Capital outlay	-	-	-	184,895	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	467,709	92,407	772,712	184,895	103,681
Excess (Deficiency) of Revenues Over (Under) Expenditures	96,522	20,054	(192,971)	(184,895)	638,421
Other Financing Sources (Uses):					
Transfers in	-	-	-	256,200	-
Transfers out	-	-	-	(348,000)	(509,800)
Total Other Financing Sources (Uses)	-	-	-	(91,800)	(509,800)
Net Change in Fund Balances	96,522	20,054	(192,971)	(276,695)	128,621
Fund Balances, Beginning of Year	66,347	223,160	1,280,700	2,078,549	304,561
Fund Balances, End of Year	\$ 162,869	\$ 243,214	\$ 1,087,729	\$ 1,801,854	\$ 433,182

CITY OF SAN CARLOS

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	Capital Projects Funds			Debt Service Funds	Total Governmental Funds
	Gas Tax	Park Fee	Parking In- Lieu	San Carlos Library Bonds	
Revenues:					
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 738,324
Property taxes	-	-	-	695,202	695,202
Licenses and permits	46,558	-	10,909	-	57,467
From other agencies	1,895,723	-	-	-	2,557,902
Use of money and property	16,406	1,864	360	17,849	206,339
Other revenue	-	134,414	-	-	562,586
Total Revenues	1,958,687	136,278	11,269	713,051	4,817,820
Expenditures:					
Current:					
General government	-	-	-	-	772,712
Community development	-	-	11,073	-	11,073
Public safety	-	-	-	-	92,407
Public works	976,954	-	-	-	1,548,344
Capital outlay	1,253,715	-	-	-	1,438,610
Debt service:					
Principal	-	-	-	285,000	285,000
Interest and fiscal charges	-	-	-	258,604	258,604
Total Expenditures	2,230,669	-	11,073	543,604	4,406,750
Excess (Deficiency) of Revenues Over (Under) Expenditures	(271,982)	136,278	196	169,447	411,070
Other Financing Sources (Uses):					
Transfers in	509,800	-	-	-	766,000
Transfers out	-	(350,000)	-	-	(1,207,800)
Total Other Financing Sources (Uses)	509,800	(350,000)	-	-	(441,800)
Net Change in Fund Balances	237,818	(213,722)	196	169,447	(30,730)
Fund Balances, Beginning of Year	1,883,673	427,169	69,260	1,874,887	8,208,306
Fund Balances, End of Year	\$ 2,121,491	\$ 213,447	\$ 69,456	\$ 2,044,334	\$ 8,177,576

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
NPDES
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From other agencies	\$ 524,000	\$ 524,000	\$ 549,718	\$ 25,718
Use of money and property	2,000	2,000	6,341	4,341
Other revenue	5,400	5,400	8,172	2,772
Total revenues	531,400	531,400	564,231	32,831
Expenditures:				
Public works	525,800	525,800	467,709	58,091
Total expenditures	525,800	525,800	467,709	58,091
Net Change in Fund Balance	<u>\$ 5,600</u>	<u>\$ 5,600</u>	96,522	<u>\$ 90,922</u>
Beginning Fund Balance			66,347	
Ending Fund Balance			<u>\$ 162,869</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
 POLICE GRANTS
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From other agencies	\$ 100,000	\$ 100,000	\$ 112,461	\$ 12,461
Total revenues	100,000	100,000	112,461	12,461
Expenditures:				
Public safety	140,000	140,000	92,407	47,593
Total expenditures	140,000	140,000	92,407	47,593
Net Change in Fund Balance	\$ (40,000)	\$ (40,000)	20,054	\$ 60,054
Beginning Fund Balance			223,160	
Ending Fund Balance			\$ 243,214	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
 SAN CARLOS LIBRARY TENANT
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 205,000	\$ 205,000	\$ 159,741	\$ (45,259)
Other revenue	-	-	420,000	420,000
Total revenues	205,000	205,000	579,741	374,741
Expenditures:				
General government	-	846,159	772,712	73,447
Total expenditures	-	846,159	772,712	73,447
Net Change in Fund Balance	\$ 205,000	\$ (641,159)	(192,971)	\$ 448,188
Beginning Fund Balance			1,280,700	
Ending Fund Balance			\$ 1,087,729	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 700,000	\$ 700,000	\$ 1,232,649	\$ 532,649
Franchise taxes	1,300,000	1,300,000	1,511,220	211,220
Licenses and permits	31,200	31,200	75,796	44,596
From other agencies	1,032,000	5,520,342	1,522,281	(3,998,061)
Charges for services	-	-	112,773	112,773
Use of money and property	-	-	2,244	2,244
Other revenue	724,000	1,024,000	708,570	(315,430)
Total revenues	3,787,200	8,575,542	5,165,533	(3,410,009)
Expenditures:				
Public works	2,304,866	2,393,543	2,393,543	-
Capital outlay	4,985,134	17,646,179	6,203,690	11,442,489
Total expenditures	7,290,000	20,039,722	8,597,233	11,442,489
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,502,800)	(11,464,180)	(3,431,700)	8,032,480
Other Financing Sources (Uses):				
Transfers in	246,700	525,200	358,965	(166,235)
Capital contributions	916,000	1,616,000	1,550,695	(65,305)
Total other financing sources (uses)	1,162,700	2,141,200	1,909,660	(231,540)
Net Change in Fund Balance	<u>\$ (2,340,100)</u>	<u>\$ (9,322,980)</u>	(1,522,040)	<u>\$ 7,800,940</u>
Beginning Fund Balance			10,940,738	
Ending Fund Balance			<u>\$ 9,418,698</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
 HOUSING
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 452,500	\$ 452,500	\$ 594,220	\$ 141,720
Other revenue	75,000	75,000	249,355	174,355
Total revenues	527,500	527,500	843,575	316,075
Expenditures:				
Community development	304,100	1,529,100	251,654	1,277,446
Total expenditures	304,100	1,529,100	251,654	1,277,446
Excess (Deficiency) of Revenues Over (Under) Expenditures	223,400	(1,001,600)	591,921	1,593,521
Net Change in Fund Balance	<u>\$ 223,400</u>	<u>\$ (1,001,600)</u>	591,921	<u>\$ 1,593,521</u>
Beginning Fund Balance			4,049,438	
Ending Fund Balance			\$ 4,641,359	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
EQUIPMENT REPLACEMENT
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Capital outlay	\$ 755,400	\$ 1,176,084	\$ 184,895	\$ 991,189
Total expenditures	755,400	1,176,084	184,895	991,189
Excess (Deficiency) of Revenues Over (Under) Expenditures	(755,400)	(1,176,084)	(184,895)	991,189
Other Financing Sources (Uses):				
Transfers in	355,000	355,000	256,200	(98,800)
Transfers out	-	-	(348,000)	(348,000)
Total other financing sources (uses)	355,000	355,000	(91,800)	(446,800)
Net Change in Fund Balance	\$ (400,400)	\$ (821,084)	(276,695)	\$ 544,389
Beginning Fund Balance			2,078,549	
Ending Fund Balance			\$ 1,801,854	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
MEASURE A
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 618,500	\$ 618,500	\$ 738,324	\$ 119,824
Use of money and property	-	-	3,778	3,778
Total revenues	618,500	618,500	742,102	123,602
Expenditures:				
Public works	109,300	109,300	103,681	5,619
Total expenditures	109,300	109,300	103,681	5,619
Excess (Deficiency) of Revenues Over (Under) Expenditures	509,200	509,200	638,421	129,221
Other Financing Sources (Uses):				
Transfers out	(509,800)	(509,800)	(509,800)	-
Total other financing sources (uses)	(509,800)	(509,800)	(509,800)	-
Net Change in Fund Balance	\$ (600)	\$ (600)	128,621	\$ 129,221
Beginning Fund Balance			304,561	
Ending Fund Balance			\$ 433,182	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 46,558	\$ 46,558
From other agencies	922,700	1,934,155	1,895,723	(38,432)
Use of money and property	-	-	16,406	16,406
Total revenues	922,700	1,934,155	1,958,687	24,532
Expenditures:				
Public works	488,600	488,600	976,954	(488,354)
Capital outlay	1,196,000	2,640,026	1,253,715	1,386,311
Total expenditures	1,684,600	3,128,626	2,230,669	897,957
Excess (Deficiency) of Revenues Over (Under) Expenditures	(761,900)	(1,194,471)	(271,982)	922,489
Other Financing Sources (Uses):				
Transfers in	509,800	509,800	509,800	-
Transfers out	-	(38,000)	-	38,000
Total other financing sources (uses)	509,800	471,800	509,800	38,000
Net Change in Fund Balance	\$ (252,100)	\$ (722,671)	237,818	\$ 960,489
Beginning Fund Balance			1,883,673	
Ending Fund Balance			\$ 2,121,491	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
PARK FEE
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 2,000	\$ 2,000	\$ 1,864	\$ (136)
Other revenue	112,400	112,400	134,414	22,014
Total revenues	114,400	114,400	136,278	21,878
Expenditures:				
Capital outlay	-	50,000	-	50,000
Total expenditures	-	50,000	-	50,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	114,400	64,400	136,278	71,878
Other Financing Sources (Uses):				
Transfers out	(200,000)	(390,500)	(350,000)	40,500
Total other financing sources (uses)	(200,000)	(390,500)	(350,000)	40,500
Net Change in Fund Balance	\$ (85,600)	\$ (326,100)	(213,722)	\$ 112,378
Beginning Fund Balance			427,169	
Ending Fund Balance			\$ 213,447	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
 PARKING IN-LIEU
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits	\$ 7,900	\$ 7,900	\$ 10,909	\$ 3,009
Use of money and property	400	400	360	(40)
Total revenues	8,300	8,300	11,269	2,969
Expenditures:				
Community development	7,200	51,442	11,073	40,369
Total expenditures	7,200	51,442	11,073	40,369
Net Change in Fund Balance	\$ 1,100	\$ (43,142)	196	\$ 43,338
Beginning Fund Balance			69,260	
Ending Fund Balance			\$ 69,456	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
 SAN CARLOS LIBRARY BONDS
 YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 637,100	\$ 637,100	\$ 695,202	\$ 58,102
Use of money and property	-	-	17,849	17,849
Total revenues	637,100	637,100	713,051	75,951
Expenditures				
Debt service:				
Principal retirement	285,000	285,000	285,000	-
Interest and fiscal charges	260,000	260,000	258,604	1,396
Total expenditures	545,000	545,000	543,604	1,396
Net Change in Fund Balances	\$ 92,100	\$ 92,100	169,447	\$ 77,347
Beginning Fund Balance			1,874,887	
Ending Fund Balance			\$ 2,044,334	

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. The Statement of Activities, the net revenues or expenses of each internal service fund is eliminated by netting them against the operations of the other City departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund Financial Statements, including the funds below:

WORKERS' COMPENSATION FUND - Used to account for activities relating workers' compensation claims and the premiums for coverage.

LIABILITY INSURANCE FUND - Used to account for activities relating to general liability claims against the City and premiums for coverage above the City's risk retention level.

LONGEVITY BENEFITS FUND - Used to account for activities relating to health care benefits for retired employees.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF SAN CARLOS

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2014

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
Assets:				
Current:				
Cash and investments	\$ 427,183	\$ 890,230	\$ 244,619	\$ 1,562,032
Total Current Assets	427,183	890,230	244,619	1,562,032
Total Assets	\$ 427,183	\$ 890,230	\$ 244,619	\$ 1,562,032
Liabilities and Net Position:				
Liabilities:				
Current:				
Accounts payable	\$ 346	\$ 1,949	\$ -	\$ 2,295
Claims payable	11,049	226,374	-	237,423
Total Current Liabilities	11,395	228,323	-	239,718
Noncurrent:				
Claims payable	99,437	187,035	-	286,472
Total Noncurrent Liabilities	99,437	187,035	-	286,472
Total Liabilities	110,832	415,358	-	526,190
Net Position:				
Unrestricted	316,351	474,872	244,619	1,035,842
Total Net Position	316,351	474,872	244,619	1,035,842
Total Liabilities and Net Position	\$ 427,183	\$ 890,230	\$ 244,619	\$ 1,562,032

CITY OF SAN CARLOS

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
Operating Revenues:				
Charges for services	\$ 1,392	\$ 778	\$ 525,300	\$ 527,470
Cost reimbursements	51,000	382,150	-	433,150
Total Operating Revenues	52,392	382,928	525,300	960,620
Operating Expenses:				
Insurance premiums	187,881	404,147	-	592,028
Claims expense	-	-	597,000	597,000
Miscellaneous	529	14,314	-	14,843
Total Operating Expenses	188,410	418,461	597,000	1,203,871
Operating Income (Loss)	(136,018)	(35,533)	(71,700)	(243,251)
Nonoperating Revenues (Expenses):				
From other agencies	-	15,913	-	15,913
Investment income	3,740	7,785	2,157	13,682
Total Nonoperating Revenues (Expenses)	3,740	23,698	2,157	29,595
Changes in Net Position	(132,278)	(11,835)	(69,543)	(213,656)
Net Position:				
Beginning of Year	448,629	486,707	314,162	1,249,498
End of Fiscal Year	\$ 316,351	\$ 474,872	\$ 244,619	\$ 1,035,842

CITY OF SAN CARLOS

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Totals
Cash Flows from Operating Activities:				
Cash received from/(paid to) interfund service provided	\$ 52,392	\$ 384,183	\$ 525,300	\$ 961,875
Cash paid to suppliers for goods and services	(189,064)	(469,689)	(597,000)	(1,255,753)
Net Cash Provided (Used) by Operating Activities	(136,672)	(85,506)	(71,700)	(293,878)
Cash Flows from Non-Capital Financing Activities:				
From other agencies	-	15,913	-	15,913
Net Cash Provided (Used) by Non-Capital Financing Activities	-	15,913	-	15,913
Cash Flows from Investing Activities:				
Interest received	3,740	7,785	2,157	13,682
Net Cash Provided (Used) by Investing Activities	3,740	7,785	2,157	13,682
Net Increase (Decrease) in Cash and Cash Equivalents	(132,932)	(61,808)	(69,543)	(264,283)
Cash and Cash Equivalents at Beginning of Year	560,115	952,038	314,162	1,826,315
Cash and Cash Equivalents at End of Year	\$ 427,183	\$ 890,230	\$ 244,619	\$ 1,562,032
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (136,018)	\$ (35,533)	\$ (71,700)	\$ (243,251)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
(Increase) decrease in accounts receivable	-	1,255	-	1,255
Increase (decrease) in accounts payable	(654)	1,773	-	1,119
Increase (decrease) in claims and judgments	-	(53,001)	-	(53,001)
Total Adjustments	(654)	(49,973)	-	(50,627)
Net Cash Provided (Used) by Operating Activities	\$ (136,672)	\$ (85,506)	\$ (71,700)	\$ (293,878)

There were no non cash items.

THIS PAGE INTENTIONALLY LEFT BLANK

AGENCY FUNDS

Agency Funds are presented separately from the Government-wide and Fund Financial Statements.

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

ASSESSMENT DISTRICT FUND - Used to account for the collection and payment to holders of the 1988 Special Tax Bonds.

CITY/COUNTY ASSOCIATION OF GOVERNMENTS OF SAN MATEO COUNTY (C/CAG) - Used to account for City/County Association of Governments of San Mateo County's activities. The City acts as fiscal agent for this entity.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) - Used to account for the South Bayside Waste Management Authority's activities. The City acts as fiscal agent for this entity.

CITY OF SAN CARLOS

COMBINING STATEMENT OF NET POSITION
 ALL AGENCY FUNDS
 JUNE 30, 2014

	Assessment Districts	City/County Association of Government of San Mateo County	South Bayside Waste Management Authority	Totals
Assets:				
Cash and investments	\$ 11,790	\$ 19,089,318	\$ 14,942,598	\$ 34,043,706
Cash and investments with fiscal agents	-	-	6,257,859	6,257,859
Receivables:				
Accounts	-	2,908,683	3,896,227	6,804,910
Prepaid items	-	709,057	15,723	724,780
Total Assets	\$ 11,790	\$ 22,707,058	\$ 25,112,407	\$ 47,831,255
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 4,218,085	\$ 5,492,814	\$ 9,710,899
Due to members	-	18,488,973	18,379,767	36,868,740
Deposits payable	-	-	1,239,826	1,239,826
Due to assessment district bondholders	11,790	-	-	11,790
Total Liabilities	\$ 11,790	\$ 22,707,058	\$ 25,112,407	\$ 47,831,255

CITY OF SAN CARLOS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2014

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
<u>Assessment Districts</u>				
Assets:				
Cash and investments	\$ 11,790	\$ -	\$ -	\$ 11,790
Total Assets	\$ 11,790	\$ -	\$ -	\$ 11,790
Liabilities:				
Due to assessment district bondholders	\$ 11,790	\$ -	\$ -	\$ 11,790
Total Liabilities	\$ 11,790	\$ -	\$ -	\$ 11,790
<u>City/County Association of Government of San Mateo County</u>				
Assets:				
Cash and investments	\$19,418,887	\$ -	\$ 329,569	\$19,089,318
Receivables:				
Accounts receivable	5,568,592	-	2,659,909	2,908,683
Prepaid costs	-	709,057	-	709,057
Total Assets	\$24,987,479	\$ 709,057	\$2,989,478	\$22,707,058
Liabilities:				
Accounts payable and accrued liabilities	\$ 7,917,788	\$ -	\$3,699,703	\$ 4,218,085
Due to members	17,069,691	1,419,282	-	18,488,973
Total Liabilities	\$24,987,479	\$1,419,282	\$3,699,703	\$22,707,058
<u>South Bayside Waste Management Authority</u>				
Assets:				
Cash and investments	\$14,324,388	\$ 618,210	\$ -	\$14,942,598
Accounts receivable	3,727,581	168,646	-	3,896,227
Prepaid items	23,919	-	8,196	15,723
Restricted assets:				
Cash and investments with fiscal agents	6,223,842	34,017	-	6,257,859
Total Assets	\$24,299,730	\$ 820,873	\$ 8,196	\$25,112,407
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,993,643	\$1,499,171	\$ -	\$ 5,492,814
Due to members	19,030,952	-	651,185	18,379,767
Deposits payable	1,275,135	-	35,309	1,239,826
Total Liabilities	\$24,299,730	\$1,499,171	\$ 686,494	\$25,112,407
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and investments	\$33,755,065	\$ 618,210	\$ 329,569	\$34,043,706
Accounts receivable	9,296,173	168,646	2,659,909	6,804,910
Prepaid items	23,919	709,057	8,196	724,780
Restricted assets:				
Cash and investments with fiscal agents	6,223,842	34,017	-	6,257,859
Total Assets	\$49,298,999	\$1,529,930	\$2,997,674	\$47,831,255
Liabilities:				
Accounts payable and accrued liabilities	\$11,911,431	\$1,499,171	\$3,699,703	\$ 9,710,899
Due to members	36,100,643	1,419,282	651,185	36,868,740
Deposits payable	1,275,135	-	35,309	1,239,826
Due to assessment district bondholders	11,790	-	-	11,790
Total Liabilities	\$49,298,999	\$2,918,453	\$4,386,197	\$47,831,255

THIS PAGE INTENTIONALLY LEFT BLANK

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

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

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, property tax:

1. Assessed Value and Estimated Value of Taxable Property
2. Property Tax Rates
3. Top Ten Property Tax Payers
4. Property Tax Levies and Collections

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Ratio of General Bonded Debt Outstanding
3. Revenue Bond Coverage
4. Computation of Direct and Overlapping Debt
5. Computation of Legal Bonded Debt Margin

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers
3. Full Time Equivalent City government Employees by Function

Operating Information

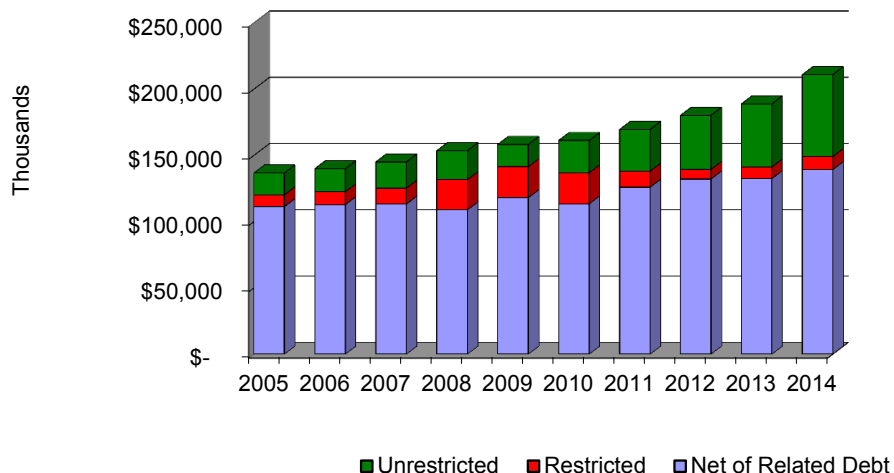
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Operating Indicators by Function/Program
2. Capital Asset Statistics by Function/Program

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

CITY OF SAN CARLOS
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities					
Capital assets net of related debt	\$ 101,789,141	\$ 103,315,207	\$ 103,630,566	\$ 98,247,695	\$ 107,041,257
Restricted	8,906,061	9,745,567	12,058,499	22,849,602	23,426,300
Unrestricted	12,819,766	14,181,560	16,869,176	18,741,036	12,724,651
Total governmental activities net position	<u>\$ 123,514,968</u>	<u>\$ 127,242,334</u>	<u>\$ 132,558,241</u>	<u>\$ 139,838,333</u>	<u>\$ 143,192,208</u>
Business-type activities					
Capital assets net of related debt	\$ 9,573,561	\$ 9,610,494	\$ 9,660,645	\$ 10,667,232	\$ 11,097,233
Unrestricted	3,664,410	3,096,886	2,845,772	3,064,709	3,985,755
Total business-type activities net position	<u>\$ 13,237,971</u>	<u>\$ 12,707,380</u>	<u>\$ 12,506,417</u>	<u>\$ 13,731,941</u>	<u>\$ 15,082,988</u>
Primary government					
Capital assets net of related debt	\$ 111,362,702	\$ 112,925,701	\$ 113,291,211	\$ 108,914,927	\$ 118,138,490
Restricted	8,906,061	9,745,567	12,058,499	22,849,602	23,426,300
Unrestricted	16,484,176	17,278,446	19,714,948	21,805,745	16,710,406
Total primary government net position	<u>\$ 136,752,939</u>	<u>\$ 139,949,714</u>	<u>\$ 145,064,658</u>	<u>\$ 153,570,274</u>	<u>\$ 158,275,196</u>

2010	2011	2012	2013	2014
\$ 101,975,928	\$ 113,903,786	\$ 119,426,713	\$ 119,171,599	\$ 124,467,083
23,500,466	12,143,894	7,322,914	8,871,235	9,859,896
19,737,818	26,256,514	34,473,081	39,942,056	42,689,655
<u>\$ 145,214,212</u>	<u>\$ 152,304,194</u>	<u>\$ 161,222,708</u>	<u>\$ 167,984,890</u>	<u>\$ 177,016,634</u>
\$ 11,528,037	\$ 12,133,706	\$ 12,798,962	\$ 13,337,359	\$ 14,840,080
4,591,798	5,117,936	6,210,876	7,556,596	19,028,996
<u>\$ 16,119,835</u>	<u>\$ 17,251,642</u>	<u>\$ 19,009,838</u>	<u>\$ 20,893,955</u>	<u>\$ 33,869,076</u>
\$ 113,503,965	\$ 126,037,492	\$ 132,225,675	\$ 132,508,958	\$ 139,307,163
23,500,466	12,143,894	7,322,914	8,871,235	9,859,896
24,329,616	31,374,450	40,683,957	47,498,652	61,718,651
<u>\$ 161,334,047</u>	<u>\$ 169,555,836</u>	<u>\$ 180,232,546</u>	<u>\$ 188,878,845</u>	<u>\$ 210,885,710</u>

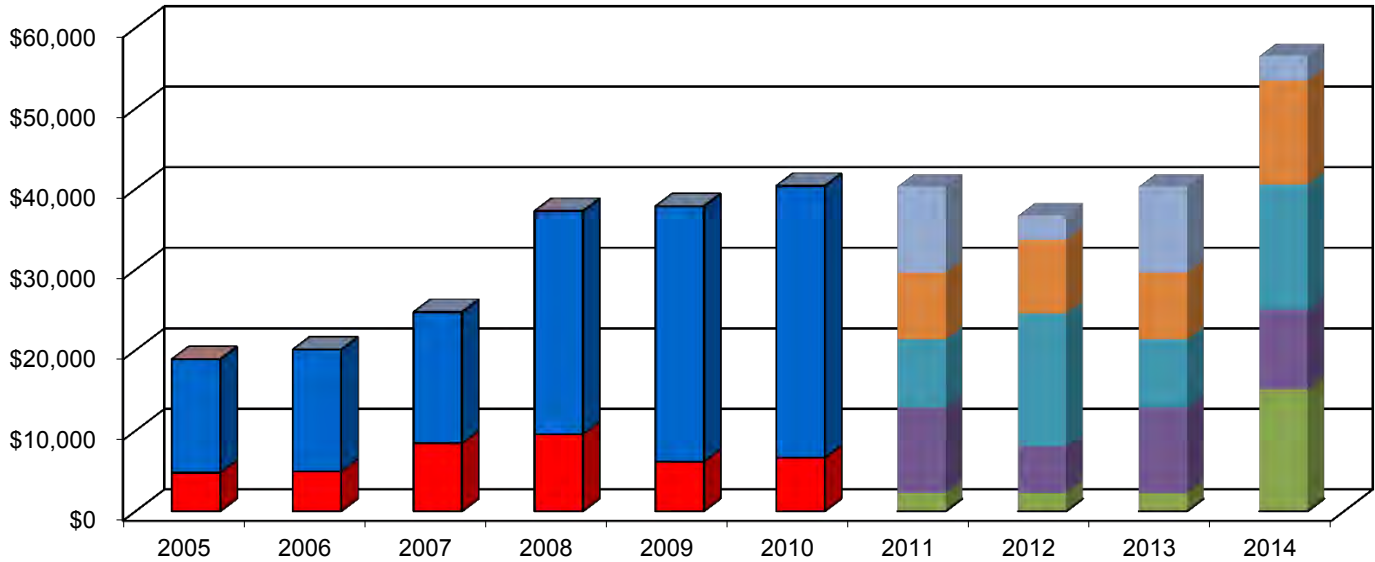
CITY OF SAN CARLOS
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental Activities:										
General Government	\$ 5,213,466	\$ 5,951,198	\$ 5,459,439	\$ 5,565,910	\$ 5,627,987	\$ 5,167,150	\$ 3,950,781	\$ 5,663,863	\$ 6,475,824	\$ 5,321,121
Public Safety	11,848,317	12,559,004	13,598,466	13,464,481	14,188,879	14,590,515	15,074,068	13,449,771	14,574,275	15,592,529
Public Works	2,649,942	2,202,707	2,281,580	2,028,532	2,195,710	2,398,325	1,945,532	2,493,488	2,687,707	8,255,888
Community Development	2,514,455	2,633,826	3,054,052	4,044,214	3,656,176	3,763,475	3,611,267	4,081,250	2,766,720	2,991,374
Parks and Recreation	4,371,090	4,611,490	4,998,742	4,773,862	4,618,697	4,799,953	3,707,647	4,018,025	4,117,692	3,043,648
Interest on Long Term Debt	1,323,875	1,111,062	1,155,876	1,272,432	1,409,090	1,383,563	1,565,337	608,784	264,260	276,859
Total Governmental Activities Expenses	<u>27,921,145</u>	<u>29,069,287</u>	<u>30,548,155</u>	<u>31,149,431</u>	<u>31,696,539</u>	<u>32,102,981</u>	<u>29,854,632</u>	<u>30,315,181</u>	<u>30,886,478</u>	<u>35,481,419</u>
Business-Type Activities:										
Sewer	3,697,138	4,501,159	4,775,915	4,801,406	5,187,771	6,696,224	7,314,132	7,887,064	7,874,008	8,320,370
Total Business-Type Activities Expenses	<u>3,697,138</u>	<u>4,501,159</u>	<u>4,775,915</u>	<u>4,801,406</u>	<u>5,187,771</u>	<u>6,696,224</u>	<u>7,314,132</u>	<u>7,887,064</u>	<u>7,874,008</u>	<u>8,320,370</u>
Total Primary Government Expenses	<u>\$ 31,618,283</u>	<u>\$ 33,570,446</u>	<u>\$ 35,324,070</u>	<u>\$ 35,950,837</u>	<u>\$ 36,884,310</u>	<u>\$ 38,799,205</u>	<u>\$ 37,168,764</u>	<u>\$ 38,202,245</u>	<u>\$ 38,760,486</u>	<u>\$ 43,801,789</u>
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$ 1,806,936	\$ 2,894,422	\$ 2,165,049	\$ 1,770,920	\$ 1,463,589	\$ 1,485,737	\$ 1,348,137	\$ 1,027,189	\$ 1,074,928	\$ 1,071,289
Public Safety	178,919	330,846	321,381	357,905	433,521	553,269	468,078	515,745	505,948	527,366
Public Works	498,356	689,990	628,830	642,518	571,395	593,230	626,538	2,230,306	597,220	1,201,650
Community Development	2,286,660	2,420,980	2,398,167	2,570,665	1,997,953	2,194,437	1,909,598	2,125,361	2,017,110	2,625,860
Parks and Recreation	1,596,020	1,894,200	2,027,135	2,604,797	2,229,688	2,027,398	1,722,864	1,951,859	2,122,207	2,206,374
Operating Grants and Contributions	804,325	848,745	1,002,118	1,210,826	925,265	1,303,320	1,621,920	1,257,912	1,591,002	1,942,020
Capital Grants and Contributions	669,498	926,015	549,129	499,261	293,889	270,875	594,081	1,054,103	1,070,551	4,907,492
Total Government Activities Program Revenues	<u>7,840,714</u>	<u>10,005,198</u>	<u>9,091,809</u>	<u>9,656,892</u>	<u>7,915,300</u>	<u>8,428,266</u>	<u>8,291,216</u>	<u>10,162,475</u>	<u>8,978,966</u>	<u>14,482,051</u>
Business-Type Activities:										
Charges for Services:										
Sewer	4,581,318	4,516,248	5,709,952	7,077,490	7,756,952	8,020,388	8,993,614	10,195,074	10,222,616	12,685,252
Total Business-Type Activities Program Revenue	<u>4,581,318</u>	<u>4,516,248</u>	<u>5,709,952</u>	<u>7,077,490</u>	<u>7,756,952</u>	<u>8,020,388</u>	<u>8,993,614</u>	<u>10,195,074</u>	<u>10,222,616</u>	<u>12,685,252</u>
Total Primary Government Program Revenues	<u>\$ 12,422,032</u>	<u>\$ 14,521,446</u>	<u>\$ 14,801,761</u>	<u>\$ 16,734,382</u>	<u>\$ 15,672,252</u>	<u>\$ 16,448,654</u>	<u>\$ 17,284,830</u>	<u>\$ 20,357,549</u>	<u>\$ 19,201,582</u>	<u>\$ 27,167,303</u>
Net (Expense)/Revenue										
Governmental Activities	\$ (20,080,431)	\$ (19,064,089)	\$ (21,456,346)	\$ (21,492,539)	\$ (23,781,239)	\$ (23,674,715)	\$ (21,563,416)	\$ (20,152,706)	\$ (21,907,512)	\$ (20,999,368)
Business-Type Activities	884,180	15,089	934,037	2,276,084	2,569,181	1,324,164	1,679,482	2,308,010	2,348,608	4,364,882
Total Primary Government Net Expense	<u>\$ (19,196,251)</u>	<u>\$ (19,049,000)</u>	<u>\$ (20,522,309)</u>	<u>\$ (19,216,455)</u>	<u>\$ (21,212,058)</u>	<u>\$ (22,350,551)</u>	<u>\$ (19,883,934)</u>	<u>\$ (17,844,696)</u>	<u>\$ (19,558,904)</u>	<u>\$ (16,634,486)</u>

	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	\$ 10,539,320	\$ 11,150,320	\$ 12,909,094	\$ 13,878,227	\$ 14,247,207	\$ 12,785,913	\$ 14,414,923	\$ 12,615,467	\$ 11,231,717	\$ 12,907,307
Sales Taxes	5,237,707	5,458,154	5,620,178	5,503,729	5,669,333	5,697,574	5,752,468	5,870,214	6,427,400	7,287,136
Motor Vehicle In-Lieu	1,680,961	2,429,602	2,019,204	2,105,682	2,176,235	2,230,997	2,315,671	2,205,159	2,155,983	2,438,078
Transient Occupancy Tax	470,650	625,965	766,974	825,070	750,175	682,750	815,197	943,513	1,120,864	1,270,072
Nonregulatory Franchise	2,348,952	1,025,616	2,310,424	2,357,789	2,520,723	2,663,713	2,916,896	3,000,857	3,240,864	3,351,838
Use of Money & Property	973,908	918,545	1,829,994	1,624,497	300,513	782,328	1,190,048	1,443,720	1,552,992	1,918,054
Other	482,787	637,573	181,385	1,337,838	287,928	313,444	853,307	818,682	2,429,874	686,427
Transfers	529,320	545,680	1,135,000	1,139,799	1,183,000	540,000	584,600	595,000	510,000	172,200
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	-	-	-	2,184,427	-	-
Total Government Activities	<u>22,263,605</u>	<u>22,791,455</u>	<u>26,772,253</u>	<u>28,772,631</u>	<u>27,135,114</u>	<u>25,696,719</u>	<u>28,843,110</u>	<u>29,677,039</u>	<u>28,669,694</u>	<u>30,031,112</u>
Business-Type Activities:										
Use of Money & Property	-	-	-	89,239	(35,134)	38,243	36,925	45,186	45,509	91,110
Miscellaneous revenues	-	-	-	-	-	214,440	-	-	-	32,358
Transfers	(529,320)	(545,680)	(1,135,000)	(1,139,799)	(1,183,000)	(540,000)	(584,600)	(595,000)	(510,000)	(172,200)
Total Business-Type Activities	<u>(529,320)</u>	<u>(545,680)</u>	<u>(1,135,000)</u>	<u>(1,050,560)</u>	<u>(1,218,134)</u>	<u>(287,317)</u>	<u>(547,675)</u>	<u>(549,814)</u>	<u>(464,491)</u>	<u>(48,732)</u>
Total Primary Government	<u>\$ 21,734,285</u>	<u>\$ 22,245,775</u>	<u>\$ 25,637,253</u>	<u>\$ 27,722,071</u>	<u>\$ 25,916,980</u>	<u>\$ 25,409,402</u>	<u>\$ 28,295,435</u>	<u>\$ 29,127,225</u>	<u>\$ 28,205,203</u>	<u>\$ 29,982,380</u>
Change in Net Assets										
Governmental Activities	\$ 2,183,174	\$ 3,727,366	\$ 5,315,907	\$ 7,280,092	\$ 3,353,875	\$ 2,022,004	\$ 7,279,694	\$ 9,524,333	\$ 6,762,182	\$ 9,031,744
Business-Type Activities	354,860	(530,591)	(200,963)	1,225,524	1,351,047	1,036,847	1,131,807	1,758,196	1,884,117	4,316,150
Total Primary Government	<u>\$ 2,538,034</u>	<u>\$ 3,196,775</u>	<u>\$ 5,114,944</u>	<u>\$ 8,505,616</u>	<u>\$ 4,704,922</u>	<u>\$ 3,058,851</u>	<u>\$ 8,411,501</u>	<u>\$ 11,282,529</u>	<u>\$ 8,646,299</u>	<u>\$ 13,347,894</u>

CITY OF SAN CARLOS
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Thousands



■ Reserved
 ■ Unreserved
 ■ Nonspendable
 ■ Restricted
 ■ Committed
 ■ Assigned
 ■ Unassigned

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009
General Fund					
Reserved	\$ 544,916	\$ 535,053	\$ 1,110,377	\$ 1,607,405	\$ 1,433,666
Unreserved	6,287,360	6,076,082	6,757,319	7,339,240	8,455,536
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 6,832,276</u>	<u>\$ 6,611,135</u>	<u>\$ 7,867,696</u>	<u>\$ 8,946,645</u>	<u>\$ 9,889,202</u>
All Other Governmental Funds					
Reserved	\$ 4,244,233	\$ 4,426,102	\$ 7,356,498	\$ 7,950,925	\$ 4,725,179
Unreserved, reported in:					
Special revenue funds	(401,813)	(415,711)	697,046	986,318	1,038,590
Capital project funds	8,202,854	9,453,218	8,815,326	19,391,338	22,213,798
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total all other governmental funds	<u>\$ 12,045,274</u>	<u>\$ 13,463,609</u>	<u>\$ 16,868,870</u>	<u>\$ 28,328,581</u>	<u>\$ 27,977,567</u>

In fiscal year 2011, the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The classifications have been changed to accommodate the implementation of this statement.

Fiscal Year Ended June 30,

2010	2011	2012	2013	2014
\$ 2,556,020	\$ -	\$ -	\$ -	\$ -
9,207,477	-	-	-	-
-	712,160	713,300	1,062,700	15,130,823
-	-	-	42,000	-
-	2,706,600	6,853,165	7,151,565	3,200,000
-	2,728,704	9,175,000	9,700,000	12,901,565
-	10,694,918	3,002,379	3,052,124	3,040,483
<u>\$ 11,763,497</u>	<u>\$ 16,842,382</u>	<u>\$ 19,743,844</u>	<u>\$ 21,008,389</u>	<u>\$ 34,272,871</u>
\$ 4,093,846	\$ -	\$ -	\$ -	\$ -
1,228,197	-	-	-	-
23,313,352	-	-	-	-
-	1,587,305	1,585,662	2,538,601	-
-	10,556,589	5,737,252	6,290,634	9,859,896
-	5,760,066	9,652,778	14,369,247	12,377,737
-	5,578,686	-	-	-
-	(22,835)	(22,610)	-	-
<u>\$ 28,635,395</u>	<u>\$ 23,459,811</u>	<u>\$ 16,953,082</u>	<u>\$ 23,198,482</u>	<u>\$ 22,237,633</u>

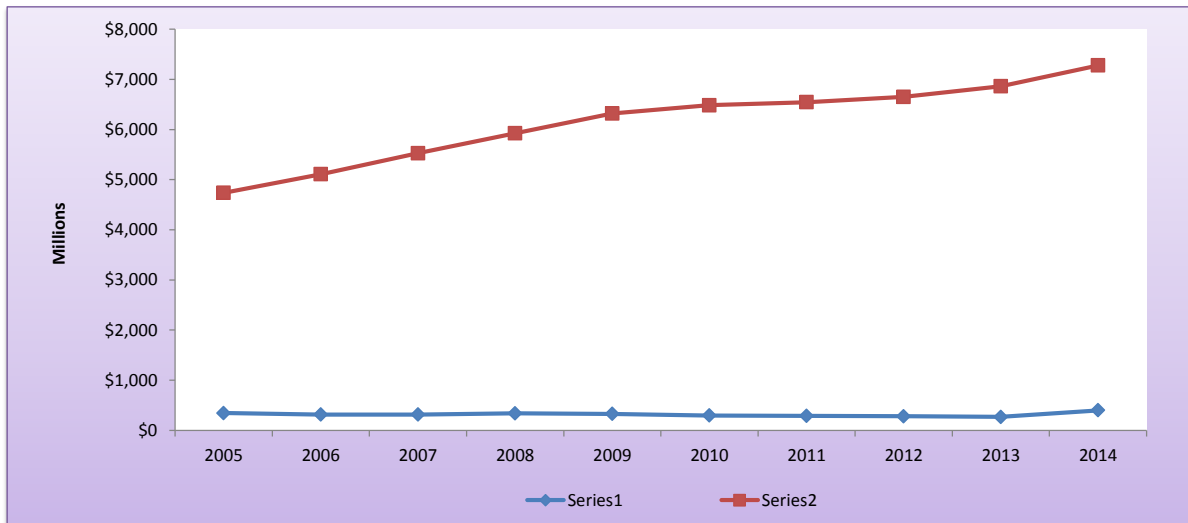
CITY OF SAN CARLOS
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,			
	2005	2006	2007	2008
Revenues				
Taxes	\$ 17,693,351	\$ 21,110,223	\$ 23,625,877	\$ 24,670,497
Licenses, permits and fees	2,695,016	1,578,599	1,698,221	1,927,307
Fines and forfeitures	255,296	241,987	256,093	260,020
Use of money and property	1,539,309	1,744,581	2,401,578	2,471,935
From other agencies	3,200,388	1,888,670	1,747,099	1,496,292
Charges for services	2,516,049	2,434,215	2,733,524	2,727,931
Other revenues	1,681,963	2,630,406	1,766,054	3,557,546
Total Revenues	29,581,372	31,628,681	34,228,446	37,111,528
Expenditures				
Current:				
General government	4,475,860	5,114,705	4,670,435	4,475,515
Public safety	11,659,584	12,584,782	13,418,417	13,451,291
Public works	1,178,101	1,284,486	1,053,956	1,236,673
Community development	2,461,802	2,559,046	2,967,028	3,932,143
Parks and recreation	4,179,292	4,248,547	4,416,144	4,347,834
Capital outlay	3,270,625	3,654,871	2,687,793	3,699,266
Debt service:				
Principal repayment	356,680	388,975	446,316	1,298,643
Interest and fiscal charges	1,366,332	1,179,371	1,088,535	1,229,101
Total Expenditures	28,948,276	31,014,783	30,748,624	33,670,466
Excess (deficiency) of revenues over (under) expenditures	633,096	613,898	3,479,822	3,441,062
Other Financing Sources (Uses)				
Transfers in	2,640,121	3,700,979	5,680,660	7,401,745
Transfers (out)	(2,066,164)	(3,108,876)	(4,498,660)	(6,214,006)
Proceeds from sale of capital assets	-	-	-	-
Proceeds of Debt	-	8,115,000	-	16,010,000
Payments to refunded bond escrow	-	(8,123,807)	-	(8,100,141)
Capital contributions	-	-	-	-
Total other financing sources (uses)	573,957	583,296	1,182,000	9,097,598
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-
Net Change in fund balances	\$ 1,207,053	\$ 1,197,194	\$ 4,661,822	\$ 12,538,660
Debt service as a percentage of noncapital expenditures	6.8%	5.9%	5.5%	8.9%

Fiscal Year Ended June 30,

2009	2010	2011	2012	2013	2014
\$25,363,673	\$24,060,951	\$26,868,250	\$25,282,782	\$24,176,828	\$27,254,431
1,541,665	1,607,864	1,020,215	3,198,769	2,024,279	2,271,457
312,853	397,210	299,364	265,091	234,218	219,944
1,248,692	1,693,320	2,004,508	1,864,401	1,805,466	2,176,508
987,347	1,385,530	2,125,347	2,048,990	1,824,567	4,119,086
2,561,133	2,725,768	2,532,268	2,557,464	2,912,353	3,389,107
1,861,965	1,621,224	1,594,824	1,674,507	3,878,322	2,886,134
33,877,328	33,491,867	36,444,776	36,892,004	36,856,033	42,316,667
5,886,424	3,736,126	3,031,272	4,555,802	4,165,249	4,715,318
14,130,234	14,521,349	15,298,099	13,119,914	14,410,769	15,360,993
1,200,883	1,178,543	1,223,829	1,673,870	1,641,955	6,779,012
3,581,043	3,656,015	3,542,118	3,932,661	2,666,132	2,870,822
4,225,018	4,226,263	3,379,167	3,438,598	3,597,600	2,574,917
3,556,380	2,165,396	9,854,906	2,465,296	2,841,083	7,691,263
636,421	624,164	662,049	700,264	265,000	285,000
1,417,182	1,391,888	1,574,187	843,435	268,300	258,604
34,633,585	31,499,744	38,565,627	30,729,840	29,856,088	40,535,929
(756,257)	1,992,123	(2,120,851)	6,162,164	6,999,945	1,780,738
8,380,752	3,981,090	4,283,631	2,938,040	4,303,415	1,645,165
(7,077,952)	(3,441,090)	(3,699,031)	(2,293,040)	(3,793,415)	(1,472,965)
45,000	-	1,509,424	-	-	-
-	-	-	-	-	8,800,000
-	-	-	-	-	-
-	-	-	-	-	1,550,695
1,347,800	540,000	2,094,024	645,000	510,000	10,522,895
-	-	-	(10,412,431)	-	-
\$ 591,543	\$ 2,532,123	\$ (26,827)	\$ (3,605,267)	\$ 7,509,945	\$ 12,303,633
6.5%	6.6%	7.5%	5.3%	1.9%	1.7%

CITY OF SAN CARLOS
ASSESSED AND ESTIMATED ACTUAL
VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS



Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2005	\$ 3,911,496,602	\$ 373,753,915	\$ 408,475,375	\$ 45,270,826	\$ 4,738,996,718	\$ 345,106,310	\$ 5,084,103,028	\$ 5,084,103,028	0.18798%
2006	4,254,256,916	391,089,865	412,066,652	51,364,640	5,108,778,073	316,187,349	5,424,965,422	5,424,965,422	0.18285%
2007	4,593,999,057	420,186,971	455,972,060	55,698,472	5,525,856,560	316,693,245	5,842,549,805	5,842,549,805	0.18836%
2008	4,907,682,878	480,488,543	480,178,708	56,711,565	5,925,061,694	337,894,181	6,262,955,875	6,262,955,875	0.19223%
2009	5,237,194,752	530,328,970	493,030,102	58,254,703	6,318,808,527	329,100,047	6,647,908,574	6,647,908,574	0.19262%
2010	5,385,051,647	537,954,158	510,871,559	49,573,684	6,483,451,048	299,137,744	6,782,588,792	6,782,588,792	0.19582%
2011	5,438,326,043	532,479,578	524,446,802	50,382,008	6,545,634,431	289,541,082	6,835,175,513	6,835,175,513	0.19600%
2012	5,532,457,020	530,784,713	530,206,176	57,106,808	6,650,554,717	280,928,376	6,931,483,093	6,931,483,093	0.19481%
2013	5,717,858,710	516,269,311	559,907,761	69,214,632	6,863,250,414	269,345,842	7,132,596,256	7,132,596,256	0.19504%
2014	6,120,011,894	541,914,403	556,804,162	59,050,682	7,277,781,141	401,155,969	7,678,937,110	7,678,937,110	0.11685%

Source: San Mateo County Assessor 2004/05 - 2013/14 Combined Tax Rolls

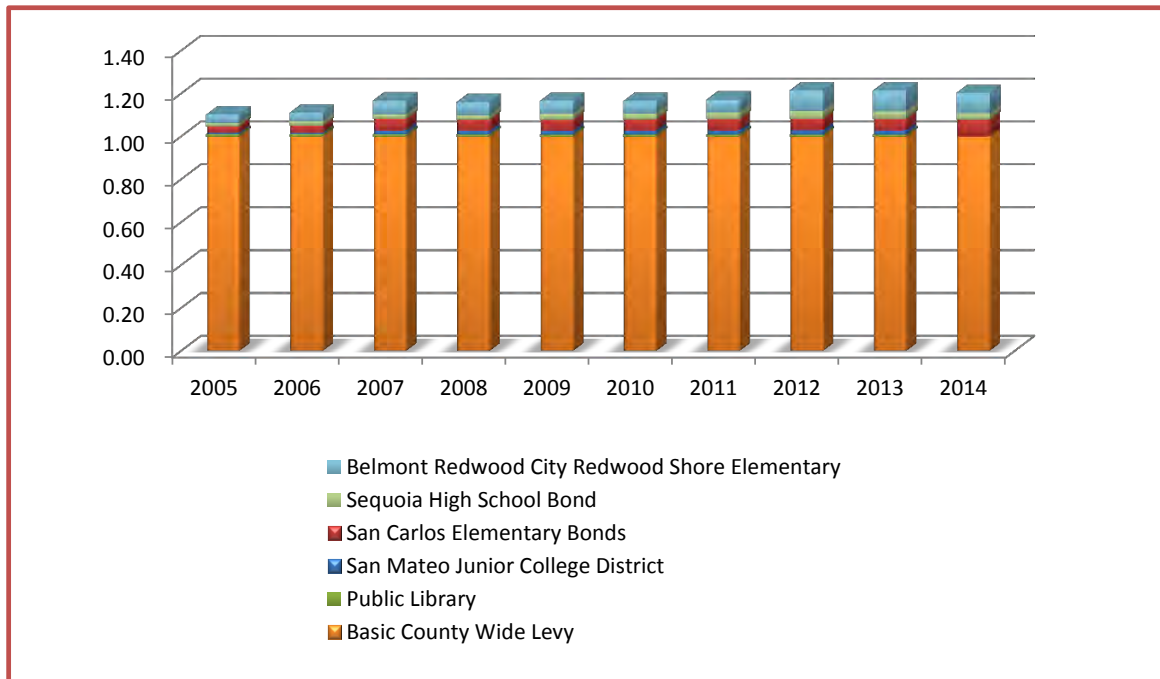
- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF SAN CARLOS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

(Rate per \$100 of Taxable Value)

LAST TEN FISCAL YEARS



Fiscal Year	City Direct Rates			Overlapping Rates			Belmont Redwood City Redwood Shore Elementary	Total Direct Overlapping Tax Rate	Total* Direct Rate
	Basic County Wide Levy	City's share ¹ of 1% Levy Per Prop 13	Public Library	San Mateo Junior College District	San Carlos Elementary Bonds	Sequoia High School Bond			
2005	1.0000	0.13273	0.0106	0.0065	0.0303	0.0164	0.0381	1.1019	0.18798
2006	1.0000	0.13273	0.0102	0.0065	0.0327	0.0223	0.0386	1.1103	0.18285
2007	1.0000	0.13273	0.0098	0.0184	0.0532	0.0208	0.0656	1.1678	0.18836
2008	1.0000	0.13273	0.0092	0.0171	0.0520	0.0205	0.0612	1.1600	0.19223
2009	1.0000	0.13273	0.0089	0.0165	0.0517	0.0282	0.0601	1.1654	0.19262
2010	1.0000	0.13273	0.0088	0.0182	0.0531	0.0277	0.0568	1.1646	0.19582
2011	1.0000	0.13273	0.0089	0.0193	0.0528	0.0311	0.0598	1.1719	0.19600
2012	1.0000	0.13273	0.0089	0.0199	0.0535	0.0358	0.0971	1.2152	0.19481
2013	1.0000	0.13273	0.0088	0.0194	0.0528	0.0356	0.0981	1.2147	0.19504
2014	1.0000	0.13273	0.0084	0.0194	0.0775	0.0313	0.0945	1.2311	0.11685

¹City's share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city.

*Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information

Data Source: San Mateo County Assessor 2004/05 - 2013/14 Tax Rate Table

CITY OF SAN CARLOS

Top Ten Property Tax Payers

Current Year and Ten Years Ago

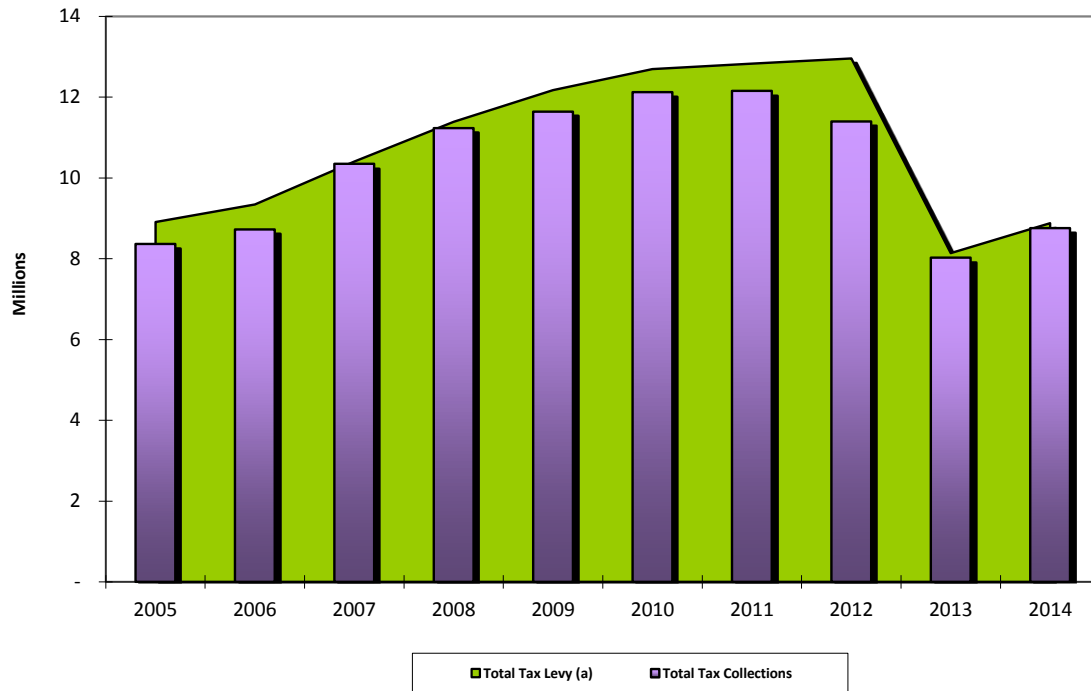
Taxpayer	2013-2014			2004-2005		
	Assessed Value	Rank	Percentage of Total City Assessed Value	Assessed Value	Rank	Percentage of Total City Assessed Value
Nektar Therapeutics				\$ 73,437,705	1	1.44%
SPK-Skyway Landing LLC	\$ 73,331,069	2	0.95%	45,000,000	2	0.89%
Circle Star Center Associates LP				30,000,000	3	0.59%
L-3 Communications Corp	38,767,187	4	0.50%	29,540,985	4	0.58%
Inhale Therapeutic Systems Inc				28,962,595	5	0.57%
Mickesson Corporation				24,498,141	6	0.48%
Communications and Power Industrials				21,840,902	7	0.43%
Brittan Corners Shopping Center LLC	24,238,825	6	0.32%	20,993,419	8	0.41%
Corio Inc				18,689,255	9	0.37%
Kelly Moore Paint Company Inc	22,792,542	7	0.30%	17,836,335	10	0.35%
Novartis Pharmaceuticals	157,876,558	1	2.06%			
BMR-201 Industrial RD LLC	39,774,175	3	0.52%			
Black Mountain Holdings LLC	36,098,448	5	0.47%			
Vica Capital LLC	22,440,000	8	0.29%			
San Carlos Retail Venture LP	21,817,815	9	0.28%			
ECI Two San Carlos LLC	19,540,756	10	0.25%			
Subtotal	<u>\$ 456,677,375</u>		<u>5.95%</u>	<u>\$ 310,799,337</u>		<u>6.11%</u>

Total Net Assessed Valuation:

Fiscal Year 2013-2014	\$7,678,937,110
Fiscal Year 2004-2005	\$5,082,994,619

Source: San Mateo County Assessor 2013/14 Combined Tax Rolls.
Top Property Owners Based on Net Values

CITY OF SAN CARLOS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS



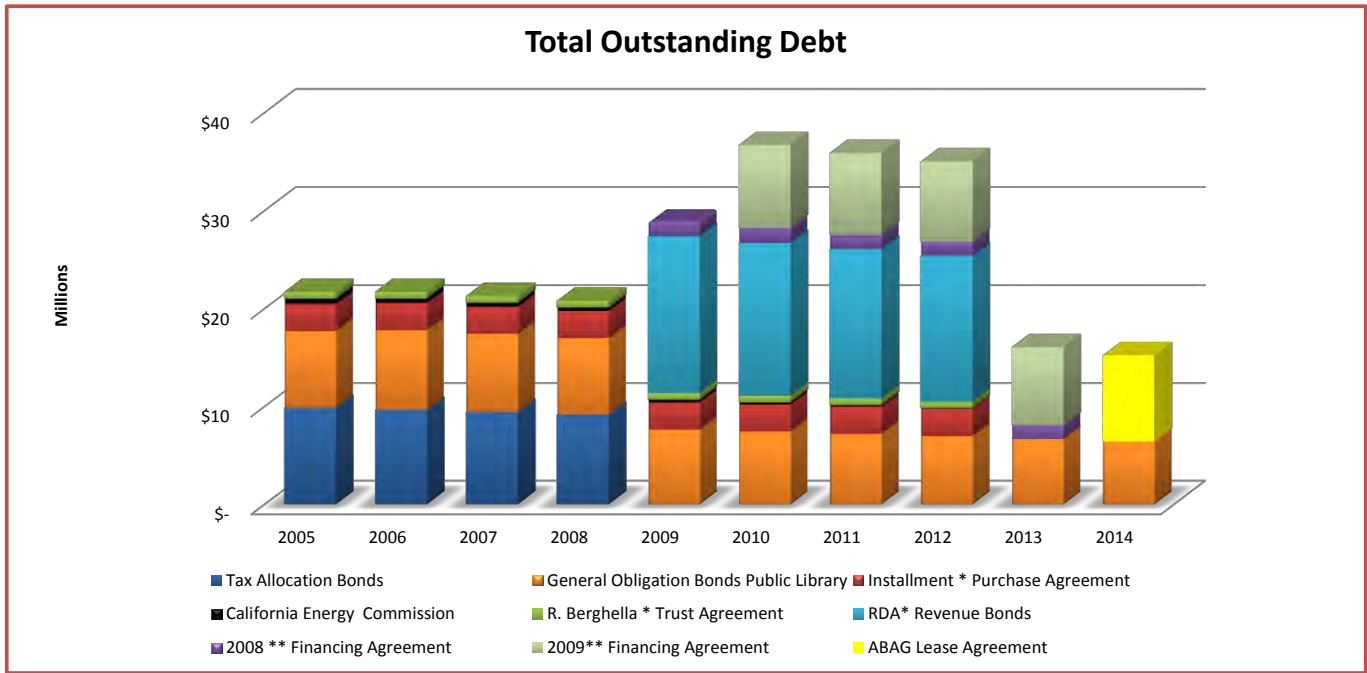
Fiscal Year	Total Tax Levy (a)	Current Tax Collections(b)	Percent of Levy Collected	Delinquent Tax Collections (c)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2005	8,908,366	8,365,797	93.91%	N/A	\$ 8,365,797	93.91%
2006	9,341,401	8,724,926	93.40%	N/A	8,724,926	93.40%
2007	10,408,503	10,350,198	99.44%	N/A	10,350,198	99.44%
2008	11,389,746	11,234,055	98.63%	N/A	11,234,055	98.63%
2009	12,171,289	11,641,072	95.64%	N/A	11,641,072	95.64%
2010	12,695,894	12,124,097	95.50%	N/A	12,124,097	95.50%
2011	12,829,443	12,155,993	94.75%	N/A	12,155,993	94.75%
2012	12,955,911	11,398,356	87.98%	N/A	11,398,356	87.98%
2013	8,138,448	8,027,011	98.63%	N/A	8,027,011	98.63%
2014	8,879,658	8,757,878	98.63%	N/A	8,757,878	98.63%

Source: San Mateo County Assessor 2004/05 - 2013/14 Combined Tax Rolls
 2013/14 County of San Mateo Estimated property tax revenue

NOTE: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California

- a) Prior to the dissolution of Redevelopment Agency in FY 2012; the data in this table includes the general fund property taxes debt service tax and Redevelopment Agency tax increments. Beginning FY 2013, the amount presented are the secured and unsecured estimated property tax revenue provided by the County at the beginning of the fiscal year. The tax levy is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
- b) Prior to the dissolution of Redevelopment Agency in FY 2012; the data in this table includes the basic and supplemental property taxes, debt service tax and Redevelopment Agency tax increments. Beginning FY 2013, the amount presented includes only the City's general secured and unsecured property taxes collections. The tax collection is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
- c) Beginning fiscal year 1995, the County entered a "Teeter Plan" agreement with the City which allows the City to keep 100% of the secured taxes and the County to keep all interest and delinquency charges collected. Delinquent tax collection data is not available.

CITY OF SAN CARLOS
Ratio of Outstanding Debt by Type
LAST TEN FISCAL YEARS



Fiscal Year	<u>Governmental Activities</u>						<u>Business Type Activities</u>		Total Primary Government	Percentage of Personal Income (a)	Per Capita	
	Tax Allocation Bonds	General Obligation Bonds Public Library	Installment * Purchase Agreement	California Energy Commission	R. Berghella * Trust Agreement	RDA* Revenue Bonds	ABAG Lease Agreement	2008 ** Financing Agreement				2009** Financing Agreement
2004	\$ 9,890,000	\$ 7,870,000	\$ 2,800,000	\$ 497,233	\$ 706,398					\$ 21,763,631	1.39%	785.80
2005	9,660,000	7,805,000	2,800,000	441,359	700,592					21,406,951	1.22%	767.77
2006	9,415,000	8,115,000	2,800,000	383,795	694,210					21,408,005	1.13%	764.24
2007	9,160,000	7,990,000	2,800,000	324,488	687,193					20,961,681	1.14%	742.90
2008	-	7,820,000	2,800,000	263,415	679,432	\$ 16,010,000				27,572,847	1.46%	966.04
2009		7,630,000	2,800,000	200,475	671,009	15,635,000		\$ 1,510,000		28,446,484	1.55%	986.73
2010		7,425,000	2,800,000	135,627	661,683	15,290,000		1,510,000	\$ 8,450,000	36,272,310	2.38%	1,276.92
2011		7,200,000	2,800,000	68,822	651,439	14,930,000		1,460,000	8,330,000	35,440,261	2.19%	1,243.78
2012		6,955,000	-	-	-	-		1,410,000	8,175,000	16,540,000	0.97%	577.23
2013		6,690,000	-	-	-	-		1,355,000	8,015,000	16,060,000	0.91%	555.11
2014		6,405,000	-	-	-	-		\$ 8,800,000	-	15,205,000	(a)	520.38

Note : Debt amounts exclude any premiums, discounts, or other amortization amounts.

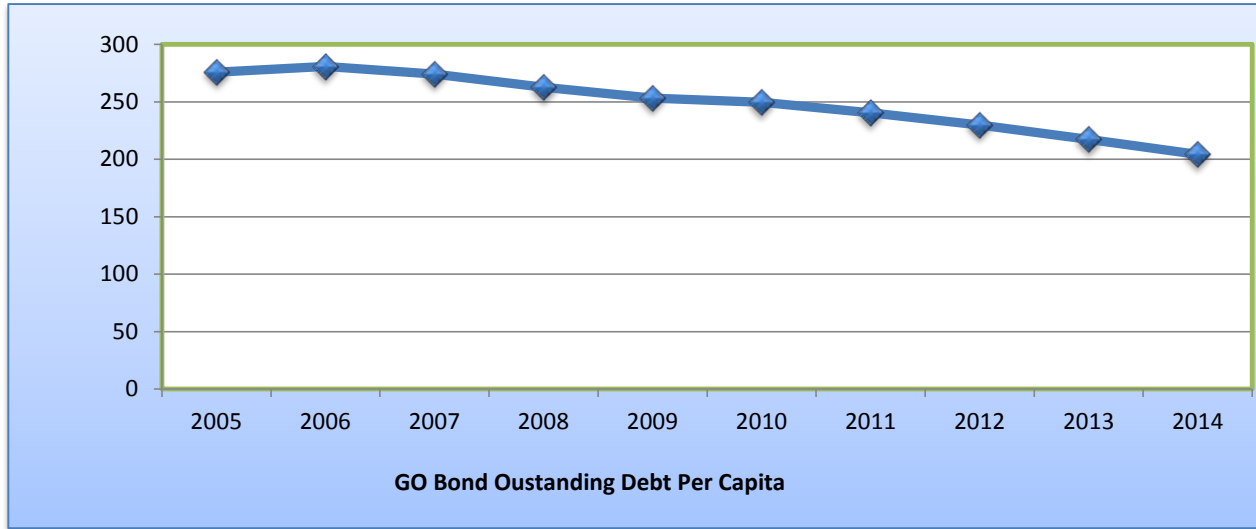
Sources: City of San Carlos Debt Schedule
 State of California, Department of Finance (population)
 U.S. Department of commerce, Bureau of the Census (income)

(a) See Schedule (Demographic Statistics) for personal income and population data.
 Data for 2014 is not available

* As a result of the dissolution of Redevelopment Agency on February 1, 2012, long-term debt of the former Redevelopment Agency were transferred to the Successor Agency when took over responsibility of winding down the operations of the former Agency.

** Adjustments made in the current year relating to the City's investment in the Silicon Valley Water Joint Venture. See Note 15C for more information

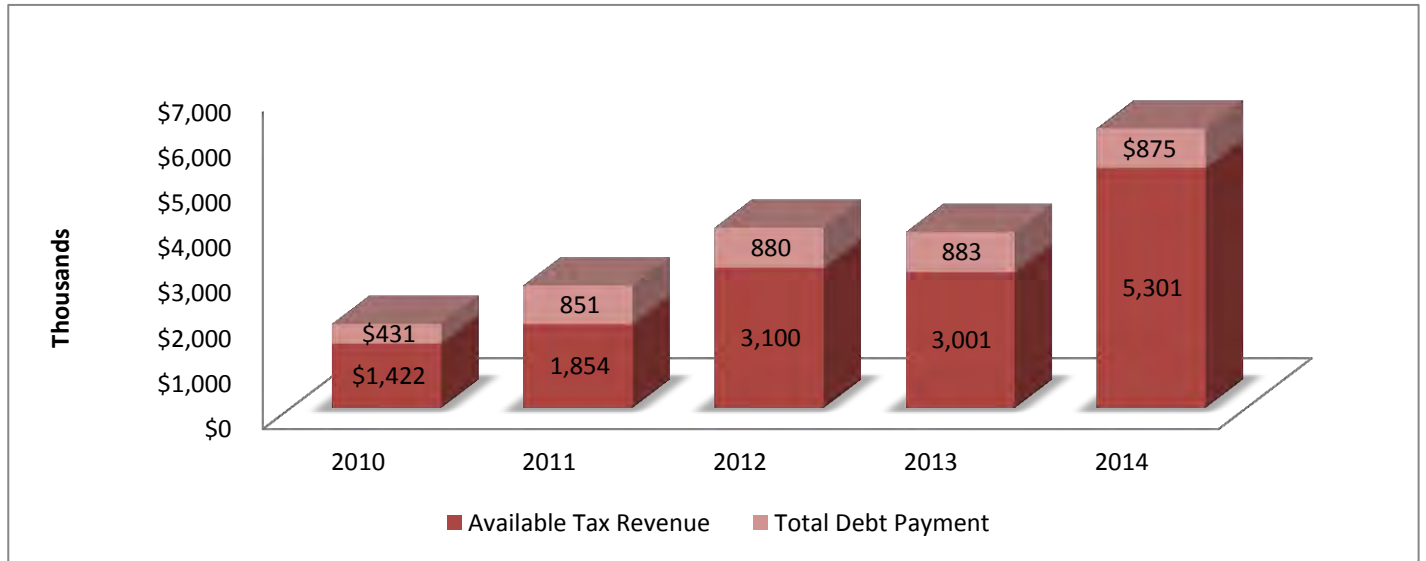
CITY OF SAN CARLOS
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS



Fiscal Year	General Bonded Debt Outstanding			Percentage of Assessed Value (3)	Per Capita (4)
	2005 General Obligation Debt (1)	Less: Amounts Available in Debt Service Fund (2)	Total		
2005	\$ 7,805,000	\$ 112,363	\$ 7,692,637	0.15%	\$ 275.90
2006	8,115,000	249,626	7,865,374	0.14%	280.79
2007	7,990,000	251,610	7,738,390	0.13%	274.26
2008	7,820,000	324,388	7,495,612	0.12%	262.62
2009	7,630,000	327,112	7,302,888	0.11%	253.32
2010	7,425,000	331,025	7,093,975	0.10%	249.74
2011	7,200,000	350,365	6,849,635	0.10%	240.39
2012	6,955,000	364,775	6,590,225	0.10%	229.99
2013	6,690,000	401,700	6,288,300	0.09%	217.36
2014	6,405,000	436,396	5,968,604	0.08%	204.27

1. This is the general bonded debt of governmental activities, net of original issuance discounts and premiums
2. This is the amount restricted for debt service principal payments
3. Assessed value has been used because the actual value of taxable property is not readily available in the State of California
4. Population data can be found in the Schedule of Demographic and Economic Statistics

**CITY OF SAN CARLOS
 PLEDGED-REVENUE COVERAGE
 LAST FIVE FISCAL YEARS**



San Carlos Sewer Fund - SBSA 2008, 2009 & 2014 Financing Agreement						
Fiscal Year	Net Revenue Available for Debt Services	Financing Agreement			Total	Coverage
		2008	2009	2014*		
		Debt Services				
2010	\$ 1,422,489	\$ 74,190	\$ 356,691		\$ 430,881	3.30
2011	1,853,539	117,308	733,352		850,660	2.18
2012	3,099,735	115,308	765,177		880,485	3.52
2013	3,000,783	118,208	765,278		883,486	3.40
2014	5,300,680	\$116,008	\$759,246	-	\$875,254	6.06

Source: City of San Carlos Annual Financial Statements

*Debt payment begins in August 2014

CITY OF SAN CARLOS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2014

2013-14 Assessed Valuation \$ 7,678,937,110
 Redevelopment Successor Agency Incremental Valuation 637,200,253

	Total Debt 6/30/2014	(1) Percentage Applicable	City's Share of Debt 6/30/2014
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			
San Mateo Community College District	\$ 563,069,994	4.891%	\$ 27,539,753
Sequoia Union High School District	328,635,000	11.758%	38,640,903
Belmont-Redwood Shores School District	32,384,348	4.601%	1,490,004
Belmont-Redwood Shores School Facilities Improvement District	34,965,000	8.173%	2,857,689
Belmont-Redwood Shores School Facilities Improvement District	23,115,000	0.369%	85,294
Redwood City School District	40,102,854	2.765%	1,108,844
San Carlos School District	70,571,841	95.807%	67,612,764
City of San Carlos	<u>6,405,000</u>	100%	<u>6,405,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	<u>\$ 1,099,249,037</u>		<u>\$ 145,740,251</u>
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Mateo County General Fund Obligations	\$ 473,769,816	4.891%	\$ 23,172,082
San Mateo County Board of Education Certificates of Participation	10,950,000	4.891%	535,565
Belmont-Redwood Shores School District Certificates of Participation	662,071	2.765%	18,306
Midpeninsula Regional Park District General Fund Obligations	<u>133,209,717</u>	3.929%	<u>5,233,810</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT	<u>\$ 618,591,604</u>		<u>\$ 28,959,763</u>
OVERLAPPING TAX INCREMENT DEBT (SUCCESSOR AGENCY)	\$ 13,745,000	100%	\$ 13,745,000
CITY DIRECT DEBT			\$6,405,000
TOTAL OVERLAPPING DEBT			\$ 182,040,014
COMBINED TOTAL DEBT			<u>\$ 188,445,014 (2)</u>

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

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

RATIOS TO 2013-2014 ASSESSED VALUATION:

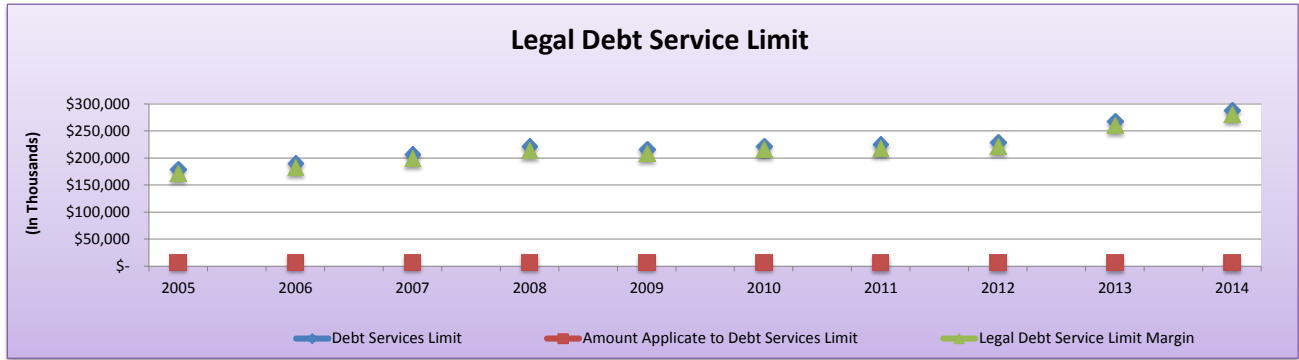
Direct Debt	0.08%
Total Gross Direct and Overlapping Tax Assessment Debt	1.90%
Combined Total Debts	2.45%

RATIOS TO REDEVELOPMENT INCREMENTAL VALUATION (\$637,200,253):

Total Overlapping Tax Increment Debt	2.16%
--------------------------------------	-------

Source: California Municipal Statistics, Inc.

CITY OF SAN CARLOS
COMPUTATION OF LEGAL BONDED DEBT MARGIN
JUNE 30, 2014



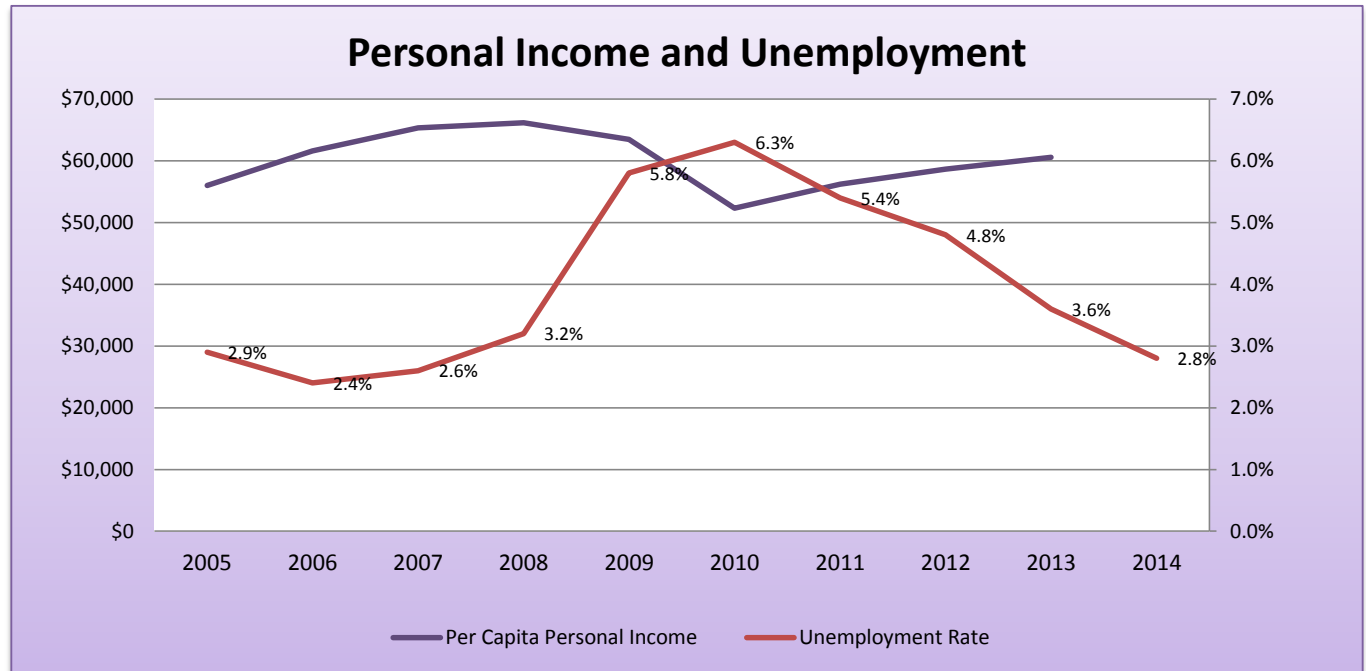
	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Secured property assessed value, net of exempt real property	4,790,023	5,108,778	5,525,277	5,925,055	5,781,085	5,940,600	5,988,768	6,085,726	7,132,596	7,678,937
Legal Debt Limit										
Debit service limit (3.75% of property assessed value)(a)	\$ 179,626	\$ 191,579	\$ 207,198	\$ 222,190	\$ 216,791	\$ 222,773	\$ 224,579	\$ 228,215	\$ 267,472	\$ 287,960
Less: amount applicable to debt service limit(b)	7,805	8,115	7,990	7,820	7,630	7,425	7,200	6,955	6,690	6,405
Legal debt margin	<u>\$ 171,821</u>	<u>\$ 183,464</u>	<u>\$ 199,208</u>	<u>\$ 214,370</u>	<u>\$ 209,161</u>	<u>\$ 215,348</u>	<u>\$ 217,379</u>	<u>\$ 221,260</u>	<u>\$ 260,782</u>	<u>\$ 281,555</u>
Total net debt applicable to the limit as a percentage of debt limit	4.54%	4.42%	4.01%	3.65%	3.65%	3.45%	3.31%	3.14%	2.57%	2.27%

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.
- (b) The amount applicable to debt service limit represents the amount of debt services payment that is the obligation of the City

Source: City Finance Department
 San Mateo County Tax Assessor's Office

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



Fiscal Year	City Population	Total Personal Income (amount express in thousands)	Per Capita Personal Income	Unemployment Rate	San Mateo County Population	City Population % of County
2005	27,882	\$ 1,562,124	\$ 56,026	2.9%	719,655	3.90%
2006	28,012	1,725,673	61,605	2.4%	724,104	3.90%
2007	28,216	1,842,850	65,312	2.6%	733,496	3.90%
2008	28,542	1,888,601	66,169	3.2%	739,469	3.90%
2009	28,829	1,830,173	63,484	5.8%	745,858	3.87%
2010	28,406	1,524,777	52,299	6.3%	754,285	3.77%
2011	28,494	1,614,668	56,223	5.4%	724,702	3.93%
2012	28,654	1,696,601	58,643	4.8%	729,443	3.93%
2013	28,931	1,769,882	60,573	3.6%	735,678	3.93%
2014	29,219	(a)	(b)	2.8%	745,193	3.92%

Data Source:

Population: California state Department of finance
 Unemployment Data: California Employment Development Department
 Income Data : ESRI - Demographic Estimates are based on the last available census.
 Demographic Data is totaled from census Block Groups that overlap the City's boundaries

Note: (a) & (b) Information is not available

CITY OF SAN CARLOS
Principal Employers
Current Year (A)

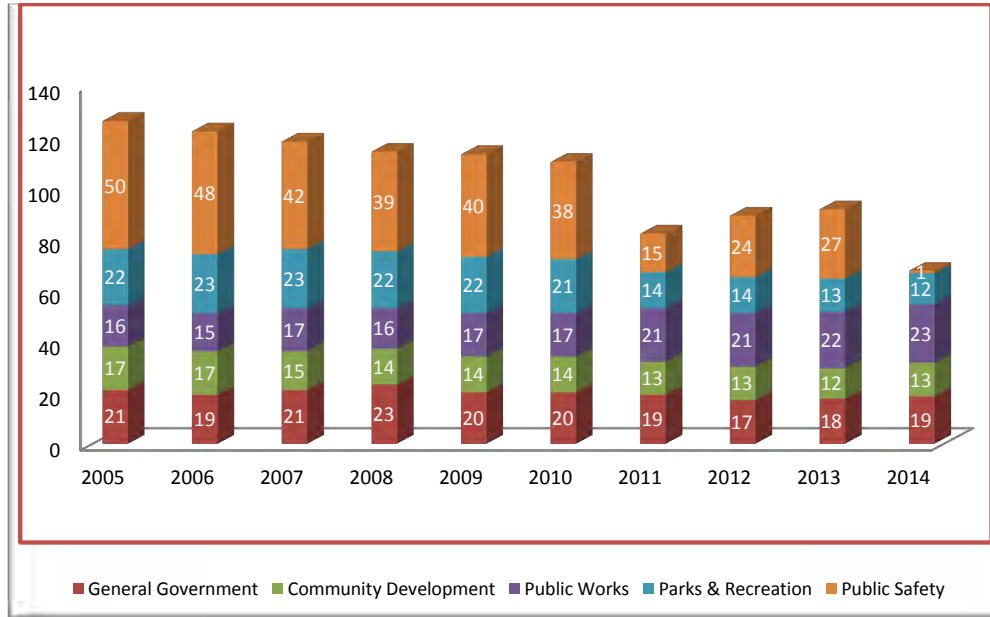
Employer	2014	
	Number of Employees	Percent of Total Employment
L-3 COMMUNICATIONS CORP	389	2.39%
PACIFIC GAS & ELECTRIC	350	2.15%
KELLY-MOORE PAINT CO INC	267	1.64%
NATERA INC	205	1.26%
DELTA STAR INC	188	1.15%
WELLS FARGO INSURANCE SERVICES	185	1.13%
NOVARTIS PHARMACEUTICALS	172	1.06%
CHECK POINT SOFTWARE TECH INC	170	1.04%
THE HOME DEPOT	165	1.01%
GEORGE P JOHNSON CO	150	0.92%
BEST BUY INC	110	0.67%
TERADATA OPERATIONS INC	97	0.60%
PARCA	95	0.58%
TRADER JOE'S	93	0.57%
NATUS MEDICAL	78	0.48%
	<u>2,714</u>	<u>16.65%</u>

"Total Employment (16,300) *" as used above represents the total employment of all employers located within City limits.

Data Source : City Business License Record
Information is not available for 2005

CITY OF SAN CARLOS

Full Time Equivalent City Government Employees by Function



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	21	19	21	23	20	20	19	17	18	19
Community Development	17	17	15	14	14	14	13	13	12	13
Public Works	16	15	17	16	17	17	21	21	22	23
Parks & Recreation	22	23	23	22	22	21	14	14	13	12
Public Safety	50	48	42	39	40	38	15	24	27	1
Total Number Employees	126	122	118	114	113	110	82	89	92	68

Source: City budget document

** On October 31, 2010, The County of San Mateo Sheriff's Office assumed law enforcement responsibilities for the City of San Carlos.

*** On October 12, 2011 the Belmont-San Carlos Fire Department disolved; and re-establishing a City of San Carlos Fire Department with Fire Command staff contracted with the City of Redwood City.

**** As of July 1, 2013 City of the Redwood provides full fire and emergency services including the transfer of fire services personnel from the City of San Carlos to City of Redwood City.

CITY OF SAN CARLOS

**Operating Indicators by Function/Program
Last Ten Fiscal Years**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function/Program										
Public safety:										
* Fire										
Fire calls for service								992	1,896	1,961
Primary fire inspections conducted								240	465	356
Police:										
Communication Center calls answered										
Police calls for Service	N/A	13,568	13,856	14,769	14,434	13,638	12,236	11,058	13,490	12,831
Law violations:										
Part I and Part II crimes	N/A	1,737	2,885	2,126	2,638	2,843	2,446	2,132	1,780	1,988
Physical arrests (adult and juvenile)	N/A	793	934	864	1,005	1,060	912	704	657	683
Traffic violations	N/A	1,041	749	1,783	2,916	4,660	3,701	2,932	3,666	3,224
Parking violations	N/A	3,594	2,922	4,698	4,357	5,103	4,573	4,533	4,558	3,609
Street										
Pavement Condition Index	65	N/A	N/A	64	64	64	67	64	64	60
Sewer										
Sewer service connections	10,880	10,900	11,050	11,061	11,192	11,309	11,309	11,335	11,355	11,107
Average daily flow (millions of gallons)	2.71	2.93	2.50	2.76	2.45	N/A	2.60	1.75	1.66	1.66
Maximum Allocated Treatment Capacity, Average Dry Weather Flow (Millions of Gallons)	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47
Maximum Allocated Treatment Capacity, Peak Wet Weather Flow (Millions of Gallons)	14.3	14.3	14.3	14.3	14.3	14.3	14.30	14.30	14.30	14.30
Culture and recreation:										
Community Services:										
Adult Registrations	5,116	5,200	4,520	4,373	3,304	3,086	2,312	2,585	2,481	2,750
Tot/Youth Registrations	9,773	9,029	7,761	9,267	7,577	6,262	6,189	7,117	7,646	7,042
Facility Rentals	68	151	60	62	94	158	185	178	189	133
Picnic Rentals	135	146	162	150	184	146	N/A *	144	166	173
Organized Play Participants	7,446	7,299	8,692	8,724	6,742	6,620	5,454	8,005	7,184	6,761
Organized Play Hours Permitted	18,775	18,085	19,640	18,326	19,329	17,228	17,368	18,611	17,212	17,046

Note: N/A denotes information not available.

Due to the Wastewater Treatment Plant had problems with its flow meters last year, the data for average daily flow is not available.

N/A* Due to the budget cut, picnic rental program halted in FY 2011, will reinstate in FY 2012

*The Belmont-San Carlos Fire Department disolved on October 12, 2011. City restablished the Fire Department in October 2011.

Information prior to the FY 2011 is not available.

Source: Various city department records

CITY OF SAN CARLOS
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Function/Program										
Public safety:										
Fire stations	2	2	2	2	2	2	2	2	2	2
Police stations	1	1	1	1	1	1	1	1	1	1
Streets										
Total Length (Miles)	87	87	87	87	87	87	87	87	87	87
Street lights	1,740	1,740	1,740	1,740	1,740	1,888	1,888	1,888	1,888	1,888
Traffic Signals	19	19	19	19	20	20	20	20	20	21
Parking Lots										
Number of City Parking Lots	4	4	4	4	4	4	4	4	4	4
Number of Public Parking Spaces	356	356	356	356	356	356	356	356	356	356
Number of Employee Permit	94	94	94	94	94	94	94	91	91	91
Wastewater										
Total Sewer Main Length (Miles)	106	106	106	106	106	106	106	104	104	104
Sewer Pump Stations	6	6	6	6	6	6	6	6	6	6
Storm water										
Catch basins/inlets	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324
Stormwater Pump Stations	3	3	3	3	3	3	3	3	3	3
Manholes	3,205	3,205	3,205	3,205	3,205	3,205	3,208	3,205	3,205	3,205
General government:										
City Hall	1	1	1	1	1	1	1	1	1	1
City Museum	1	1	1	1	1	1	1	1	1	1
Parks and recreation:										
Parks (and associated buildings)	13	13	13	13	13	13	13	13	13	13
Community centers	2	2	2	2	2	2	2	2	2	2

Source: Various city department records

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX L

**Financial Statements and Independent Auditor's Report for West Bay Sanitary District –
Fiscal Year Ended June 30, 2014**

[see attached]

[THIS PAGE INTENTIONALLY LEFT BLANK]



In reply, please refer to our
File No.

December 12, 2014

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2013 – 2014

Each year, an audit of the financial records of West Bay Sanitary District (WBSD) is completed to assure the management and board of directors is exercising its fiduciary responsibilities in maintaining your wastewater system and services.

Attached is the audit report for the fiscal year between July 1, 2013 and June 30, 2014.

We are pleased that the auditors found:

1. WBSD is in sound financial condition;
2. The accounting reports fairly reflect the financial condition of WBSD, and
3. The WBSD staff follows sound financial processes and procedures.

We welcome your comments or questions.

WBSD Board of Directors:

Ron Shepherd	President
David Walker	Secretary
Fran Dehn	Director
Roy Thiele-Sardina	Director
Ned Moritz	Treasurer

WEST BAY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014

* * *



CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

West Bay Sanitary District

Table of Contents
June 30, 2014

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements.....	11 - 24
Supplementary Information:	
Budgetary Comparison Schedule.....	25
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26 - 27



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Bay Sanitary District
Menlo Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of the West Bay Sanitary District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

September 12, 2014
San Jose, California

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2014, in conformity with the format prescribed by the provisions of Governmental Accounting Standards. The Management's Discussion and Analysis is an overview of the District's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements. Readers are encouraged to consider the information presented herein with those statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$6,021,593 or 8.3%.
- The District's operating revenue increased by \$1,527,297 or 8.5%.
- The District's operating expenses increased by \$675,736 or 5.2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain the information in the financial statements in more detail.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

NET POSITION

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1.

Table 1 - Summary of Net Position				
	2014	2013	Dollar Change	Percent Change
Assets				
Current Assets	\$ 20,126,813	\$ 13,977,214	\$ 6,149,599	44.0%
Noncurrent Assets	60,676,715	60,913,365	(236,650)	-0.4%
Total Assets	\$ 80,803,528	\$ 74,890,579	\$ 5,912,949	7.9%
Liabilities				
Current Liabilities	\$ 1,971,155	\$ 2,112,462	\$ (141,307)	-6.7%
Noncurrent Liabilities	203,207	170,544	32,663	19.2%
Total Liabilities	\$ 2,174,362	\$ 2,283,006	\$ (108,644)	-4.8%
Net Position				
Net Investment in Capital Assets	\$ 38,019,553	\$ 38,066,320	\$ (46,767)	-0.1%
Unrestricted	40,609,613	34,541,253	6,068,360	17.6%
Total Net Position	\$ 78,629,166	\$ 72,607,573	\$ 6,021,593	8.3%

As seen above, the District's total net position increased by \$6,021,593, or 8.3%, from fiscal year 2012-13 to 2013-14. The District's total current assets, which do not include capital assets, increased by \$6,149,599. Whereas, Noncurrent Assets decreased by \$236,650 due to capital spending net the loss from investment in SVCW. Total Liabilities decreased by \$108,644.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

Table 2 below summarizes the District's changes in net position for the year.

Table 2 - Change in Net Position				
	2014	2013	Dollar Change	Percent Change
Revenues				
Operating Revenue	\$ 19,517,078	\$ 17,989,781	\$ 1,527,297	8.5%
Operating Expenses				
Sewage treatment	7,179,182	6,679,537	499,645	7.5%
Sewage collection and general administration	5,340,202	5,307,520	32,682	0.6%
Depreciation	1,275,444	1,132,035	143,409	12.7%
Total Operating Expenses	13,794,828	13,119,092	675,736	5.2%
Operating Income (Loss)	5,722,250	4,870,689	851,561	17.5%
Nonoperating Revenue (Expense)	181,922	237,066	(55,144)	-23.3%
Increase (decrease) of equity in SVCW	(50,349)	(589,816)	539,467	-91.5%
Connection Fees	167,770	241,096	(73,326)	-30.4%
Change in Net Position	\$ 6,021,593	\$ 4,759,035	\$ 1,262,558	26.5%

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. Net position increased by \$6,021,593. This resulted from an increase in total revenues of \$1,527,297 (8.5%) over the prior year due primarily to a 9% increase in sewer service fees. Total operating expenses increased \$675,736, or 5.2% over the prior year.

Sewage treatment increased by 7.5% from prior year. Sewage treatment is provided by Silicon Valley Clean Water, formerly South Bayside System Authority, which was created in 1975 under a Joint exercise of Powers Agreement to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. As a member of the JPA the District is liable for its share of SVCW operating expenses. For the year ending June 30, 2014, the District's share is approximately 24%. The cost of sewage treatment increased significantly in FY2013-14 as a result of new SVCW bond and debt service for capital improvements. For FY2013-14 the District's share of SVCW bond and debt service totaled \$1,579,271 which was an increase of almost \$454,315 from the prior year.

Going forward it is anticipated that SVCW related sewage treatment expenses will rise substantially as their debt increases, whereas sewage collection and general administration expenses are expected to remain stable and generally reflect CPI increases.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

BUDGETARY HIGHLIGHTS

The District adopts an annual budget which provides for the general operations. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects. The Capital Improvement Program provides an annual forecast of capital requirements. Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2014.

Table 3 - Budget Summary				
	Budget	Actual	Variance	Percent Variance
Revenues				
Operating Revenue	\$ 19,299,600	\$ 19,517,078	\$ 217,478	1.1%
Operating Expenses				
Sewage treatment	8,775,914	7,179,182	1,596,732	22.2%
Sewage collection and general administration	5,905,817	5,340,202	565,615	10.6%
Depreciation	1,200,000	1,275,444	(75,444)	-5.9%
Total Operating Expenses	15,881,731	13,794,828	2,086,903	15.1%
Operating Income (Loss)	3,417,869	5,722,250	2,304,381	67.4%
Nonoperating Revenue	186,000	181,922	(4,078)	-2.2%
Increase (decrease) of equity in SVCW	-	(50,349)	(50,349)	100.0%
Connection Fees	50,000	167,770	117,770	235.5%
Change in Net Position	\$ 3,653,869	\$ 6,021,593	\$ 2,367,724	64.8%

The District reported \$217,478 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were \$2,086,903 less than budgeted primarily due to the timing of payments made for SVCW bond and loan debt.

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2014:

Table 4 - Capital Fund Budget Summary				
	Budget	Actual	Variance	Percent Variance
Transfer from Operations	\$ 4,593,869	\$ 7,040,832	\$ 2,446,963	53%
Capital Expenditures	(4,972,500)	(1,230,351)	3,742,149	304%
Connection Charges	50,000	167,770	117,770	236%
Interest Income	120,000	105,527	(14,473)	-12%
Capital Projects Reserve	(350,000)	(350,000)	-	0%
Emergency Capital Fund	(350,000)	(350,000)	-	0%
Change in capital Asset Fund	(908,631)	5,383,778	6,292,409	693%
Beginning Fund Balance	4,757,020	7,960,453	3,203,433	67%
Ending Fund Balance	\$ 3,848,389	\$ 13,344,231	\$ 9,495,842	247%

Actual Capital Expenditures of \$1,230,351 to replace and rehabilitate old sewer pipeline were \$3,742,149 less than budgeted and \$2,338,929 less than the prior fiscal year. The District also set aside \$350,000 for emergency capital repairs and \$350,000 for future capital projects, with plans to build the fund gradually over the next several years. As a result of favorable variances in total revenue and total expenses to budget, the District was able to transfer approximately \$2.45 million more to the Capital Asset Fund at year end which contributed to an ending Fund balance that is \$9.4 million higher than anticipated.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2014.

Table 5 - Summary of Capital Assets Net of Depreciation				
Capital Asset	2014	2013	Dollar Change	Percent Change
Land	\$ 44,467	\$ 44,467	\$ -	0.00%
Construction in Progress	1,042,501	3,457,350	(2,414,849)	-69.85%
Pump stations	3,193,701	3,247,600	(53,899)	-1.66%
Fleet	940,631	745,809	194,822	26.12%
Plant and administration facilities	208,731	260,065	(51,334)	-19.74%
Buildings	2,112,379	2,189,288	(76,909)	-3.51%
Flow equalization facilities	818,233	908,417	(90,184)	-9.93%
Subsurface lines	29,658,910	27,213,324	2,445,586	8.99%
Net Capital Assets	\$38,019,553	\$38,066,320	\$ (46,767)	-0.12%

ECONOMIC FACTORS

The District is governed in part by provisions of the California Constitution that require the District to set rates that cover only the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. As in previous years, the District has maintained operating costs by carefully managing every expense.

CONTACTING THE DISTRICT

This financial report is designed to provide a general overview of the District's Finances and demonstrate the District's accountability for the money it receives. If you have any questions about this, or any other matter related to the District, please contact the District at 500 Laurel Street, Menlo Park, CA 94025 or (650) 321-0384.

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2014
(With Comparative Totals as of June 30, 2013)

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 19,663,174	\$ 13,297,447
Accounts receivable	388,250	609,553
Interest receivable	41,084	37,633
Prepaid expenses and other current assets	34,305	32,581
Total Current Assets	<u>20,126,813</u>	<u>13,977,214</u>
Noncurrent Assets:		
Investments	4,850,801	4,990,335
Investment in Silicon Valley Clean Water	17,806,361	17,856,710
Capital assets:		
Non-depreciable	1,086,968	3,501,817
Depreciable net of accumulated depreciation	36,932,585	34,564,503
Total Capital Assets - Net	<u>38,019,553</u>	<u>38,066,320</u>
Total Noncurrent Assets - Net	<u>60,676,715</u>	<u>60,913,365</u>
Total Assets	<u>\$ 80,803,528</u>	<u>\$ 74,890,579</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 1,684,370	\$ 1,822,658
Payroll and related liabilities	8,097	4,452
Construction deposits	115,455	115,455
Compensated absences payable - current	163,233	169,897
Total Current Liabilities	<u>1,971,155</u>	<u>2,112,462</u>
Noncurrent Liabilities:		
Net OPEB obligation	77,659	57,571
Compensated absences payable - noncurrent	125,548	112,973
Total Noncurrent Liabilities	<u>203,207</u>	<u>170,544</u>
Total Liabilities	<u>\$ 2,174,362</u>	<u>\$ 2,283,006</u>
Net Position		
Net Investment in Capital Assets	\$ 38,019,553	\$ 38,066,320
Unrestricted	40,609,613	34,541,253
Total Net Position	<u>\$ 78,629,166</u>	<u>\$ 72,607,573</u>

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

West Bay Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014	2013
Operating Revenues:		
Service charges	\$ 19,297,689	\$ 17,790,248
Flow equalization uses	47,916	47,916
Permit and inspection fees and other services	73,217	66,494
Other operating revenues	98,256	85,123
Total operating revenues	<u>19,517,078</u>	<u>17,989,781</u>
Operating Expenses:		
Sewage treatment	7,179,182	6,679,537
Sewage collection and general administration:		
Salaries and benefits	3,891,057	3,714,067
Materials and supplies	329,754	397,048
Insurance	74,594	67,081
Contract services	261,129	291,449
Professional services	234,917	247,960
Repairs and maintenance	217,753	220,902
Utilities	118,175	121,299
Other operating expenses	212,823	247,714
Total sewage collection and general administration	<u>5,340,202</u>	<u>5,307,520</u>
Depreciation	1,275,444	1,132,035
Total operating expenses	<u>13,794,828</u>	<u>13,119,092</u>
Operating Income (Loss)	<u>5,722,250</u>	<u>4,870,689</u>
Nonoperating Revenues (Expenses):		
Investment income	163,222	224,231
Increase (decrease) of equity in Silicon Valley Clean Water	(50,349)	(589,816)
Other nonoperating revenues	18,700	12,835
Total nonoperating revenues (expenses)	<u>131,573</u>	<u>(352,750)</u>
Income before contributions	<u>5,853,823</u>	<u>4,517,939</u>
Capital Contributions and Special Items:		
Capital contributions - connection fees	167,770	241,096
Total contributions and special items	<u>167,770</u>	<u>241,096</u>
Change in NetPosition	6,021,593	4,759,035
Beginning Net Position	<u>72,607,573</u>	<u>67,848,538</u>
Ending Net Position	<u>\$ 78,629,166</u>	<u>\$ 72,607,573</u>

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

West Bay Sanitary District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Cash received from customers	\$ 19,738,381	\$ 17,791,817
Cash payments to suppliers for goods and services	(8,768,339)	(7,506,037)
Cash payments to employees for services	(2,709,031)	(2,564,281)
Cash payments of benefits on behalf of employees	(1,152,382)	(1,125,971)
Net Cash Provided (Used) by Operating Activities	<u>7,108,629</u>	<u>6,595,528</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees	167,770	241,096
Cash received on the sale of capital assets	-	7,565
Purchases and construction of capital assets	(1,228,677)	(3,576,846)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,060,907)</u>	<u>(3,328,185)</u>
Cash Flows from Investing Activities:		
Sales and redemption of investments	139,534	55,825
Investment income	159,771	211,406
Other income (expense)	18,700	12,835
Net Cash Provided (Used) by Investing Activities	<u>318,005</u>	<u>280,066</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,365,727	3,547,409
Cash and Cash Equivalents Beginning	<u>13,297,447</u>	<u>9,750,038</u>
Cash and Cash Equivalents Ending	<u>\$ 19,663,174</u>	<u>\$ 13,297,447</u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	\$ 5,722,250	\$ 4,870,689
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,275,444	1,132,035
Net change in:		
Accounts receivable	221,303	(197,964)
Prepaid expenses and other current assets	(1,724)	7,751
Accounts payable	(138,288)	759,202
Payroll and related liabilities	3,645	1,688
Net OPEB obligation	20,088	20,214
Compensated absences	5,911	1,913
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,108,629</u>	<u>\$ 6,595,528</u>

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

West Bay Sanitary District (District) is a political subdivision of the State of California, and was formed for the purpose of protecting water quality and the associated public health. The District is responsible for wastewater collections, treatment, reclamation and disposal. The District performs the services of wastewater collection, and together with three other public entities is part of a Joint Powers District for the treatment, disposal and reclamation of wastewater. The District is also responsible for refuse (solid waste) collection, treatment, disposal and reclamation. It franchises with other organizations to perform these refuse services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The District is accounted for as an enterprise fund because the intent of the governing body is that the cost (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Deferred outflow of resources is a consumption of net assets by the District that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by the District that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting*

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

The statement of net position is designed to display the financial position of the District. The District's net position are classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District 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.

Service Charges

Service charges are billed and collected on the District's behalf by the County of San Mateo in

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

conjunction with the County's annual property tax billings. The majority of revenues are collected through the County system with only small amounts billed directly by the District.

Connection Fees

Connection fees are reported as revenue only to the extent the amount equals the costs of the physical connection to the system.

Budgets and Budgetary Accounting

Budgets are prepared on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by the Board of Directors. Project-length financial plans are adopted for all capital projects funds.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The District participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Receivables

Receivables include amounts due from collection services and other assessments or resources. All receivables are current and reported net of an allowance for uncollectible accounts as applicable. The allowance for uncollectible accounts was zero as of June 30, 2014.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

Capital Assets

Property, plant and equipment contributed to the District are stated at estimated fair value at the time of contribution. District policy has set the capitalization threshold for reporting capital assets at \$5,000 if an asset has an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

The District has assigned the useful lives listed below to plant and equipment:

Pump Stations	5-30 years
Fleet	5-10 years
Plant and administration facilities	3-10 years
Buildings	10-30 years
Flow equalization facilities	10-30 years
Subsurface lines	10-50 years

Compensated Absences

Compensated absences include vacation leave. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Upcoming New Accounting Pronouncements

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2014 and 2013:

Cash, Cash Equivalents and Investments	Fair Value			Investment Rating
	2014	2013	Change	
Cash and Cash Equivalents:				
Cash on hand and in banks	\$ 873,208	\$ 381,286	\$ 491,922	N/A
Money market accounts	17,277,347	11,645,542	5,631,805	N/A
Bank of the West Investment Trust	497,209	257,206	240,003	See Page 17
California Local Agency Investment Fund (L.A.I.F.)	1,014,810	1,012,313	2,497	Not Rated
Petty Cash	600	1,100	(500)	N/A
Total cash and cash equivalents	19,663,174	13,297,447	6,365,727	
Investments:				
Bank of the West Investment Trust	4,850,801	4,990,335	(139,534)	See Page 17
Total Investments	4,850,801	4,990,335	(139,534)	
Total Cash, Cash Equivalents and Investments	\$ 24,513,975	\$ 18,287,782	\$ 6,226,193	

Cash Deposits

As of June 30, 2014, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by \$672,000, but had little exposure since they were collateralized as noted in the *Collateral and Categorization Requirements* disclosure on page 17. Bank balances are insured up to \$250,000 per bank by FDIC.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

Investment Policy

The District's investment guidelines as defined by its written investment policy were approved by the Board of Directors. Implementation and direction is established by an internal finance committee. Monthly, the Board ratifies the investments that have been made.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

The District's investment policy follows the California Government Code which authorizes the District to invest in the following:

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	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Local Agency Investment Fund

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2014, was approximately \$64.8 billion. The average maturity for the investment in LAIF was 280 days and the effective interest rate was .35%.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart on page 17 for the District's limitations on the amount that can be invested in any one issuer.

The following schedule summarized the District's investment maturities and concentrations with Bank of the West as of June 30, 2014:

Investment Type	Rating	Fair Value	Maturities				Concentrations
			12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months	
Municipal Bonds	A-/A3	\$ 273,598	\$ -	\$ -	\$ 273,598	\$ -	1.16%
	AA-/A2	63,479	-	63,479	-	-	0.27%
	AA/AA3	36,822	-	-	36,822	-	0.16%
	AA+/AA2	131,014	-	-	131,014	-	0.55%
	BBB-/B1	53,580	-	-	53,580	-	0.23%
Subtotal Municipal Bonds		558,493	-	63,479	495,014	-	2.36%
Corporate Bonds	A/A2	50,044	-	-	50,044	-	0.21%
	A-/A2	27,297	-	27,297	-	-	0.12%
	A/A3	162,762	162,762	-	-	-	0.69%
	A-/A3	377,783	-	-	377,783	-	1.60%
	A/BAA1	267,733	-	267,733	-	-	1.13%
	A-/BAA1	797,784	-	698,402	99,382	-	3.37%
	A-/BAA2	552,240	250,100	250,515	-	51,625	2.34%
	A/NR	122,788	-	-	-	122,788	0.52%
	A+/AA3	92,024	-	-	92,024	-	0.39%
	AA-/A2	99,460	-	-	-	99,460	0.42%
	AA-/AA2	33,278	-	-	33,278	-	0.14%
	BBB/BAA1	35,447	-	-	35,447	-	0.15%
	BBB/BAA2	254,978	-	-	254,978	-	1.08%
Subtotal Corporate Bonds		2,873,618	412,862	1,243,947	942,936	273,873	12.16%
US Agency Obligations	Govt	1,915,899	84,347	301,346	888,784	641,422	8.10%
Total BOW Investments	AAA	5,348,010	497,209	1,608,772	2,326,734	915,295	22.62%
Money Market	N/A	17,277,347	17,277,347	-	-	-	73.08%
LAIF	N/A	1,014,810	1,014,810	-	-	-	4.29%
Total Investments		\$23,640,167	\$18,789,366	\$1,608,772	\$2,326,734	\$ 915,295	100.00%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly the South Bayside System Authority, was created in 1975, under a Joint Exercise of Powers Agreement, to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. At June 30, 2014 and 2013, the District had approximately 24% equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2014 and 2013 was \$17,806,361 and \$17,856,710, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2014 and 2013 was a decrease of \$50,349 and a decrease of \$589,819, respectively, as reflected in the statement of revenues, expenses and changes in net position. SVCW's governing commission consists of four members, one appointed from each of the four participating agencies.

SVCW's condensed audited financial information is presented below for the year ended June 30, 2014, (most recent information available):

	June 30, 2014
Total Assets	\$ 230,094,531
Total Liabilities	155,718,113
Total Equity	74,376,418
Total Revenues	36,375,402
Total Expenditures	33,348,167

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

The District's capital assets consisted of the following as of June 30, 2014:

Description	Balance				Balance June 30, 2014
	June 30, 2013	Additions	Deletions	Transfers	
Non-depreciable Capital Assets:					
Land	\$ 44,467	\$ -	\$ -	\$ -	\$ 44,467
Construction in progress	3,457,350	785,818	-	(3,200,667)	1,042,501
Total non-depreciable capital assets	3,501,817	785,818	-	(3,200,667)	1,086,968
Depreciable Capital Assets:					
Pump stations	5,160,663	51,922	-	-	5,212,585
Fleet	1,680,820	328,427	(15,795)	-	1,993,452
Plant and administration facilities	1,384,851	14,533	-	-	1,399,384
Buildings	2,930,902	11,233	-	-	2,942,135
Flow equalization facilities	2,901,072	-	-	-	2,901,072
Subsurface lines	41,448,469	38,419	(3,186)	3,200,667	44,684,369
Total depreciable capital assets	55,506,777	444,534	(18,981)	3,200,667	59,132,997
Less accumulated depreciation for:					
Pump stations	(1,913,063)	(105,821)	-	-	(2,018,884)
Fleet	(935,011)	(133,605)	15,795	-	(1,052,821)
Plant and administration facilities	(1,124,786)	(65,867)	-	-	(1,190,653)
Buildings	(741,614)	(88,142)	-	-	(829,756)
Flow equalization facilities	(1,992,655)	(90,184)	-	-	(2,082,839)
Subsurface lines	(14,235,145)	(791,825)	1,511	-	(15,025,459)
Total accumulated depreciation	(20,942,274)	(1,275,444)	17,306	-	(22,200,412)
Total depreciable capital assets - net	34,564,503	(830,910)	(1,675)	3,200,667	36,932,585
Total capital assets - net	\$ 38,066,320	\$ (45,092)	\$ (1,675)	\$ -	\$ 38,019,553

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

Depreciation expense for the year ended June 30, 2014 and 2013 was \$1,275,444 and \$1,132,035, respectively.

Construction in progress consisted of the following as of June 30, 2014:

Project	Balance June 30, 2014
Fair Oaks	\$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
Sausal Vista PS	52,372
MasterPlan	302,984
GIS Map Update	40,008
FEF Metal Storage Building	24,580
Haven, Marsh, Middlefield & James	50,191
Hamilton & Village Square Generator	13,173
Eastside Triangle	42,570
Flow Monitoring Study	234,962
NPA Pipe Replace. & Burns Easement	180,355
Total Construction in Progress	\$ 1,042,501

NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2014:

Noncurrent Debt	Balance			Balance June 30, 2014	Due Within One Year
	July 01, 2013	Additions	Deductions		
Net OPEB Obligation	\$ 57,571	\$ 26,200	\$ 6,112	\$ 77,659	\$ -
Compensated Absences	282,870	5,911	-	288,781	163,233
Total Noncurrent Debt	\$ 340,441	\$ 32,111	\$ 6,112	\$ 366,440	\$ 163,233

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

NOTE 7 - BOARD COMMITMENTS OF NET POSITION

Commitments are imposed by the District's Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations have been set-aside to reserve approximately five months of operating expenses.

The Board committed the following unrestricted net position as of June 30, 2014:

Commitment	Balance
Future capital assets replacement and reserves	\$ 16,944,231
Invested in Silicon Valley Clean Water	17,806,361
Operations	5,859,021
Total Unrestricted Net Position	\$ 40,609,613

NOTE 8 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under a District-sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefits of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they are not included in these financial statements.

NOTE 9 - RISK MANAGEMENT

The District joined together with other sanitary districts in the State to form California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program. The District is insured for the costs of claims through CSRMA and commercial insurance carriers for the following:

Type of Coverage	Limits	Deductibles
General Liability	15,750,000	25,000
Employment Practices Liability	15,750,000	25,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limits	None
Mobile Equipment	767,005	2,000
Special Form Property	1,003,385	5,000
Public Official Bond	100,000	None

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2013 (most recent information available):

	June 30, 2013
Total Assets	\$ 28,340,390
Total Liabilities	16,300,058
Total Equity	12,040,332
Total Revenues	9,652,254
Total Expenditures	9,950,148

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement Systems (CalPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participant member employers. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous (all. other) Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

For the Fiscal Year 2014, the employer's required contribution rate for CalPERS was 14.083% of covered payroll. This rate was established by CalPERS to fund contracted benefits using the actuarial methods and assumptions adopted by the CalPERS Board of Administration. CalPERS may amend employee and employer contribution requirements. Additionally, the District makes a contribution toward the employee's portion of the CalPERS local miscellaneous plan as specified by the existing labor agreements with its bargaining units. During the fiscal year, the employees contributed 4.5% of their salary toward the combined required contribution of 22.1%, leaving the District's total contribution at 17.6% for 2013-14. Total contributions made by employees over the last three fiscal years ended June 30, 2014, 2013 and 2012 were \$105,953, \$71,150 and \$18,205, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the District's annual pension cost of \$519,876 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b)

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

projected annual salary increases from 3.30% to 14.20% that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3.00% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period three years.

Three Year Trend Information (Employer Portion)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$ 278,152	100%	0
6/30/13	304,062	100%	0
6/30/14	331,515	100%	0

Required Supplementary Information – Funded Status of the Plan

Valuation Date Ending June 30,	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2011	\$ 13,702	\$ 10,480	\$ 3,222	76.5%	\$ 2,140	150.6%
2012	13,996	10,072	\$ 3,924	72.0%	\$ 2,108	186.1%

** In Thousands **

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution. Eligible employees retiring at or after age 50 with a minimum of 5 years of service may opt to continue health care coverage, with a portion of the monthly premium paid for by the District. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

The District contracts with CalPERS to administer its retiree health benefit plan. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The District chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution.

Funding Policy

There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2014, the District paid approximately \$6,112 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation

The following table, based on the District's actuarial valuation dated March 1, 2013, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation:

Annual required contribution	\$ 27,200
Interest on net OPEB obligation	2,879
Adjustment to annual required contribution	(3,879)
Annual OPEB cost (expense)	26,200
Contributions made	(6,112)
Increase in net OPEB obligation	20,088
Net OPEB obligation - beginning of year	57,571
Net OPEB obligation - end of year	\$ 77,659

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2014, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 17,000	23.88%	\$ 25,561
June 30, 2013	17,500	32.59%	57,571
June 30, 2014	26,200	23.33%	77,659

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, 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 members) 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 members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the March 1, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

investment return on District investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%.

Required Supplementary Information

Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
3/1/2010	\$ -	\$ 137,900	\$ 137,900	0.00%	\$ 1,952,200	7.06%
3/1/2013	\$ -	\$ 186,100	\$ 186,100	0.00%	\$ 2,391,800	7.78%

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District is at risk to be a defendant in certain lawsuits which arise in the normal course of business. District management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the District.

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2014

	Budget Amounts	Actual (GAAP Basis)	Variance
Operating Revenues:			
Service charges	\$ 19,201,684	\$ 19,297,689	\$ 96,005
Flow equalization uses	47,916	47,916	-
Permit and inspection fees and other services	50,000	73,217	23,217
Other operating revenues	-	98,256	98,256
Total operating revenues	<u>19,299,600</u>	<u>19,517,078</u>	<u>217,478</u>
Operating Expenses:			
Sewage treatment	8,775,914	7,179,182	1,596,732
Sewage collection and general administration:			
Salaries and benefits	3,941,447	3,891,057	50,390
Materials and supplies	343,395	329,754	13,641
Insurance	92,000	74,594	17,406
Contract services	283,000	261,129	21,871
Professional services	425,350	234,917	190,433
Repairs and maintenance	258,825	217,753	41,072
Utilities	140,500	118,175	22,325
Other operating expenses	407,800	212,823	194,977
Total sewage collection and general administration	<u>5,892,317</u>	<u>5,340,202</u>	<u>552,115</u>
Depreciation	1,200,000	1,275,444	(75,444)
Total operating expenses	<u>15,868,231</u>	<u>13,794,828</u>	<u>2,073,403</u>
Operating Income (Loss)	<u>3,431,369</u>	<u>5,722,250</u>	<u>2,290,881</u>
Nonoperating Revenues (Expenses):			
Investment income	185,000	163,222	(21,778)
Increase (decrease) of equity in Silicon Valley Clean Water	-	(50,349)	(50,349)
Other nonoperating expenses	(13,500)	-	13,500
Other nonoperating revenues	1,000	18,700	17,700
Total nonoperating revenues (expenses)	<u>172,500</u>	<u>131,573</u>	<u>(40,927)</u>
Income before contributions	3,603,869	5,853,823	2,249,954
Capital Contributions	<u>50,000</u>	<u>167,770</u>	<u>117,770</u>
Change in Net Position	3,653,869	6,021,593	2,367,724
Beginning Net Position	72,607,573	72,607,573	-
Ending Net Position	<u>\$ 76,261,442</u>	<u>\$ 78,629,166</u>	<u>\$ 2,367,724</u>

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



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

To the Board of Directors
West Bay Sanitary District

We have audited, 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, the financial statements of the West Bay Sanitary District (the “District”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated September 12, 2014.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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. 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.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

September 12, 2014
San Jose, California

[THIS PAGE INTENTIONALLY LEFT BLANK]