

CITY OF LAFAYETTE
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2003
(With Auditors' Report Thereon)

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**CITY OF LAFAYETTE
CITY OFFICIALS AS OF JUNE 30, 2003**

MAYOR

Carol Federighi

Term Expires Nov 2004

CITY COUNCIL

Don Tatzin
Term Expires Nov 2006

Ivor Samson
Term Expires Nov 2006

Erlin Horn
Term Expires Nov 2004

Carl Anduri
Term Expires Nov 2004

CITY MANAGER

Steven B. Falk-13 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson- 3 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva – 13 years of service

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Management's Discussion and Analysis

INTRODUCTION

As management of the City of Lafayette (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2003

The management's discussion and analysis is designed to

- (a) assist the reader in focusing on significant financial issues,
- (b) provide an overview of the City's financial activity and any changes in financial position,
- (c) explain any material deviations from the financial plan (approved budget),
- (d) and identify any issues or concerns and the City's ability to address future challenges

Because the City recently implemented new reporting standards with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position.

OVERVIEW

This is the City's second year using the new financial reporting model known as GASB 34. The new reporting model has two distinct differences from those used in the past:

1. The financials now include as assets the City's infrastructure (e.g. roads, drains, bridges) in addition to those traditionally reported (e.g. land, buildings and equipment).
2. The new model consists of a series of financial statements that are more similar to those of the private sector.
 - The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the City as a whole and present a long-term view of the City's finances. For governmental activities, these statements show how services were financed in the short term as well as what remains for future spending.
 - Fund financial statements report the City's operations in more detail by providing information about the City's most significant funds. These are very similar to the reports we used in the past.
 - The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

- The City's net assets increased by \$4,046,293. The governmental net assets increased by \$4,073,728 and the business-type net assets (e.g. Parks & Recreation) decreased by \$27,435.
- The City's primary governmental funds reported combined ending fund balances of \$57,956,630 of which, \$12,696,971 is unreserved and available for spending at the council's discretion.
- The unreserved fund balance for the General Fund was \$7,227,628 an increase of \$784,747 compared with the prior year.
- The City's total debt increased by \$5,380,000 during the current fiscal year due primarily to Redevelopment Agency bonds issued in the amount of \$ 5,585,000. The total debt balance at year-end was \$15,115,000.
- Year over year comparison of revenues and expenses:

	2002	2003	Change
Revenues			
Property Tax	4,227,170	4,844,487	15%
Sales Tax	2,675,674	2,612,769	-2%
Franchise Fees	771,845	802,366	4%
Motor Vehicle Fee	1,453,872	1,446,059	-1%
Transient Occupancy	444,701	471,994	6%
Interest	590,248	536,401	-9%
Vehicle Fines	368,796	443,936	20%
Grants	913,849	2,220,264	143%
Fees for Service	1,507,455	1,930,217	28%
Gas Tax	460,112	460,200	0%
Other	572,361	506,177	-12%
TOTAL	\$13,986,083	\$16,274,870	16%
Expenses			
Council & Commissions	734,460	843,670	15%
Police	2,240,080	2,578,029	15%
Public Works / Infrastructure	3,710,147	3,728,014	0%
Planning & Engineering	1,496,711	1,684,014	13%
Administration	1,970,185	1,557,395	-21%
Debt Service	404,136	958,087	137%
Other	-	10,340	N/A
Recreation Programs	814,700	869,028	7%
TOTAL	\$11,370,419	\$12,228,577	8%

- ✓ Fees for service increased dramatically by over \$400,000 due primarily to the new flat fee schedule for Planning & Engineering fees.

- ✓ Council and Commission expenses increased due to a greater subsidy for the library as well as increased staff time devoted to the Design Review and Planning Commissions.
- ✓ Police expenses increased due to both increases in County expenses as well as the reclassification of Supplemental Law Enforcement expenses previously reported under Administration. Likewise, Administration expenses decreased because of this reclassification.
- ✓ Planning & Engineering expenses increased due to a reclassification of expenses for Capital and Redevelopment Projects previously reported under Administration, and thus Administration expenses decreased as a result

THE CITY AS A WHOLE

One of the most important questions often asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The *Statement of Net Assets* and the *Statement of Activities* report information about the City as a whole in a way that helps answer this question.

Looking at the City's net assets—the difference between assets and liabilities—is one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and the condition of the City's roads, must also be considered.

In the *Statement of Net Assets* and the *Statement of Activities*, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including police, general administration, public works, planning and community development. Sales taxes, property taxes, vehicle license fees, franchise fees, and vehicular fines finance most of these activities.
- Business-type activities—For certain programs, the City charges fees to help cover most or all of the cost of certain services it provides. Only the City's Park and Recreation program is reported here.

STATEMENT OF NET ASSETS

Year Ended June 30, 2003	Governmental Activities	Business Activities	Total
Beginning Net Assets	\$53,925,450	(15,113)	\$53,910,337
Increase/Decrease	4,073,728	(27,435)	4,046,293
Ending Net Assets	\$57,999,178	(\$42,548)	\$57,956,630

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. The detailed *Statement of Net Assets* on page 2 of the financial report shows two significant things pointing to the overall health of the City:

1. The City's net assets increased by 7.51 % from prior year
2. Assets exceeded liabilities by \$57,956,630 at year-end

71 % of the City's net assets (\$41,338,890) are invested in capital assets (i.e., land, buildings, utility plants, machinery and equipment) and are reported net of related debt. However, since capital assets are used to provide services to citizens, they cannot be used to liquidate liabilities therefore, it should be noted that the money needed to repay debt must be provided from other sources.

STATEMENT OF ACTIVITIES

Governmental Activities

The *Statement of Activities* can be found on page 3 of the financial statement report. The new format is significantly different from the typical *Statement of Revenues, Expenses, and Changes in Fund Balances* that we have seen in the past.

In this table, you will notice that expenses are listed in combination with the revenue for each particular program. This format shows how much of each program is funded through fees and/or grants and highlights the relative financial burden of each program for the City's taxpayers. Since total expenses minus revenues show a negative \$8,078,096 the remainder must be funded out of general revenues. This year, the City received general revenues of \$12,124,389 -- \$4,046,293 more than what was necessary to cover expenses, thus resulting in an increase in net assets.

Business-Type Activities

The City reports only one program, Parks & Recreation, as a business-type activity since it is expected to be fully self-supporting through fees, donations, gifts and grants. This year, that program showed a deficit of \$27,435, thus decreasing the City's net assets by an equal amount. This is the second year in a row that this enterprise fund has shown a deficit.

Page 9 of the financial report shows that the deficit was due primarily to higher than budgeted personnel and contractual expenses (\$76,423), which were partially offset by higher than expected revenues.

Taken together, the increase from governmental activities and the decrease in business-type activities resulted in a net increase in assets of \$4,046,293.

SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help control and manage money for particular purposes (e.g. Capital Project Funds) or to meet the legal responsibilities for using certain taxes and federal or state grants.

- **Governmental funds**—The governmental fund statements provide a detailed short-term view of the City’s general operations and the basic services it provides. Governmental fund information helps determine what financial resources are available in the near future to finance the City’s programs. The relationship between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled at the bottom of the fund financial statements.
- **Proprietary funds**—These funds make up the business-type activities reported in the *Statement of Net Assets* and the *Statement of Activities* but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - The City is the trustee, or fiduciary, for the bond funds. All of the City’s fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets* on page 11. 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.

FINANCIAL ANALYSIS

Governmental Funds

In analyzing the City’s governmental funds, the unreserved fund balances serve as a useful measure of the available resources.

As of the fiscal year ended June 30, 2003, the City’s governmental funds reported combined ending fund balances of \$24,955,267 -- an increase of \$5,172,382 in comparison to the prior year. Approximately 71 % of these funds are considered reserved, which means that they have already been committed to specific programs. The remaining funds are undesignated, which means that they are available for spending at the council’s discretion.

Capital Assets

The City’s investment in capital assets as of June 30, 2003 totaled \$ 48,952,145 (net of accumulated depreciation of \$38,483,403), which represents an increase of \$4,549,945 over the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and bridges. The fixed assets summary can be found on page 27 of the financial statement.

Major capital asset additions during the current fiscal year include:

- The Community Center Footbridge
- The 711 St Mary’s Road Park Renovation Design
- 2002 Pavement Management Project
- The Pipe Lining Rehabilitation

Long Term Debt

At the end of the current fiscal year, the City had a \$15,333,496 in long-term debt, which included \$218,496 in accrued vacations and leave. This compares with \$10,035,271 last year --

a 53 % increase. The increase is due primarily to the issuance of Redevelopment bonds totaling \$5,585,000, which will be used to finance the construction of the new Veteran's Hall.

STRENGTHS & RISKS

General Fund

The general fund is the primary operating fund of the City. At June 30, 2003, the undesignated fund balance was \$7,227,628, an increase of \$2,156,560 over the prior year. The City's policy is to maintain a cash reserve of 50% of general fund expenditures. The year-end general fund balance represents over 100% of the general fund expenditures, which means that the City is in a very strong position and could cover at least an entire year of expenses without revenue.

Expenses

As a limited service City, Lafayette is able to keep its operating expenses relatively low and permanent employees at a minimum. The major expenses for the City are Police Services -- which are contracted through the County and account for more than 1/3 of the General Fund Expenses -- and Capital Improvements.

Over the last 5 years, the City has been able to significantly improve the condition of most of the City's major thoroughfares and arterials. In order to maintain this investment, the City's General Fund contributes approximately \$1 million each year to the Pavement Management Program (PMP). However, the Capital Improvement program for roads and drains still has a deficit of \$25 million over the next 5 years. Without an additional source of revenue, either from a bond measure, assessment tax or parcel tax, many of the City's residential streets will never be repaired. Furthermore, those streets that are currently in good condition will deteriorate. Developing a new funding source for street maintenance should be one of the Council's most important goals.

Another potential risk is Core Area Maintenance. The City has spent a significant amount of money over the last several years improving the downtown area by replacing streetlights and installing medians and landscaping. Although the current Core Area Assessment Tax pays for a portion of these expenses, there has been a deficit of over \$160,000 in this fund for each of the last three years and this deficit will increase over time as expenses multiply but revenue remains flat. An increase in the tax would require a 2/3 vote.

Revenue

Property Tax and Assessments is the largest revenue source at the City. Incorporated in 1968, the City did not levy a property tax prior to 1978 when Proposition 13 was adopted; consequently, it receives a relatively low share of the property tax under the statutory formula. Under legislation adopted in 1988, some relief has been granted to cities in similar circumstances; however, property tax collections continue to be below what other cities collect. Currently the City receives approximately 6.18% of the property taxes paid by its residents, compared to an average of 9.08% for other cities in Contra Costa.

However, the property tax base remains very healthy and growing, due in large part to increases in California home values and low interest rates. Assessed values in the City increased 7 % from

\$3,231,028,297 in 2001/2002 to \$3,465,158,687 in fiscal year 2002/2003, thus increasing property tax revenue 15 % from \$4,227,170 to \$4,844,487.

Sales Tax is the second most important revenue source of the City. Sales tax revenue decreased by less than 2% during the year, from \$2,675,674, to \$2,612,769 due primarily to the weakening economy. However, because Lafayette has a relatively small retail base dominated by “daily needs” service businesses, fluctuations in sales tax, both positive and negative, are less severe than other cities that rely more heavily on big box, mall or auto retailers for their sales tax revenue.

Vehicle License Fees (VLF) are the third largest source of revenue for the City. The State imposes an annual vehicle license fee (VLF) on the ownership of each registered vehicle in California, in place of taxing vehicles as personal property. The City received \$1,446,059 in VLF revenues in 2002-2003 and has budgeted \$ 1.2 million in 2002-2003. As part of the State’s Budget Act, the VLF was permanently cut by 67.5%. Cities and counties continue to receive the same amount of revenues as they did prior to the reduction, with the difference being “back-filled” by the State. This fee, however, is currently at risk as the various state legislators, including the new Governor, have threatened to repeal it statewide. It is unknown at this time whether or not local governments would be compensated for this loss from some other revenue source. If not, there would be serious consequences to both public safety and the City’s aggressive new public works projects repair program.

Opportunities for increasing revenue are limited. While the City may increase its fees for service to more closely match the expenses, any additional taxes – such as a utility tax, bond tax, parcel tax or assessment district tax -- must be passed by a 2/3 vote of the citizens, which may be difficult given the current state of the economy.

Request for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any information provided in this report or request for addition financial information should be directed to:

City of Lafayette
Finance Department
3675 Mt Diablo Blvd
Lafayette, Ca 94549

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor,
City Council and City Manager
City of Lafayette, California

We have audited the accompanying basic financial statements of the City of Lafayette, California as of June 30, 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2003, and the results of its operations and the cash flows of the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statements of the City, taken as a whole. The "Other Supplementary Information" listed in the Table of Contents are presented for additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, they are fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and therefore express no opinion thereon.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

October 10, 2003

CITY OF LAFAYETTE
Statement of Net Assets
June 30, 2003

Statement 1

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash deposits and investments	\$ 20,413,058	\$ 235,929	\$ 20,648,987
Accounts receivable	2,121,547	-	2,121,547
Notes receivable	458,525	-	458,525
Accrued interest receivable	102,111	760	102,871
Prepaid assets	240,579	26,888	267,467
Other assets	85,543	-	85,543
Restricted Assets-debt service:			
Cash deposits and investments	3,892,515	-	3,892,515
Accrued interest	29,923	-	29,923
Capital Assets, net of accumulated depreciation			
Land, easements & right of way	8,589,850	-	8,589,850
Land improvements	1,158,734	-	1,158,734
Buildings & improvements	881,869	-	881,869
Infrastructure	33,309,562	-	33,309,562
Equipment & Furniture	343,204	-	343,204
Construction in progress	4,668,926	-	4,668,926
	48,952,145	-	48,952,145
Total assets	\$ 76,295,946	\$ 263,577	\$ 76,559,523
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 1,849,219	\$ 8,638	\$ 1,857,857
Accrued interest payable	369,738	-	369,738
Refundable deposits	525,738	4,858	530,596
Deferred revenue	13,577	292,629	306,206
Bonds payable-current	205,000	-	205,000
Noncurrent Liabilities:			
Accrued compensated absences	218,496	-	218,496
Bonds payable	15,115,000	-	15,115,000
Total liabilities	18,296,768	306,125	18,602,893
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	41,338,890	-	41,338,890
Restricted for:			
Debt service	3,072,016	-	3,072,016
Low/moderate income housing	848,753	-	848,753
Unrestricted	12,739,519	(42,548)	12,696,971
Total net assets	57,999,178	(42,548)	57,956,630
Total liabilities and net assets	\$ 76,295,946	\$ 263,577	\$ 76,559,523

The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Statement of Activities
For the Year Ended June 30, 2003

Statement 2

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
<i>Governmental Activities:</i>							
City council, commissions & community support	\$ 843,670	\$ -	\$ -	\$ -	\$ (843,670)	\$ -	\$ (843,670)
Administration	1,557,395	-	-	-	(1,557,395)	-	(1,557,395)
Police services	2,578,029	90,319	100,000	-	(2,387,710)	-	(2,387,710)
Public works	1,866,616	201,565	-	2,120,264	455,213	-	455,213
Infrastructure - depreciation	1,861,398	-	-	-	(1,861,398)	-	(1,861,398)
Planning & engineering	1,684,014	786,013	-	-	(898,001)	-	(898,001)
Interest & debt charges	958,087	-	-	-	(958,087)	-	(958,087)
Other	10,340	-	-	-	(10,340)	-	(10,340)
Total governmental activities	<u>11,359,549</u>	<u>1,077,897</u>	<u>100,000</u>	<u>2,120,264</u>	<u>(8,061,388)</u>	<u>-</u>	<u>(8,061,388)</u>
<i>Business Type Activities:</i>							
Recreation programs	869,028	852,320	-	-	-	(16,708)	(16,708)
Total primary government	<u>12,228,577</u>	<u>1,930,217</u>	<u>100,000</u>	<u>2,120,264</u>	<u>(8,061,388)</u>	<u>(16,708)</u>	<u>(8,078,096)</u>
<i>General revenues:</i>							
Property tax and Assessments					4,844,487	-	4,844,487
Sales taxes					2,612,769	-	2,612,769
Franchise taxes					802,366	-	802,366
Transient occupancy tax					471,994	-	471,994
Vehicle code fines					443,936	-	443,936
Motor vehicle in lieu tax					1,446,059	-	1,446,059
Gas Tax					460,200	-	460,200
Transfer tax					184,866	-	184,866
Business registrations					32,917	-	32,917
Parking revenues					199,774	-	199,774
Interest					533,840	2,561	536,401
Other					198,077	6,712	204,789
Transfers to Enterprise and Fiduciary Fund, net					(96,169)	(20,000)	(116,169)
					<u>12,135,116</u>	<u>(10,727)</u>	<u>12,124,389</u>
Change in net assets					4,073,728	(27,435)	4,046,293
Net assets at beginning of year					<u>53,925,450</u>	<u>(15,113)</u>	<u>53,910,337</u>
Net assets at end of year					<u>\$ 57,999,178</u>	<u>\$ (42,548)</u>	<u>\$ 57,956,630</u>

The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2003

ASSETS	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Funds	Other Governmental Funds
Cash and cash equivalents	\$ 8,112,413	\$ 5,241,611	\$ 5,212,060	\$ -	\$ 1,846,974
Accounts receivable	725,366	999,140	-	-	397,041
Notes Receivable	-	458,525	-	-	671,415
Accrued interest receivable	31,022	35,788	24,030	-	11,271
Prepaid expenses	229,120	4,599	574	-	6,286
Due from other funds	1,283,865	-	-	-	-
Other assets	85,543	-	-	-	-
Restricted Assets:					
Cash deposits and investments	-	-	1,247,631	2,644,884	-
Accrued interest receivable	-	-	3,142	26,781	-
Total assets	<u>\$ 10,467,329</u>	<u>\$ 6,739,663</u>	<u>\$ 6,487,437</u>	<u>\$ 2,671,665</u>	<u>\$ 2,932,987</u>
 <u>LIABILITIES AND NET ASSETS</u>					
<u>Liabilities</u>					
Accounts payable and accrued expenses	\$ 735,913	\$ 859,585	\$ 142,925	\$ 1,670	\$ 88,126
Claims payable	21,000	-	-	-	-
Loan payable	-	-	671,415	-	-
Refundable deposits	525,426	312	-	-	-
Deferred revenue	17	-	-	-	13,560
Due to other funds	-	-	1,283,865	-	-
Total liabilities	<u>1,282,356</u>	<u>859,897</u>	<u>2,098,205</u>	<u>1,670</u>	<u>101,686</u>
 <u>Net Assets</u>					
Restricted for:					
Debt service	-	-	402,021	2,669,995	-
Low/moderate income housing	-	-	848,753	-	-
Unrestricted:					
Designated for:					
Capital projects	-	789,858	-	-	-
Shared equity	70,500	-	-	-	-
Insurance	250,000	-	-	-	-
Skatepark	147,980	-	-	-	-
Redevelopment	1,283,865	-	-	-	-
Other	205,000	5,089,908	3,138,458	-	2,831,301
Undesignated	<u>7,227,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>9,184,973</u>	<u>5,879,766</u>	<u>4,389,232</u>	<u>2,669,995</u>	<u>2,831,301</u>
Total liabilities and net assets	<u>\$ 10,467,329</u>	<u>\$ 6,739,663</u>	<u>\$ 6,487,437</u>	<u>\$ 2,671,665</u>	<u>\$ 2,932,987</u>

The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2003

<table border="0" style="width: 100%;"> <tr><td style="text-align: center;">Total Governmental Funds</td></tr> <tr><td style="border-top: 1px solid black;">\$ 20,413,058</td></tr> <tr><td style="padding-left: 20px;">2,121,547</td></tr> <tr><td style="padding-left: 20px;">1,129,940</td></tr> <tr><td style="padding-left: 20px;">102,111</td></tr> <tr><td style="padding-left: 20px;">240,579</td></tr> <tr><td style="padding-left: 20px;">1,283,865</td></tr> <tr><td style="padding-left: 20px;">85,543</td></tr> <tr><td style="padding-left: 40px;">3,892,515</td></tr> <tr><td style="padding-left: 40px;">29,923</td></tr> <tr><td style="border-top: 1px solid black; padding-top: 2px;">\$ 29,299,081</td></tr> <tr><td style="padding-top: 20px;">\$ 1,828,219</td></tr> <tr><td style="padding-left: 20px;">21,000</td></tr> <tr><td style="padding-left: 20px;">671,415</td></tr> <tr><td style="padding-left: 20px;">525,738</td></tr> <tr><td style="padding-left: 20px;">13,577</td></tr> <tr><td style="padding-left: 20px;">1,283,865</td></tr> <tr><td style="border-top: 1px solid black; padding-top: 2px;">4,343,814</td></tr> <tr><td style="padding-top: 20px;">3,072,016</td></tr> <tr><td style="padding-left: 20px;">848,753</td></tr> <tr><td style="padding-left: 40px;">789,858</td></tr> <tr><td style="padding-left: 40px;">70,500</td></tr> <tr><td style="padding-left: 40px;">250,000</td></tr> <tr><td style="padding-left: 40px;">147,980</td></tr> <tr><td style="padding-left: 40px;">1,283,865</td></tr> <tr><td style="padding-left: 40px;">11,264,667</td></tr> <tr><td style="padding-left: 40px;">7,227,628</td></tr> <tr><td style="border-top: 1px solid black; padding-top: 2px;">24,955,267</td></tr> <tr><td style="border-top: 1px solid black; padding-top: 2px;">\$ 29,299,081</td></tr> </table>	Total Governmental Funds	\$ 20,413,058	2,121,547	1,129,940	102,111	240,579	1,283,865	85,543	3,892,515	29,923	\$ 29,299,081	\$ 1,828,219	21,000	671,415	525,738	13,577	1,283,865	4,343,814	3,072,016	848,753	789,858	70,500	250,000	147,980	1,283,865	11,264,667	7,227,628	24,955,267	\$ 29,299,081	<p style="text-align: right; margin-right: 20px;">↓</p> <table border="0" style="width: 100%;"> <tr><td style="width: 80%;">Total fund balances per Governmental Funds Balance Sheet</td><td style="width: 10%;"></td><td style="width: 10%; text-align: right;"><u>\$ 24,955,267</u></td></tr> <tr><td colspan="3" style="padding-top: 20px;">Capital assets expensed for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation</td></tr> <tr><td></td><td></td><td style="text-align: right;">48,952,145</td></tr> <tr><td colspan="3" style="padding-top: 20px;">Bonds Payable are reflected in the Statement of Net Assets as liabilities, while being recognized as proceeds for governmental purposes. That is financing revenue in the year received for "governmental fund" purposes.</td></tr> <tr><td></td><td></td><td style="text-align: right;">(15,320,000)</td></tr> <tr><td colspan="3" style="padding-top: 20px;">Accrued interest and accrued compensated absences are recognized as liabilities in the Statement of Net Assets. For governmental purposes interest is recorded when due, not when incurred.</td></tr> <tr><td style="padding-left: 40px;">Accrued interest payable</td><td style="text-align: right;">\$ 369,738</td><td></td></tr> <tr><td style="padding-left: 40px;">Accrued compensated absences</td><td style="text-align: right;"><u>218,496</u></td><td></td></tr> <tr><td></td><td></td><td style="text-align: right;"><u>\$ 588,234</u></td></tr> <tr><td style="text-align: center; padding-top: 20px;">Subtotal</td><td></td><td style="text-align: right;"><u>33,043,911</u></td></tr> <tr><td colspan="3" style="padding-top: 20px;">Total assets per Statement of Net Assets</td></tr> <tr><td></td><td></td><td style="text-align: right;"><u>\$ 57,999,178</u></td></tr> </table>	Total fund balances per Governmental Funds Balance Sheet		<u>\$ 24,955,267</u>	Capital assets expensed for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation					48,952,145	Bonds Payable are reflected in the Statement of Net Assets as liabilities, while being recognized as proceeds for governmental purposes. That is financing revenue in the year received for "governmental fund" purposes.					(15,320,000)	Accrued interest and accrued compensated absences are recognized as liabilities in the Statement of Net Assets. For governmental purposes interest is recorded when due, not when incurred.			Accrued interest payable	\$ 369,738		Accrued compensated absences	<u>218,496</u>				<u>\$ 588,234</u>	Subtotal		<u>33,043,911</u>	Total assets per Statement of Net Assets					<u>\$ 57,999,178</u>
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The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Statement of Revenues, Expenditures, and
Changes in Fund Balances - All Governmental Funds
For the Year Ended June 30, 2003

Revenues	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Fund
Property tax and assessments	\$ 2,258,495	\$ -	\$ 1,185,234	\$ 772,742
Sales and use tax (including Measure C)	2,255,221	-	-	-
Transient lodging tax	471,994	-	-	-
Franchise tax	802,366	-	-	-
Real property transfer tax	184,866	-	-	-
Vehicle code fines	211,814	-	-	-
Interest income	253,323	134,541	108,634	94,364
Motor vehicle in lieu tax	1,446,059	-	-	-
Grants - federal	-	1,340,700	-	-
Grants - state and local	19,042	760,522	-	-
Planning, permits and engineering	763,050	-	-	-
Gas tax	-	-	-	-
Drainage impact fees	-	22,963	-	-
Business registration fees	32,917	-	-	-
Park dedication fees	-	200,265	-	-
Walkway fees	-	1,300	-	-
Parking revenue and fees	-	-	-	-
Police	76,706	-	-	-
Abandoned vehicles	-	-	-	-
Other	98,172	93,762	5,893	-
Total	<u>8,874,025</u>	<u>2,554,053</u>	<u>1,299,761</u>	<u>867,106</u>
Expenditures				
City council, commissions, and community support	843,670	-	-	-
Police services	2,267,491	-	-	-
Public works	1,320,033	-	-	-
Planning and engineering	606,308	511,258	558,648	-
Administration	1,109,717	-	77,403	-
Capital projects	-	5,665,720	753,270	-
Debt service -				
Principal	-	-	-	110,000
Interest and charges	-	-	297,015	504,591
Rent and other expenses	106,618	-	-	-
Insurance and claims	(94,780)	-	-	-
Total expenditures	<u>6,159,057</u>	<u>6,176,978</u>	<u>1,686,336</u>	<u>614,591</u>
Excess (deficiency) of revenues over expenditures	2,714,968	(3,622,925)	(386,575)	252,515
Other financing sources				
General obligations bonds issued	-	-	5,585,000	-
Bond issuance costs	-	-	(174,255)	-
Operating transfers - in	456,922	4,370,925	-	-
Operating transfers - out	(2,387,143)	(1,593,353)	(158,220)	(40,277)
Excess (deficiency) of revenues over expenditures, net of other financing sources	784,747	(845,353)	4,865,950	212,238
Beginning fund balance	<u>8,400,226</u>	<u>6,725,119</u>	<u>(476,718)</u>	<u>2,457,757</u>
Ending fund balance	<u>\$ 9,184,973</u>	<u>\$ 5,879,766</u>	<u>\$ 4,389,232</u>	<u>\$ 2,669,995</u>

The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Statement of Revenues, Expenditures, and
Changes in Fund Balances - All Governmental Funds
For the Year Ended June 30, 2003

Statement 4

Other Governmental Funds	Total Governmental Funds
\$ 628,016	\$ 4,844,487
357,548	2,612,769
-	471,994
-	802,366
-	184,866
232,122	443,936
106,126	696,988
-	1,446,059
-	1,340,700
100,000	879,564
-	763,050
460,200	460,200
-	22,963
-	32,917
-	200,265
-	1,300
199,774	199,774
-	76,706
13,613	13,613
250	198,077
<u>2,097,649</u>	<u>15,692,594</u>
-	843,670
244,976	2,512,467
628,622	1,948,655
-	1,676,214
324,227	1,511,347
-	6,418,990
-	-
-	110,000
-	801,606
-	106,618
-	(94,780)
<u>1,197,825</u>	<u>15,834,787</u>
899,824	(142,193)
-	5,585,000
-	(174,255)
344,977	5,172,824
(1,090,000)	(5,268,993)
154,801	5,172,383
<u>2,676,500</u>	<u>19,782,884</u>
<u>\$ 2,831,301</u>	<u>\$ 24,955,267</u>

Amounts reported to governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds \$ 5,172,383

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful life and reported as depreciation expense.

Cost of capital assets	\$ 6,504,689	
Depreciation expense	<u>(1,954,744)</u>	
	\$ 4,549,945	4,549,945

The issuance of long-term debt provides financial resources to governmental funds while principal repayments constitute the use of current financial resources of governmental funds. Neither transaction affects net assets.

Eliminate bond proceeds from revenue	\$ (5,585,000)	
Principal reduction applied to liability	<u>110,000</u>	
	\$ (5,475,000)	(5,475,000)

Increase in accrued compensated absences previously classified in long-term debt fund constitute an expense (28,225)

Increase in accrued interest liability previously recognized as paid constitutes an expense		<u>(145,375)</u>
Subtotal		<u>(1,098,655)</u>

Total assets per Statement of Net Assets \$ 4,073,728

The notes to the financial statements are an integral part of this statement

CITY OF LAFAYETTE
Statement of Net Assets
Business Fund Type
Recreation Programs
June 30, 2003

Statement 5

ASSETS

Current Assets:

Cash and cash equivalents	\$ 235,929
Accounts receivable	-
Accrued interest receivable	760
Prepaid expenses	<u>26,888</u>
Total assets	<u>\$ 263,577</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$ 8,638
Refundable deposits	4,858
Deferred revenue	<u>292,629</u>
Total liabilities	<u>306,125</u>

NET ASSETS

Unrestricted (deficit)	<u>(42,548)</u>
Total net assets	<u>(42,548)</u>
Total liabilities and net assets	<u>\$ 263,577</u>

The accompanying notes are an integral part of these financial statements

CITY OF LAFAYETTE
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Business Fund Type
Budget and Actual
For the Year Ended June 30, 2003

Statement 6

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Recreation Programs				
Operating revenues				
Recreation fees	\$ 738,900	\$ 805,388	\$ 819,044	\$ 13,656
Building rentals	30,000	30,000	33,276	3,276
Interest	8,000	8,000	2,561	(5,439)
Other	-	-	6,712	6,712
Total	<u>776,900</u>	<u>843,388</u>	<u>861,593</u>	<u>18,205</u>
Operating expenses				
Personnel services	400,987	403,782	407,611	(3,829)
Maintenance	8,000	8,000	8,573	(573)
Contractual services	230,000	230,000	319,984	(89,984)
Printing and supplies	94,800	94,800	96,842	(2,042)
Utilities	4,800	4,800	4,078	722
Rental expense	20,000	20,000	22,290	(2,290)
Capital expenditures	3,000	3,000	2,085	915
Other	7,900	7,900	7,565	335
Total	<u>769,487</u>	<u>772,282</u>	<u>869,028</u>	<u>(96,746)</u>
Operating income	7,413	71,106	(7,435)	(78,541)
Operating transfers - in	5,000	5,000	5,000	-
Operating transfers - out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net income and operating transfers	(12,587)	51,106	(27,435)	(78,541)
Beginning retained earnings	<u>(15,113)</u>	<u>(15,113)</u>	<u>(15,113)</u>	<u>-</u>
Ending retained earnings	<u>\$ (27,700)</u>	<u>\$ 35,993</u>	<u>\$ (42,548)</u>	<u>\$ (78,541)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LAFAYETTE
Statement of Cash Flows
Business Fund Type
Recreation Programs
For the Year Ended June 30, 2003

Statement 7

Cash flows from operating activities

Operating income (before operating transfers)	\$	(7,435)
Adjustments to reconcile net income to net cash from operating activities		
(Increase) decrease in assets		
Accounts receivable and accrued interest		3,075
Prepaid expenses		18,947
Increase (decrease) in liabilities		
Accounts payable		6,052
Refundable deposits and deferred revenue		<u>2,413</u>
Net cash provided by operating activities		<u>23,052</u>
Cash flows from noncapital financing activities		
Net transfers to General Fund		<u>(20,000)</u>
Net increase in cash deposits and investments		3,052
Cash deposits and investments at beginning of year		<u>232,877</u>
Cash deposits and investments at end of year	\$	<u><u>235,929</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LAFAYETTE
Statement of Net Assets
Fiduciary Fund
Northridge Assessment District - Debt Service Fund
June 30, 2003

Statement 8

ASSETS

Cash deposits	\$ 38,987
Accrued interest receivable	539
Prepaid Expenses	<u>15,769</u>
Total assets	<u>55,295</u>

LIABILITIES \$ 750

NET ASSETS \$ 54,545

The notes to financial statements are an integral part of these financial statements

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CITY OF LAFAYETTE
Notes to Basic Financial Statements
June 30, 2003
Index

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

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- B. Deposits and Investments Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants
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- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Accounts Payable
- F. Long-term Debt
- G. Interfund Transactions and Balances
- H. Fund Equity

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- B. Risk Management
- C. Commitments and Contingencies
- D. Subsequent Events

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2003, the City implemented the new financial reporting requirements of GASB Statement Nos. 34. As a result, an entirely new financial presentation format has been implemented.

1.A. Financial Reporting Entity

The financial statements of the City of Lafayette (the "City") include all the City's financial activities over which the City council exercises oversight responsibility. Oversight responsibility is determined on the basis of budget adoption, taxing authority, funding and appointment of the governing board (i.e., - all funds and entities for which the City council is financially accountable). As a result, the basic financial statements include the financial activities of the City as well as the City's Redevelopment Agency.

Financial statements for the Lafayette Community Center Foundation and the Lamorinda School Bus Transportation Agency are not included, as they are administered by boards separate from the City council. These entities determine their own budget, enter into contracts, have the legal right to sue and be sued, and acquire and dispose of property.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation i.e. The Lafayette Redevelopment Agency.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

Blended component unit - Redevelopment Agency

The Redevelopment Agency (the Agency) is a separate agency of the City of Lafayette (the City) that carries out the Redevelopment Plan of the City and is the only unit blended in the reporting activity types of the City's report.

The Redevelopment Plan sets forth a legal framework and a broad policy framework for the activities of the City. The primary purpose and objective of the Redevelopment Plan is to stimulate and encourage the revitalization the Project Area, to eliminate conditions of blight and to prevent the recurrence of blighting conditions, which shall be accomplished subject to and consistent with the goals and policies established by the General Plan of the City. The Redevelopment Plan has been approved by the City of Lafayette Redevelopment Agency, pursuant to the California Community Redevelopment Law of the State of California, and applicable laws and ordinances.

The Redevelopment Fund includes separate accounting funds for low-income housing, library project and veteran's hall. The Redevelopment Agency had a combined negative fund balance of \$567,238 (see note 2.E.). Financing is accomplished by means of interfund loans from the General Fund of \$1,283,865 (at 8% interest), a loan with an outstanding balance of \$671,415 from another fund of the City being paid over a period of 21 years with interest at 8%, and tax allocation bonds outstanding of \$5,585,000. This deficit, as well as debt service, will be decreased in future periods from Redevelopment incremental tax allocation revenues.

1.B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary (business type), and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The funds of the financial reporting entity are described below:

Governmental funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. All Special Revenue Funds of the City are categorized as "Other Governmental Funds" since they do not meet the criteria individually as a major fund.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund and other fund sources.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the city. Ad valorem taxes are used for the payment of principal and interest.

Proprietary fund

Enterprise (Business Type) Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's only proprietary fund (business-type) is that of the "Recreation Programs."

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

Fiduciary funds (not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of the results of operations. The agency funds consist of two assessment district funds established to collect assessments and pay the holders of the debt instruments as payments become due. At June 30, 2003, the agency funds had accumulated fund balances of \$54,545 available to pay obligation of the assessment districts. The remaining principal obligations of the districts were as follows at June 30, 2003:

Northridge Park Assessment District (1982-2 AD Bonds)	\$ 15,000
Northridge Park Assessment District (1987-1 AD Bonds)	<u>80,000</u>
	<u>\$ 95,000</u>

Major and non-major funds

The funds are further classified as major or non-major as follows:

<u>Fund</u>	<u>Brief Description</u>
Major:	
General Fund	Primary operating Fund of the City
Capital Project Fund	Accounts for specific capital projects
Debt Service Fund	Accounts for resources for payment of interest and principal of long-term debt.
Redevelopment Agency Funds	Accounts for the Redevelopment Agency funding and projects
Non-major:	
All Special Revenue Funds:	Used to account for proceeds of specific sources that are restricted for expenditures for specific purposes, as follows:
	<ul style="list-style-type: none"> • Parking programs • Code enforcement • Vehicle abatement • Gasoline tax • Measure C - Return-to-source • Supplemental law enforcement • Assessment District-Street Lighting • Assessment District-Core Area Maintenance • Assessment District-Storm Water Pollution

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund (business-type) utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

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All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities, And Equity

Cash and investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all cash accounts, savings accounts, certificates of deposits of the City, and the investment in the State of California fund called the "Local Agency Investment Fund (LAIF)" which is available for immediate withdrawal. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Cash and investments in restricted assets are not considered cash equivalents.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.C. and 3.A.

Interfund receivables and payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". In addition, there is a 21 year note payable from the Redevelopment Agency to another governmental fund in the amount of \$671,415 at June 30, 2003. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report sundry class receivables and interest earnings as receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded

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when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets for which cost was not available.

Prior to July 1, 2001, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1968) have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Type</u>	<u>Useful Life (years)</u>
Land, easements, and right of way	N/A
Land improvements	20
Building and improvements	50
Infrastructure	15 - 65
Equipment and furniture	3 - 15

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund (business-type) operations are accounted for the same as in the government-wide statements.

Restricted assets

Restricted assets include cash and investments of the debt service fund that are legally restricted as to their use, which is for the payment of long-term debt obligations. In addition, certain redevelopment assets are restricted for low/moderate income housing expenditures (see Note 3.H.).

Long-term debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for a proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as current debt in the government-wide statements. In the fund financial statements, the liability is included in long-term liabilities.

Equity classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note 3.G. for additional disclosures.

1.E. Revenues, Expenditures, and Expenses

Property tax and assessments

State of California ("State") Constitution Article XIII provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by Article XIII. The State Legislature has determined the method of distribution of receipts from

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the \$1.00 levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt service.

However, because Lafayette was incorporated in 1968 as a no-property tax city, through fiscal year June 30, 1988, Lafayette received property tax distributions only for those geographical areas incorporated into the city limits after 1978, when Proposition XIII became law with its restrictions on funding. Thus, though Lafayette's property owners paid property taxes at the same rate as property owners in other cities, the City of Lafayette received a disproportionately smaller share of the distribution of receipts.

Pursuant to the 1988 Trial Court Funding Bill and subsequent reallocations, the City is receiving a measure of relief from this funding deficiency. Beginning in 1989, Lafayette began receiving funds in lieu of property taxes and/or additional property tax allocations. The receipt of these funds has been phased in gradually, and by 1997/1998 the City of Lafayette received the equivalent of approximately 7% of the total property taxes that its property owners pay. This can be compared to the average 14% allocation received by cities in Contra Costa County. The amount received is further reduced by a partial shift to fund schools.

The county uses the following calendar to assess properties, bill for, collect, and distribute property taxes.

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	January 1	January 1
Lien/levy dates	January 1	January 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	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.

Sales tax

The State presently levies an 8.25% sales tax on taxable sales within the City of which 1% is allocated to the City. The sales tax is collected by the State and remitted to the City in the month following receipt. The State receives the sales tax approximately one to three months after collection by vendors. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the City in July and August have been accrued and are included under the caption "Accounts Receivable". The 8.25% sales tax also includes some "Measure C" funds which is allocated to the City pursuant to street/pavement needs as approved by the Contra Costa Transportation Authority (CCTA).

Other taxes

Other taxes as realized by the City include franchise taxes, transient occupancy taxes, motor vehicle in lieu tax and other fines and fees.

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Operating revenues and expenses

Operating revenues and expenses for proprietary funds are those that result from providing services (recreation classes).

Expenditures / expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund—By Operating and Non-operating (if applicable)

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Gas Tax Fund	State Law - included in "Other Governmental"
Parking Programs	Local Ordinance
Code Enforcement	Local Ordinance
Measure C	County Measure
Assessment Districts:	
Street Lighting	Local Ordinance
Core Area Maintenance	Local Ordinance
Storm Water Pollution	Local Ordinance

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

2.B. Deposits and Investments Laws and Regulations

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits. The first \$100,000 of each institution's deposits are covered by FDIC insurance.

The City may waive collateral requirements for deposits, which are insured by federal depository insurance. The City had not waived such requirements as of June 30, 2003.

2.C. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Tax	Street Purposes
Measure C Tax (part of sales tax)	Street and Alley Purposes
Assessment Districts	Lighting, Core Area Maintenance, and Storm Water
Ad Valorem Tax Assessments	Debt Service
Supplemental Law Enforcement	Police
Code Enforcement	Police

For the year ended June 30, 2003, the City complied, in all material respects, with these revenue restrictions.

2.D. Debt Restrictions and Covenants

General obligation debt

- Authority of Issuance

The General Obligation Bonds were issued to finance the repair and reconstruction of the City's roads and drains. The Bonds constitute a portion of the total authorized amount of \$13,000,000 of general obligation bonds of the City duly authorized by at least two-thirds of the qualified voters of the City voting at an election on March 7, 1995. The City has previously issued \$6,000,000 of bonds under this authorization. The Bonds are issued pursuant to the provisions of Article 1 of Chapter 4 (commencing with Section 43600) of Division 4 of Title 4 of the Government Code of the State of California and other applicable laws, and pursuant to the Paying Agent Agreement dated as of February 1, 2002, by and between the City and U.S. Bank, N.A., acting as paying agent, as authorized by the City Council by a resolution adopted on January 28, 2002.

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The liability for the two issues of general obligation bonds was as follows at June 30, 2003:

	Original Issue	Outstanding
1995 Issue	\$ 6,000,000	\$ 5,415,000
2002 Issue	4,320,000	4,320,000
	\$ 10,320,000	\$ 9,735,000

- **Repayment Funding**

In order to provide sufficient funds for repayment of principal and interest when due on the General Obligation Bonds, the City is empowered and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the City, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to all other taxes levied upon property within the City. Such taxes, when collected will be placed in the Interest and Sinking Fund for the bonds authorized in the March 1995 election.

- **Assessed Valuation of Property Within the City**

As required by State law, the City utilizes the services of the County for the assessment and collection of taxes for City purposes. City taxes are collected at the same time and on the same tax rolls as are County, school district, and other special district taxes. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code.

For Fiscal Year 2002-03, the City's total secured and unsecured assessed valuation is \$3,465,158,687 (full cash value).

Other long-term debt- Redevelopment Fund debt

To help finance Redevelopment projects, on August 6, 2002, the Redevelopment Agency issued \$5,585,000 in bonded indebtedness which will be repaid using redevelopment tax increment.

2.E. Fund Equity (Deficit)

Deficit - Redevelopment Agency

As noted in note 1.A., the Redevelopment Agency has funded much of its operations with loans from the General Fund. A deficit net asset balance of \$567,238, after recognizing accrual basis adjustments, will be refunded as incremental property taxes are received, calculated as follows:

Total Fund Balance on a "Governmental Fund" basis	\$ 4,389,232
Add fixed assets capitalized	753,250
Deduct accrued interest on debt payable	(124,720)
Proceeds on debt issuance, reflected as liability on governmental basis	(5,585,000)
	\$ (567,238)

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. Cash and Investments

The City maintains a cash deposit and investment pool that is available for use by all funds. It is not used for the retirement plan and the deferred compensation plan.

The City is authorized to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper with certain minimum ratings, certificates of deposit, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool (Local Agency Investment Fund).

Categorization of cash

In accordance with Governmental Accounting Standards Board Statement 3, cash deposits are classified as to credit risk by three categories as follows:

- Category 1: Deposits, which are insured by the FDIC.
- Category 2: Deposits, which are collateralized. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 100% of a City's deposits, or by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.
- Category 3: Deposits, which are uninsured or uncollateralized.

Categorization of investments

The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows:

- Category 1: Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Deposits with Mutual Funds and State investment pools are not required to be categorized.

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Notes to Financial Statements
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The City's cash and cash equivalents at June 30, 2003 are categorized as follows:

	Categories			Categorization	
	(1)	(2)	(3)	Not Required	Total
Cash items					
Pooled cash, deposits and investments					
Petty cash	\$ -	\$ -	\$ -	\$ 1,843	\$ 1,843
Checking accounts	169,924	628,265	-	-	798,189
Add deposits in transit	-	-	-	20,514	20,514
Less outstanding checks	-	-	-	(385,726)	(385,726)
	<u>\$ 169,924</u>	<u>\$ 628,265</u>	<u>\$ -</u>	<u>\$ (363,369)</u>	<u>\$ 434,820</u>
Investments					
U. S. Treasury Obligations (maturing 7/15/2003-2005, rates 2.45% to 3.78%)					
	\$ -	\$ -	\$ -	\$ 953,165	\$ 953,165
Short-term mutual funds	-	413,632	-	-	413,632
California Local Agency Investment Fund (LAIF)					
	-	-	-	23,501,470	23,501,470
Less portion of LAMORINDA					
School bus transportation, not City funds					
	-	-	-	(722,598)	(722,598)
	<u>\$ -</u>	<u>\$ 413,632</u>	<u>\$ -</u>	<u>\$ 23,732,037</u>	<u>\$ 24,145,669</u>
Total cash and investments - City of Lafayette					<u>\$ 24,580,489</u>

Reconciliation to financial statements:

Cash and investments - unrestricted	\$ 20,648,987
Cash and investments - restricted/debt service	<u>3,892,515</u>
Total - Statement of Net Assets	24,541,502
Fiduciary funds	<u>38,987</u>
	<u>\$ 24,580,489</u>

The City did not invest in any category 3 investments during the year ended June 30, 2003.

The City's investments with LAIF at June 30, 2003 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. 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 on 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 CMO's) or credit card receivables.

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As of June 30, 2003, the City had \$23,501,470 invested in LAIF, which had invested 2.3% of the pool investment fund in structured notes and asset-backed securities.

3.B. Restricted Assets

The amounts reported as restricted assets are held for debt service payments and low/moderate housing (the Redevelopment Agency). The restricted assets are as follows (see note 3.H.):

	Debt Service	Low/moderate Housing Income	Total
Cash deposits and investments	\$ 3,046,905	\$ 845,610	\$ 3,892,515
Accrued interest and prepaid interest	26,781	3,142	29,923
	\$ 3,073,686	\$ 848,752	\$ 3,922,438

3.C. Accounts Receivable

The amount of accounts receivable for the business-type activities was \$0 at June 30, 2003. Accounts receivable for the governmental activities consist of various taxes and fees dated June 30 and prior received subsequent to June 30, 2003. They include:

Transfer Tax	\$	63,768
Measure C - return to source		362,419
Sales Tax		383,600
Franchise Taxes		44,687
Transient Occupancy Tax		127,370
Vehicle Code Fines		31,964
Motor Vehicle in Lieu Tax		46,278
State- Department of Parks & Recreation		431,075
Federal- Department of Transportation		393,939
Metropolitan Transportation Commission / Transportation Development Act		88,112
Other		148,355
	\$	2,121,547

CITY OF LAFAYETTE
Notes to Financial Statements
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3.D. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Balance June 30, 2003</u>
Capital Assets:			
Land, easements, & right of way	\$ 7,986,650	\$ 603,200	\$ 8,589,850
Land improvements	1,410,256	11,800	1,422,056
Building & improvements	971,199	261,093	1,232,292
Infrastructure	67,135,669	3,673,510	70,809,179
Equipment & furniture	617,206	96,039	713,245
Construction in progress	2,809,879	1,859,047	4,668,926
 Totals at historical cost	 <u>80,930,859</u>	 <u>6,504,689</u>	 <u>87,435,548</u>
 Accumulated depreciation:			
Land improvements	192,515	70,807	263,322
Building & improvements	331,276	19,147	350,423
Infrastructure	35,754,557	1,745,060	37,499,617
Equipment & furniture	250,311	119,730	370,041
 Total accumulated depreciation	 <u>36,528,659</u>	 <u>1,954,744</u>	 <u>38,483,403</u>
Governmental activities capital assets, net	\$ <u>44,402,200</u>	\$ <u>4,549,945</u>	\$ <u>48,952,145</u>

*Depreciation expense was charged to governmental activities as follows:

Administration	\$ 5,894
Police services	79,562
Planning & engineering	7,800
Infrastructure and related improvements	<u>1,861,398</u>
Total depreciation	<u>\$ 1,954,744</u>

3.E. Accounts Payable

Payables in the governmental funds and enterprise fund are composed of payables to various vendors.

3.F. Long-Term Debt

The reporting entity's long-term debt is general obligation bond amounts totaling \$9,735,000 and Redevelopment tax allocation bonds of \$5,585,000 to be repaid from governmental activities (see note 2.D.).

CITY OF LAFAYETTE
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June 30, 2003

A summary of fiscal year ended June 30, 2003 general long-term debt transactions as follows:

	<u>Interest Rates</u>	<u>Balance June 30, 2002</u>	<u>Principal Additions (Retirement) <i>(Prepaid Prior Year)</i></u>	<u>Balance June 30, 2003</u>
Redevelopment				
Tax allocation bonds				
Bonds issued FY 2003				
Matures to FY 2033	2.25 - 5.3%	\$ -	\$ 5,585,000	\$ 5,585,000
General Obligation				
Bonds Issued FY 1995				
Matures to FY 2026	5.6 to 6%	5,415,000	-	5,415,000
Bonds Issued FY 2002				
Matures to FY 2026	3.5 to 5%	4,320,000	-	4,320,000
Totals		<u>\$ 9,735,000</u>	<u>\$ 5,585,000</u>	<u>\$ 15,320,000</u>

Annual debt service requirements, including interest payments, are as follows:

	<u>General Obligation Bonds- Issued 1995</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payments due in fiscal years ending June 30:			
2004	\$ 120,000	\$ 314,948	\$ 434,948
2005	125,000	308,088	433,088
2006	130,000	300,948	430,948
2007	140,000	293,388	433,388
2008	150,000	285,193	435,193
2009-2013	875,000	1,285,600	2,160,600
2014-2018	1,170,000	991,891	2,161,891
2019-2023	1,545,000	590,250	2,135,250
2024-2026	1,160,000	107,100	1,267,100
	<u>\$ 5,415,000</u>	<u>\$ 4,477,406</u>	<u>\$ 9,892,406</u>

The principal and interest for 2003, due July 15, 2003, were prepaid in the prior fiscal year.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

The following is the debt service obligations related to general obligation bonds issued in fiscal year 2002:

	General Obligation Bonds - Issued 2002		
	Principal	Interest	Total
Payments due in fiscal years ending June 30;			
2004	\$ 85,000	\$ 214,789	\$ 299,789
2005	85,000	211,176	296,176
2006	95,000	206,676	301,676
2007	95,000	201,926	296,926
2008	100,000	197,051	297,051
2009-2013	590,000	901,756	1,491,756
2014-2018	735,000	737,838	1,472,838
2019-2023	950,000	531,328	1,481,328
2024-2026	1,585,000	139,016	1,724,016
	<u>\$ 4,320,000</u>	<u>\$ 3,341,556</u>	<u>\$ 7,661,556</u>

During the fiscal year ended June 30, 2003, the City Redevelopment Agency issued Redevelopment tax allocation bonds of \$5,585,000 of which \$399,268 and \$174,215 were set aside for debt service and costs of issuance, respectively. The following are the debt service requirements to be provided by incremental taxes in the Redevelopment area:

	Redevelopment Tax Allocation Bonds - Issued 2003		
	Principal	Interest	Total
Payments due in fiscal years ending June 30;			
2004	\$ -	\$ 299,328	\$ 299,328
2005	50,000	298,765	348,765
2006	75,000	297,078	372,078
2007	100,000	294,253	394,253
2008	105,000	290,610	395,610
2009-2013	595,000	1,381,957	1,976,957
2014-2018	745,000	1,222,461	1,967,461
2019-2023	960,000	991,795	1,951,795
2024-2028	1,275,000	674,670	1,949,670
2029-2032	1,680,000	252,425	1,932,425
	<u>\$ 5,585,000</u>	<u>\$ 6,003,341</u>	<u>\$ 11,588,341</u>

CITY OF LAFAYETTE
Notes to Financial Statements
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The following is a summary of interest and related fees expense incurred on the long-term debt for the year ended June 30, 2003:

	Paid	Incurred
General obligation bonds - 1995 issue	\$ 321,387	\$ 318,564
General obligation bonds - 2002 issue	182,033	205,511
Redevelopment tax allocation bonds-2003 issue	133,866	258,586
Related fees	1,171	1,171
	\$ 638,457	\$ 783,832

3.G. Interfund Transactions and Balances

Operating transfers

Fund	Transfers In	Transfers Out
General Fund	\$ 456,922	\$ 2,387,143
Capital project funds	4,370,925	1,593,353
Debt service funds	-	40,277
Redevelopment agency	-	158,220
Other governmental funds	344,977	1,090,000
Subtotal	5,172,824	5,268,993
Proprietary fund	-	20,000
Fiduciary fund	116,169	-
	\$ 5,288,993	\$ 5,288,993

As discussed in note 1.A., the Redevelopment Agency has borrowed \$1,283,865 (at 8% per annum) from the General Fund, which are to be repaid out of future ad valorem revenues. In addition, the Redevelopment Fund has borrowed \$671,415 from another City fund to be repaid over a 21 year period at 8%, also to be paid out of future ad valorem revenues.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3.H. Fund Equity

Restricted fund equity / net assets (see note 3.B.):

Debt Service Fund, net of accounts payable of \$1670	\$ 3,072,016
Low/moderate income housing fund	848,752
Total restricted for debt service	\$ 3,922,768

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

NOTE 4. OTHER NOTES

4A. Employee Benefit Plans

Employees' retirement plan

The City has established defined contribution retirement plans (Plans) for all permanent full-time and part-time (working 20 or more hours per week) employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes between \$200 and \$500 per month for full-time employees, depending on the individual employee's length of service. Contributions for part-time employees are based on a pro rata share of the full-time contribution based on hours worked. Employees are under no obligation to contribute to the Plans. Employees are fully vested in the City's contributions (and interest allocated to the employee's account) after five years' continuous service by the employee. City contributions and interest forfeited by employees who leave employment before five-year service are used to reduce the City's current-period contribution requirement.

The City's total payroll in fiscal year 2003 was approximately \$2,253,000. The City contributed \$137,737 to the Plan during the year (6.1% of payroll).

The following summarizes transactions in the Plan for the year ended June 30, 2003:

Defined contribution retirement plan:	
Balance June 30, 2002	\$ 1,371,658
Contributions	137,737
Transfers	-
Disbursements, net	(43,977)
Earnings	30,552
Balance June 30, 2003	\$ <u>1,495,970</u>

Deferred compensation plan

All employees of the City are eligible to participate in a City sponsored deferred compensation plan (the "Plan"). The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested by the City on behalf of the employees through an administrator in various instruments including money market funds, bonds and others. The assets of the Plan, under Internal Revenue Code section 457, formerly were the property of the City until paid or made available to participants, subject only to the claims of the City's general creditors. However, based on a change in the income tax code dated August 1996, the assets are no longer those of the city but are in trust for the exclusive benefit of plan participants.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

The following summarizes transactions in the Plan for the year ended June 30, 2003:

Deferred compensation plan:		
Balance June 30, 2002	\$	2,283,148
Contributions		210,823
Transfers		60,743
Disbursements and adjustments		(228,266)
Earnings		37,675
Balance June 30, 2003	\$	<u>2,364,123</u>

4.B. Risk Management

Insurance coverage

The City purchases its insurance through the Contra Costa Municipal Risk Management Insurance Authority ("CCMRMIA").

The following is a summary of coverage:

	Participating Cities' Total <u>Coverage</u>	<u>Deductible (City Portion)</u>
All risk fire and property	\$ 1,000,000,000	\$ 5,000
Boiler and machinery	\$ 100,000,000	\$ 5,000
Liability	\$ 15,000,000	\$ 5,000
Auto-physical damage	\$ 250,000	\$ 2,000
Workers' compensation	\$ 45,000,000	\$ 0

The total coverage includes the City's deductible, the portion underwritten by CCMRMIA and the portion underwritten by other insurance companies.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4.C. Commitments and Contingencies

Special assessments

In 1984 the City sold, on behalf of the Northridge Park assessment district (1982-2 AD bonds), \$844,0000 principal amount of 1915 Assessment District bonds. At June 30, 2003 unretired principal, net of reserve funds, was \$15,000 due July 15, 2003 and prepaid as of June 30, 2003. The bonds were never recorded in the City's general-purpose financial statements; however, the City is contingently liable for repayment of bonds issued under the Assessment Bond Act of 1915 to the extent that liens foreclosed against properties are insufficient to retire outstanding bonds.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2003

During 1987, the City refinanced substantially all of the Northridge Park 1982-2 assessment bonds, issuing \$850,279 of new bonds and creating a Northridge Park 1987-1 Reassessment District. The bonds bear interest at 5% to 7% and mature between 1989 and fiscal year 2004. The City is not obligated in any manner for repayment of the new bonds but is acting only as an agent for the property owners in collecting the assessments, forwarding the collections to the bondholders, and assisting in foreclosure proceedings. Accordingly, the 1987-1 bond liability is not included in the accompanying financial statements, and transactions for this assessment district are accounted for in an agency fund. At June 30, 2003, there remained outstanding principal of \$80,000.

Claims involving the City of Lafayette

The City is defendant in lawsuits arising in the normal course of business. City management is of the opinion that the potential claims against the City not covered by insurance resulting from litigation are adequately provided for in the General Fund of the City.

The City is in litigation involving a lot line adjustment under inverse condemnation. Based on input from legal counsel, the City has provided for the anticipated loss in the General Fund.

Grant programs

The City participates in several federal and state grant programs. These programs have been audited when required by the City's independent accountants in accordance with the provisions of the federal Single Audit Act of 1984 as amended 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 that may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

4.D. Subsequent Events – Redevelopment Agency of the City of Lafayette

Veteran's Memorial Hall/City Library

The Redevelopment Agency (the "Agency") is in the process of acquiring the Veteran's Memorial Hall property in the City of Lafayette for the purpose of constructing a new library. It is planned that a new Veteran's Memorial Hall will be constructed on land presently owned by the City. To facilitate the plan, on July 10, 2002 the City acquired adjacent land at a cost of \$603,220. The estimated total cost of the new Veteran's Memorial Hall is estimated to approximate \$5 million.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LAFAYETTE
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2003

Exhibit 1

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property tax	\$ 2,200,000	\$ 2,200,000	\$2,258,495	\$ 58,495
Sales and use tax	2,200,000	2,200,000	2,255,221	55,221
Transient lodging tax	350,000	400,000	471,994	71,994
Franchise tax	745,000	775,000	802,366	27,366
Real property transfer tax	150,000	175,000	184,866	9,866
Vehicle code fines	185,000	200,000	211,814	11,814
Interest income	166,000	166,000	253,323	87,323
Motor vehicle in lieu tax	1,200,000	1,200,000	1,446,059	246,059
Grants - state and local	-	-	19,042	19,042
Planning, permits and fees	423,000	423,000	763,050	340,050
Business registration fees	29,154	29,154	32,917	3,763
Police services	70,000	70,000	76,706	6,706
Other	47,500	47,500	98,172	50,672
	<u>7,765,654</u>	<u>7,885,654</u>	<u>8,874,025</u>	<u>988,371</u>
Expenditures				
City council, commissions and community support				
City council	89,806	174,169	174,166	3
Commissions and committees	836,845	787,199	669,504	117,695
Police services	2,527,203	2,353,990	2,267,491	86,499
Public works				
Street maintenance	726,571	698,475	620,984	77,491
Traffic maintenance	342,084	308,731	265,111	43,620
Storm drain maintenance	195,742	168,233	140,683	27,550
Parks and walkway maintenance	202,573	180,458	180,450	8
Facilities maintenance	135,234	112,807	112,805	2
Emergency response	150,000	50,000	-	50,000
Planning and engineering				
Planning department	498,503	413,307	413,103	204
Engineering department	207,916	193,212	193,205	7
Administration				
City management	335,683	299,367	292,134	7,233
Legal services	300,000	300,000	282,736	17,264
City clerk	126,747	109,032	104,959	4,073
Finance and personnel	387,846	362,290	345,696	16,594
Technology Services	130,318	44,408	44,365	43
Business registration fees	46,204	45,592	39,827	5,765
Rent and other expenses	86,846	113,768	106,618	7,151
Insurance - premiums and claims	150,000	185,000	(94,780)	279,780
	<u>7,476,121</u>	<u>6,900,038</u>	<u>6,159,057</u>	<u>740,981</u>
Excess of revenues over expenditures	289,533	985,616	2,714,968	1,729,352
Other financing sources				
Operating transfers - in	25,000	25,000	456,922	431,922
Operating transfers - out	(2,443,218)	(2,443,218)	(2,387,143)	56,075
Excess of revenues over expenditures and other financing sources	(2,128,685)	(1,432,602)	784,747	2,217,349
Beginning fund balance	<u>8,400,226</u>	<u>8,400,226</u>	<u>8,400,226</u>	<u>-</u>
Ending fund balance	<u>\$ 6,271,541</u>	<u>\$ 6,967,624</u>	<u>\$ 9,184,973</u>	<u>\$ 2,217,349</u>

The accompanying notes are an integral part of these financial statements.

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OTHER SUPPLEMENTARY INFORMATION

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CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet
For the Year Ended June 30, 2003

Exhibit 2

	Capital Projects Funds				Special Revenue Funds			Total Governmental Funds
	General Projects	Library Project	Veteran's Hall	Total Capital Projects	Debt Service Fund	Low/moderate Income Housing Fund		
ASSETS								
Cash (overdraft)	\$ 11,611	\$ (100,864)	\$ (406,947)	\$ (496,200)	\$ -	\$ -	\$ -	(496,200)
Local Agency Investment Fund	5,708,259	-	-	5,708,259	-	-	-	5,708,259
Accrued interest receivable	24,030	-	-	24,030	-	-	-	24,030
Other assets	574	-	-	574	-	-	-	574
Restricted assets for:								
Money Market investments	-	-	-	-	402,021	845,611	-	1,247,632
Accrued interest receivable	-	-	-	-	-	3,142	-	3,142
Total assets	\$ 5,744,474	\$ (100,864)	\$ (406,947)	\$ 5,236,663	\$ 402,021	\$ 848,753	\$ -	\$ 6,487,437
LIABILITIES AND NET ASSETS								
Accounts payable and accrued liabilities	\$ 666	\$ 78,477	\$ 63,782	\$ 142,925	\$ -	\$ -	\$ -	142,925
Advances from general fund	1,172,204	73,376	38,285	1,283,865	-	-	-	1,283,865
Loan payable to general fund	-	-	671,415	671,415	-	-	-	671,415
Total liabilities and other credits	1,172,870	151,853	773,482	2,098,205	-	-	-	2,098,205
Fund balances								
Restricted for:								
Debt service	-	-	-	-	402,021	-	-	402,021
Low/moderate income housing	-	-	-	-	-	848,753	-	848,753
Other	4,571,604	(252,717)	(1,180,429)	3,138,458	-	-	-	3,138,458
Unrestricted								
Fund equity	4,571,604	(252,717)	(1,180,429)	3,138,458	402,021	848,753	-	4,389,232
Total liabilities and fund equity	\$ 5,744,474	\$ (100,864)	\$ (406,947)	\$ 5,236,663	\$ 402,021	\$ 848,753	\$ -	\$ 6,487,437

**CITY OF LAFAYETTE
REDEVELOPMENT AGENCY**
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2003

	Capital Projects Funds				Special Revenue Funds			Total Governmental Funds
	General Projects	Library Project	Veteran's Hall	Total Capital Projects	Debt Service Fund	Low/moderate Income Housing Fund		
Revenues								
Tax increment revenue	\$ 759,550	-	\$ -	\$ 759,550	\$ 133,866	\$ 291,818	\$ 1,185,234	
Investment income	93,420	-	-	93,420	2,753	12,461	108,634	
Other revenue	5,842	-	51	5,893	-	-	5,893	
Total revenues	858,812	-	51	858,863	136,619	304,279	1,299,761	
Expenditures								
Administrative costs	60,988	59	-	61,047	-	-	61,047	
Planning and design	-	178,974	325,481	504,455	-	-	504,455	
Real estate purchase	-	-	603,220	603,220	-	-	603,220	
Improvement costs	-	-	150,050	150,050	-	-	150,050	
Interest expense	101,278	5,435	56,436	163,149	133,866	-	297,015	
Professional services	30,897	-	-	30,897	-	1,600	32,497	
Community promotion	21,696	-	-	21,696	-	-	21,696	
Other expenses	11,689	276	573	12,538	-	3,818	16,356	
Total disbursements	226,548	184,744	1,135,760	1,547,052	133,866	5,418	1,686,336	
Excess (deficiency) of revenues over expenditures	632,264	(184,744)	(1,135,709)	(688,189)	2,753	298,861	(386,575)	
Other financing sources (uses):								
Tax allocation bonds issue	5,185,732	-	-	5,185,732	399,268	-	5,585,000	
Less costs of issuance	(174,255)	-	-	(174,255)	-	-	(174,255)	
Operating transfers - out	(158,220)	-	-	(158,220)	-	-	(158,220)	
Total other financing sources (uses)	4,853,257	-	-	4,853,257	399,268	-	5,252,525	
Excess (deficiency) of revenues over expenditures, net of other financing sources	5,485,521	(184,744)	(1,135,709)	4,165,068	402,021	298,861	4,865,950	
Beginning fund balances	(913,917)	(67,973)	(44,720)	(1,026,610)	-	549,892	(476,718)	
Ending fund balances	\$ 4,571,604	\$ (252,717)	\$ (1,180,429)	\$ 3,138,458	\$ 402,021	\$ 848,753	\$ 4,389,232	