

CITY OF LAFAYETTE
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2004
(With Auditors' Report Thereon)

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**CITY OF LAFAYETTE
CITY OFFICIALS AS OF JUNE 30, 2004**

MAYOR

Erlin Horn

Term Expires Nov 2004

CITY COUNCIL

Don Tatzin
Term Expires Nov 2006

Ivor Samson
Term Expires Nov 2006

Carol Federighi
Term Expires Nov 2004

Carl Anduri
Term Expires Nov 2004

CITY MANAGER

Steven B. Falk-14 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson- 4 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva – 14 years of service

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, 2004

The management 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 discuss the City's ability to address future challenges.

OVERVIEW

This is the City's third 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.

FINANCIAL HIGHLIGHTS

- The City's net assets increased by \$4,037,035. The governmental net assets increased by \$4,095,801 and the business-type net assets (e.g. Parks & Recreation) decreased by \$58,766
- The City's net assets reflected a combined ending fund balance of \$61,993,665 of which, \$22,308,678 is unreserved and available for spending at the council's discretion.
- The unreserved and undesignated fund balance for the General Fund was \$6,389,497 an increase of \$1,048,000 compared with the prior year as reflected in the modified accrual basis balance sheet of Governmental Funds (Statement 3).
- The City's total debt increased by \$6,035,000 during the current fiscal year due primarily to General Obligation bonds issued in the amount of \$6,035,000. The total debt balance at

year-end was \$21,150,000 including the current obligation of \$260,000 as reflected in the Statement of Net Assets (Statement 1).

- Year over year comparison of revenues and expenses (all governmental funds including recreation programs):

	2003	2004	Change
Revenues			
Property Tax	4,844,487	5,322,239	10%
Sales Tax	2,612,769	2,652,601	2%
Franchise Fees	802,366	838,885	5%
Motor Vehicle Fee	1,446,059	1,154,214	-20%
Transient Occupancy	471,994	505,076	7%
Interest	696,988	663,856	-5%
Vehicle Fines	443,936	426,160	-4%
Grants	2,220,264	1,930,206	-13%
Fees for Service	839,756	1,057,247	26%
Parking Fees	199,774	151,507	-24%
Gas Tax	460,200	464,350	1%
Park & Walkway Fees	201,565	164,734	-18%
Other	452,406	413,366	-9%
Recreation Programs	852,320	939,462	10%
TOTAL	\$ 16,544,884	\$ 16,683,903	1%
Expenses			
Council & Commissions	843,670	1,138,152	35%
Police	2,512,467	2,562,889	2%
Public Works / Infrastructure	8,367,645	7,729,727	-8%
Planning & Engineering	1,676,214	1,847,490	10%
Administration	1,511,347	1,660,423	10%
Debt Service	911,606	1,268,582	39%
Other	11,838	156,501	1222%
Recreation Programs	869,028	978,228	13%
TOTAL	\$ 16,703,815	\$ 17,341,992	4%

- ✓ Council & Commission expenses increased due to a greater subsidy for the library, contributions to the Moraga Skatepark and increased staff time devoted to the Design Review and Planning Commissions.
- ✓ Debt service increased due to the sale of the last series of 1995 Road & Drain bonds.
- ✓ Recreation programs increased due to the merger of the Moraga Recreation Department with ours.

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, 2004	Governmental Activities	Business Activities	Total
Beginning Net Assets	\$57,999,178	(42,548)	\$57,956,630
Increase/Decrease	4,095,801	(58,766)	4,037,035

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 6.97 % from prior year
2. Assets exceeded liabilities by \$61,993,665 at year-end

52.24 % of the City's net assets (\$32,384,867) 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 \$8,262,067 the remainder must be funded out of general revenues. This year, the City received \$12,299,102 -- \$4,037,035 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, with expenditures of \$978,228, that program showed a deficit of \$58,766 (i.e. about 6% of operations are not covered by fees). Therefore, the City's net assets decreased by an equal amount. This is the third year in a row that this enterprise fund has shown a deficit, however projections for the current fiscal year (2004-05) show that the entire deficit should be wiped out this year due primarily to a \$2 per transaction fee that was added to each recreation class.

Page 9 of the financial report shows that the deficit was due primarily to higher than budgeted personnel and contractual expenses (\$84,932), which were partially offset by higher than expected fees and savings in other expenses.

Taken together, the increase from governmental activities and the decrease in business-type activities resulted in a net increase in assets of \$4,037,035.

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.

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, 2004, the City's governmental funds reported combined ending fund balances of \$30,357,412 an increase of \$5,512,610 in comparison to the prior year. Approximately 79 % 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, 2004 totaled \$53,534,867 (net of accumulated depreciation of \$40,581,936), which represents an increase of \$4,582,722 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 notes.

Major capital asset additions during the current fiscal year include:

- Reliez Valley Road Trail Extension
- The Buckeye Ball Field
- 2004 Pavement Management Project
- The Downtown East Core Area Improvements

Long Term Debt

At the end of the current fiscal year, the City had a \$21,797,300 in long-term debt, which included \$244,680 in accrued vacations and leave. This compares with \$15,333,496 last year -- a 42 % increase. The increase is due primarily to the issuance of General Obligation Bonds totaling \$6,035,000, which will be used to finance road repairs and paid off the General Obligation Bond issued in 1995.

STRENGTHS & RISKS

General Fund

The general fund is the primary operating fund of the City. At June 30, 2004, the undesignated fund balance was \$6,389,497 a decrease of \$838,131 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 almost 78% of the general fund expenditures, which means that the City is in a very strong position and could cover almost 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 7 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 \$29 million over the next 5 years. Without an additional source of revenue many of the City's residential streets will never be repaired. Furthermore, those streets that are currently in good condition will deteriorate. The Council has placed a measure on the November 2004 ballot asking the residents to approve the sale of \$29 million in bonds.

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 \$3,465,158,687 2002/2003 to \$3,723,135,732 in fiscal year 2003/2004, thus increasing property tax revenue 10 % from \$4,844,487 to \$5,322,239. Because assessed values do not typically decline rapidly and the fact that the housing prices in Lafayette remain strong, this revenue source is considered relatively stable.

Sales Tax is the second most important revenue source of the City. Sales tax revenue increased by less than 2% during the year, from \$2,612,769, to \$2,652,601 due primarily to the weaker 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 \$1,154,214 in 2003-2004 versus \$1,446,059 in 2002-2003 in VLF revenues and has budgeted \$1,450,000 in 2004-2005 reflecting the Governor's promise to restore the "back-fill" in return for a designated two-year contribution to the state to help alleviate the budget crisis. As part of this deal, the Governor has agreed to campaign for Proposition 1A which will protect local revenues in the future. It is unknown at this time whether or not this proposition will pass. If not, there may be serious consequences to both public safety and the City's aggressive new public works projects repair program in the future should the State again decide to balance their budget using local revenue.

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

Cropper Accountancy Corporation

Certified Public Accountants

2977 Ygnacio Valley Road, #460

Walnut Creek, California 94598

Tel: (925) 932-3860

Fax: (925) 932-3862

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lafayette, California as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Lafayette'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lafayette, California as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the City of Lafayette's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis and budgetary comparison information on pages i-vii and page 35 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lafayette's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

September 24, 2004

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BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE
Statement of Net Assets
June 30, 2004

Statement 1

ASSETS	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash and cash equivalents	\$ 13,171,326	\$ 240,087	\$ 13,411,413
Investment in bonds	9,819,651	-	\$ 9,819,651
Accounts receivable	2,483,544	5,104	2,488,648
Notes receivable	458,525	-	458,525
Accrued interest receivable	141,756	389	142,145
Prepaid assets	52,488	72,323	124,811
Other assets	63,731	-	63,731
	<u>26,191,021</u>	<u>317,903</u>	<u>26,508,924</u>
Restricted Assets-debt service:			
Cash and cash equivalents	7,282,023	-	7,282,023
Accrued interest	18,119	-	18,119
	<u>7,300,142</u>	<u>-</u>	<u>7,300,142</u>
Capital Assets, net of accumulated depreciation			
Land, easements & right of way	9,320,703	-	9,320,703
Land improvements	1,168,238	-	1,168,238
Buildings & improvements	862,999	-	862,999
Infrastructure	34,292,917	-	34,292,917
Equipment & Furniture	221,471	-	221,471
Construction in progress	7,668,539	-	7,668,539
	<u>53,534,867</u>	<u>-</u>	<u>53,534,867</u>
Total assets	<u>\$ 87,026,030</u>	<u>\$ 317,903</u>	<u>\$ 87,343,933</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 1,958,036	\$ 11,602	\$ 1,969,638
Accrued interest payable	402,620	-	402,620
Refundable deposits	1,171,978	4,323	1,176,301
Deferred revenue	3,737	403,292	407,029
Bonds payable-current	260,000	-	260,000
Total current liabilities	<u>3,796,371</u>	<u>419,217</u>	<u>4,215,588</u>
Noncurrent Liabilities:			
Accrued compensated absences	244,680	-	244,680
Bonds payable	20,890,000	-	20,890,000
Total noncurrent liabilities	<u>21,134,680</u>	<u>-</u>	<u>21,134,680</u>
Total liabilities	<u>24,931,051</u>	<u>419,217</u>	<u>25,350,268</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	32,384,867	-	32,384,867
Restricted for:			
Debt service	6,146,920	-	6,146,920
Low/moderate income housing	1,153,200	-	1,153,200
Unrestricted	22,409,992	(101,314)	22,308,678
Total net assets	<u>62,094,979</u>	<u>(101,314)</u>	<u>61,993,665</u>
Total liabilities and net assets	<u>\$ 87,026,030</u>	<u>\$ 317,903</u>	<u>\$ 87,343,933</u>

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, 2004

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	\$ 1,138,152	\$ -	\$ -	\$ -	\$ (1,138,152)	\$ -	\$ (1,138,152)
Administration	1,774,330	-	-	-	(1,774,330)	-	(1,774,330)
Police services	2,638,276	63,326	100,000	-	(2,474,950)	-	(2,474,950)
Public works	1,903,177	164,734	-	1,830,206	91,763	-	91,763
Infrastructure - depreciation	2,011,478	-	-	-	(2,011,478)	-	(2,011,478)
Planning & engineering	979,486	1,021,741	-	-	42,255	-	42,255
Interest & debt charges	864,663	-	-	-	(864,663)	-	(864,663)
Other	93,746	-	-	-	(93,746)	-	(93,746)
Total governmental activities	<u>11,403,308</u>	<u>1,249,801</u>	<u>100,000</u>	<u>1,830,206</u>	<u>(8,223,301)</u>	<u>-</u>	<u>(8,223,301)</u>
<i>Business Type Activities:</i>							
Recreation programs	<u>978,228</u>	<u>939,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,766)</u>	<u>(38,766)</u>
Total primary government	<u>12,381,536</u>	<u>2,189,263</u>	<u>100,000</u>	<u>1,830,206</u>	<u>(8,223,301)</u>	<u>(38,766)</u>	<u>(8,262,067)</u>
General revenues:							
Property tax and Assessments					5,322,239	-	5,322,239
Sales taxes					2,652,601	-	2,652,601
Franchise taxes					838,885	-	838,885
Transient occupancy tax					505,076	-	505,076
Vehicle code fines					426,160	-	426,160
Motor vehicle in lieu tax					1,154,214	-	1,154,214
Gas Tax					464,350	-	464,350
Transfer tax					230,175	-	230,175
Business registrations					32,882	-	32,882
Parking revenues					151,507	-	151,507
Interest					432,055	-	432,055
Other					313,833	-	313,833
Unrealized loss on bond investments					(180,349)	-	(180,349)
Transfers to Enterprise and Fiduciary Fund, net					(24,526)	(20,000)	(44,526)
					<u>12,319,102</u>	<u>(20,000)</u>	<u>12,299,102</u>
Change in net assets					4,095,801	(58,766)	4,037,035
Net assets at beginning of year					<u>57,999,178</u>	<u>(42,548)</u>	<u>57,956,630</u>
Net assets at end of year					<u>\$ 62,094,979</u>	<u>\$ (101,314)</u>	<u>\$ 61,993,665</u>

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

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2004

ASSETS	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Funds	Other Governmental Funds
Cash and cash equivalents	\$ (1,670,366)	\$ 3,462,507	\$ 6,013,459	3,114,362	\$ 2,251,364
Investment in bonds	9,819,651	-	-	-	-
Accounts receivable	689,566	-1,426,414	-	-	367,564
Notes Receivable	-	458,525	-	-	656,743
Accrued interest receivable	92,017	23,699	10,784	11,399	3,857
Prepaid expenses	39,718	3,527	2,583	-	6,660
Due from other funds	3,380,763	-	-	-	-
Other assets	63,731	-	-	-	-
Restricted Assets:					
Cash deposits and investments	-	-	1,551,292	5,730,731	-
Accrued interest receivable	-	-	2,229	15,890	-
Total assets	<u>\$ 12,415,080</u>	<u>\$ 5,374,672</u>	<u>\$ 7,580,347</u>	<u>\$ 8,872,382</u>	<u>\$ 3,286,188</u>
<u>LIABILITIES AND NET ASSETS</u>					
Liabilities					
Accounts payable and accrued expenses	\$ 722,137	\$ 797,021	\$ 362,309	\$ -	\$ 62,569
Claims payable	14,000	-	-	-	-
Loan payable	-	-	656,743	-	-
Refundable deposits	1,171,666	312	-	-	-
Deferred revenue	17	-	-	-	3,720
Due to other funds	-	-	3,380,763	-	-
Total liabilities	<u>1,907,820</u>	<u>797,333</u>	<u>4,399,815</u>	<u>-</u>	<u>66,289</u>
Net Assets					
Restricted for:					
Debt service	-	-	400,299	5,746,621	-
Low/moderate income housing	-	-	1,153,200	-	-
Unrestricted:					
Designated for:					
Capital projects	-	4,577,339	-	-	-
Traffic control	154,000	-	-	-	-
Insurance	250,000	-	-	-	-
Vehicles	188,000	-	-	-	-
Redevelopment	3,380,763	-	-	-	-
Other	145,000	-	1,627,033	3,125,761	3,219,899
Undesignated	6,389,497	-	-	-	-
Total net assets	<u>10,507,260</u>	<u>4,577,339</u>	<u>3,180,532</u>	<u>8,872,382</u>	<u>3,219,899</u>
Total liabilities and net assets	<u>\$ 12,415,080</u>	<u>\$ 5,374,672</u>	<u>\$ 7,580,347</u>	<u>\$ 8,872,382</u>	<u>\$ 3,286,188</u>

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

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2004

Statement 3

<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;">Total Governmental Funds</td> </tr> <tr> <td>\$ 13,171,326</td> </tr> <tr> <td>9,819,651</td> </tr> <tr> <td>2,483,544</td> </tr> <tr> <td>1,115,268</td> </tr> <tr> <td>141,756</td> </tr> <tr> <td>52,488</td> </tr> <tr> <td>3,380,763</td> </tr> <tr> <td>63,731</td> </tr> <tr> <td> </td> </tr> <tr> <td>7,282,023</td> </tr> <tr> <td>18,119</td> </tr> <tr> <td style="border-top: 1px solid black;">\$ 37,528,669</td> </tr> <tr> <td> </td> </tr> <tr> <td>\$ 1,944,036</td> </tr> <tr> <td>14,000</td> </tr> <tr> <td>656,743</td> </tr> <tr> <td>1,171,978</td> </tr> <tr> <td>3,737</td> </tr> <tr> <td>3,380,763</td> </tr> <tr> <td style="border-top: 1px solid black;">7,171,257</td> </tr> <tr> <td> </td> </tr> <tr> <td>6,146,920</td> </tr> <tr> <td>1,153,200</td> </tr> <tr> <td> </td> </tr> <tr> <td>4,577,339</td> </tr> <tr> <td>154,000</td> </tr> <tr> <td>250,000</td> </tr> <tr> <td>188,000</td> </tr> <tr> <td>3,380,763</td> </tr> <tr> <td>8,117,693</td> </tr> <tr> <td>6,389,497</td> </tr> <tr> <td style="border-top: 1px solid black;">30,357,412</td> </tr> <tr> <td style="border-top: 1px solid black;">\$ 37,528,669</td> </tr> </table>	Total Governmental Funds	\$ 13,171,326	9,819,651	2,483,544	1,115,268	141,756	52,488	3,380,763	63,731		7,282,023	18,119	\$ 37,528,669		\$ 1,944,036	14,000	656,743	1,171,978	3,737	3,380,763	7,171,257		6,146,920	1,153,200		4,577,339	154,000	250,000	188,000	3,380,763	8,117,693	6,389,497	30,357,412	\$ 37,528,669	<table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Total fund balances per Governmental Funds Balance Sheet</td> <td style="width: 5%;"></td> <td style="width: 35%; text-align: right;">\$ 30,357,412</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>Capital assets expensed for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation</td> <td></td> <td style="text-align: right;">53,534,867</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>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> <td></td> <td style="text-align: right;">(21,150,000)</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>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> <td></td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td style="text-align: right;">Accrued interest payable</td> <td style="text-align: right;">\$ 402,620</td> </tr> <tr> <td> </td> <td style="text-align: right;">Accrued compensated absences</td> <td style="text-align: right;">244,680</td> </tr> <tr> <td> </td> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ 647,300</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td style="text-align: center;">Subtotal</td> <td style="text-align: right; border-top: 1px solid black;">31,737,567</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>Total assets per Statement of Net Assets</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 62,094,979</td> </tr> </table>	Total fund balances per Governmental Funds Balance Sheet		\$ 30,357,412				Capital assets expensed for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation		53,534,867				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.		(21,150,000)				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	\$ 402,620		Accrued compensated absences	244,680			\$ 647,300					Subtotal	31,737,567				Total assets per Statement of Net Assets		\$ 62,094,979
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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, 2004

Revenues	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Fund
Property tax and assessments	\$ 2,388,115	\$ -	\$ 1,500,818	\$ 824,325
Sales and use tax (including Measure C)	2,316,883	-	-	-
Transient lodging tax	505,076	-	-	-
Franchise tax	838,885	-	-	-
Real property transfer tax	230,175	-	-	-
Vehicle code fines	185,345	-	-	-
Interest income	344,379	75,122	82,599	69,521
Motor vehicle in lieu tax	1,154,214	-	-	-
Grants - federal	-	500,000	-	-
Grants - state and local	-	1,330,206	-	-
Planning, permits and engineering	1,005,872	-	-	-
Gas tax	-	-	-	-
Drainage impact fees	-	15,869	-	-
Business registration fees	32,882	-	-	-
Park dedication fees	-	163,134	-	-
Walkway fees	-	1,600	-	-
Parking revenue and fees	-	-	-	-
Police	51,375	-	-	-
Abandoned vehicles	-	-	-	-
Unrealized loss on investments	(180,349)	-	-	-
Other	147,784	134,463	3,591	-
Total	<u>9,020,636</u>	<u>2,220,394</u>	<u>1,587,008</u>	<u>893,846</u>
Expenditures				
City council, commissions, and community support	1,073,863	-	64,289	-
Police services	2,312,889	-	-	-
Public works	1,254,725	-	-	-
Planning and engineering	539,297	420,616	887,577	-
Administration	1,093,585	-	242,233	-
Capital projects	-	4,756,069	1,070,481	-
Debt service -	-	-	-	-
Principal	-	-	-	205,000
Interest and charges	-	-	531,128	532,454
Rent and other expenses	74,672	-	-	-
Insurance and claims	81,829	-	-	-
Total expenditures	<u>6,430,860</u>	<u>5,176,685</u>	<u>2,795,708</u>	<u>737,454</u>
Excess (deficiency) of revenues over expenditures	2,589,776	(2,956,291)	(1,208,700)	156,392
Other financing sources				
General obligations bonds issued	-	-	-	6,173,462
Bond issuance costs	-	-	-	(127,467)
Operating transfers - in	480,459	2,668,641	-	-
Operating transfers - out	(1,747,948)	(1,014,777)	-	-
Excess (deficiency) of revenues over expenditures, net of other financing sources	1,322,287	(1,302,427)	(1,208,700)	6,202,387
Beginning fund balance	<u>9,184,973</u>	<u>5,879,766</u>	<u>4,389,232</u>	<u>2,669,995</u>
Ending fund balance	<u>\$ 10,507,260</u>	<u>\$ 4,577,339</u>	<u>\$ 3,180,532</u>	<u>\$ 8,872,382</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, 2004

Statement 4

Other Governmental Funds	Total Governmental Funds
\$ 608,981	\$ 5,322,239
335,718	2,652,601
-	505,076
-	838,885
-	230,175
240,815	426,160
92,235	663,856
-	1,154,214
-	500,000
100,000	1,430,206
-	1,005,872
464,350	464,350
-	15,869
-	32,882
-	163,134
-	1,600
151,507	151,507
-	51,375
11,951	11,951
-	(180,349)
17,000	302,838
<u>2,022,557</u>	<u>15,744,441</u>
-	1,138,152
250,000	2,562,889
648,452	1,903,177
-	1,847,490
324,605	1,660,423
-	5,826,550
-	205,000
-	1,063,582
-	74,672
-	81,829
<u>1,223,057</u>	<u>16,363,764</u>
799,500	(619,323)
-	6,173,462
-	(127,467)
326,037	3,475,137
<u>(736,938)</u>	<u>(3,499,663)</u>
388,599	5,402,146
<u>2,831,300</u>	<u>24,955,266</u>
\$ 3,219,899	\$ 30,357,412

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

Net change in fund balances - total governmental funds \$ 5,402,146

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	\$ 6,681,255	
Depreciation expense	<u>(2,098,533)</u>	
	\$ 4,582,722	4,582,722

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	\$ (6,045,995)	
Principal reduction applied to liability	<u>205,000</u>	
	\$ (5,840,995)	(5,840,995)

Increase in accrued compensated absences previously classified in long-term debt fund constitutes an expense (26,184)

Increase in accrued interest liability previously recognized as paid constitutes an expense (32,882)

Other income items 10,994

Subtotal (1,306,345)

Total change in net assets per Statement of Activities \$ 4,095,801

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, 2004

Statement 5

ASSETS

Current Assets:

Cash and cash equivalents	\$ 240,087
Accounts receivable	5,104
Accrued interest receivable	389
Prepaid expenses	<u>72,323</u>
Total assets	<u>\$ 317,903</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$ 11,602
Refundable deposits	4,323
Deferred revenue	<u>403,292</u>
Total liabilities	<u>419,217</u>

NET ASSETS

Unrestricted (deficit)	<u>(101,314)</u>
Total net assets	<u>(101,314)</u>
Total liabilities and net assets	<u>\$ 317,903</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, 2004

Statement 6

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Recreation Programs				
Operating revenues				
Recreation fees	\$ 823,000	\$ 823,000	\$ 899,279	\$ 76,279
Building rentals	39,000	35,000	32,804	(2,196)
Interest	3,500	3,500	985	(2,515)
Moraga reimbursement	-	-	5,104	5,104
Other	-	-	1,290	1,290
Total	<u>865,500</u>	<u>861,500</u>	<u>939,462</u>	<u>77,962</u>
Operating expenses				
Personnel services	400,987	391,569	441,795	(50,226)
Maintenance	8,000	8,000	9,222	(1,222)
Contractual services	230,000	307,665	385,737	(78,072)
Printing and supplies	93,800	96,300	108,173	(11,873)
Utilities	4,800	4,800	4,395	405
Rental expense	20,000	22,000	16,674	5,326
Capital expenditures	5,000	5,000	-	5,000
Other	8,900	5,000	12,232	(7,232)
Total	<u>771,487</u>	<u>840,334</u>	<u>978,228</u>	<u>(137,894)</u>
Operating income	94,013	21,166	(38,766)	(59,932)
Operating transfers - in	-	5,000	5,000	-
Operating transfers - out	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>
Net income and operating transfers	94,013	26,166	(58,766)	(84,932)
Beginning retained earnings (deficit)	<u>(42,548)</u>	<u>(42,548)</u>	<u>(42,548)</u>	<u>-</u>
Ending retained earnings (deficit)	<u>\$ 51,465</u>	<u>\$ (16,382)</u>	<u>\$ (101,314)</u>	<u>\$ (84,932)</u>

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

City of Lafayette
Statement of Cash Flows
Business Fund Type
For the year ended June 30, 2004

Statement 7

Cash flows from operating activities

Receipts from customers	\$ 958,868
Receipts from Building rentals, net of expense	16,130
Receipts from Interest income	1,356
Other receipts and payments	6,394
Payments for contractual services	(382,773)
Payments for printing and supplies	(108,173)
Payments to employees	(441,795)
Payments for maintenance	(9,222)
Payments for utilities	(4,395)
Other receipts and payments	<u>(12,232)</u>
Net cash provided by operating activities	<u>24,158</u>

Cash flows from noncapital financing activities

Net transfers to General Fund	<u>(20,000)</u>
Net increase in cash deposits and investments	4,158
Cash deposits and investments at beginning of year	<u>235,929</u>
Cash deposits and investments at end of year	<u>\$ 240,087</u>

Operating income (before operating transfers)	\$ (38,766)
Adjustments to reconcile net income to net cash from operating activities	
(Increase) decrease in assets	
Accounts receivable and accrued interest	(4,733)
Prepaid expenses	(45,435)
Increase (decrease) in liabilities	
Accounts payable	2,964
Refundable deposits and deferred revenue	<u>110,128</u>
Net cash provided by operating activities	<u>\$ 24,158</u>

The accompanying notes are an integral part of these financial statements

CITY OF LAFAYETTE
Notes to Basic Financial Statements
June 30, 2004
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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants
- E. Fund Equity (Deficit)

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- A. Cash and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Accounts Payable
- F. Long-term Debt
- G. Interfund Transactions and Balances
- H. Fund Equity

NOTE 4. OTHER NOTES

- A. Employee Benefit Plans
- B. Risk Management
- C. Commitments and Contingencies
- D. Subsequent Events

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

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.

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, 2004

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 of 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 fund balance of \$168,321 (see note 2.E.). Financing is accomplished by means of interfund loans from the General Fund of \$3,380,763 (at 8% interest), a loan with an outstanding balance of \$656,743 from another fund of the City being paid over a remaining period of 20 years with interest at 8%, and tax allocation bonds outstanding of \$6,045,995. The fund balance will increase and the debt service will decrease 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, 2004

- 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, 2004

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 consisted of two assessment district funds established to collect assessments and pay the holders of the debt instruments as payments become due. The remaining principal obligations of the districts were paid in the fiscal year ended June 30, 2004. There were no remaining Agency Funds at June 30, 2004.

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

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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 (when applicable) 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 20 year note payable from the Redevelopment Agency to another governmental fund in the amount of \$656,743 at June 30, 2004. 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 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.

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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:

Type	Useful Life (years)
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.

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

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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 non-current debt in the government-wide statements.

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 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

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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	March 1	March 1
Lien/levy dates	March 1	March 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.

Operating revenues and expenses

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

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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

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

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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, 2004.

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, 2004, 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 (G.O. 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 had previously issued \$10,320,000 of bonds under this authorization. In the fiscal year ended June 30, 2004, the City issued an additional \$6,035,000 of General Obligation Bonds of which \$4,791,110 were placed in trust for the retirement of previously issued G.O. Bonds. 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 three issues of general obligation bonds was as follows at June 30, 2004:

	Original Issue	Total Outstanding	Due in Fiscal year June 30, 2005
1995 Issue	\$ 6,000,000	\$ 5,295,000	\$ 125,000
2002 Issue	4,320,000	4,235,000	85,000
2004 Issue	6,035,000	6,035,000	-
	\$ 16,355,000	\$15,565,000	\$ 210,000

- **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 2003-04, the City's total secured and unsecured assessed valuation is \$3,723,135,732 (full cash value).

Other long-term debt- Redevelopment Fund debt

To help finance Redevelopment projects, on August 6, 2002, the Redevelopment Agency issued \$6,045,995 in bonded indebtedness, which will be repaid using redevelopment tax increment. A principal payment of \$50,000 was scheduled and made on August 1, 2004.

2.E. Fund Equity

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 net asset balance of \$168,321, after recognizing accrual basis adjustments, will be increased as incremental property taxes are received, calculated as follows:

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Total Fund Balance on a "Governmental Fund" basis	\$ 3,180,532
Add fixed assets capitalized	2,697,509
Deduct accrued interest on debt payable	(124,720)
Proceeds on debt issuance, reflected as liability on governmental basis	(5,585,000)
	<u>\$ 168,321</u>

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.

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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.

The City's cash and cash equivalents at June 30, 2004 are categorized as follows:

	Categories			Categorization Not Required	Total
	(1)	(2)	(3)		
<u>Cash items</u>					
Pooled cash, deposits and investments					
Petty cash	\$ -	\$ -	\$ -	\$ 547	\$ 547
Checking accounts-per banks	141,889	1,196,062	-	-	1,337,951
Add deposits in transit	-	-	-	3,577	3,577
Less outstanding checks	-	-	-	(639,873)	(639,873)
	<u>\$ 141,889</u>	<u>\$ 1,196,062</u>	<u>\$ -</u>	<u>\$ (635,749)</u>	<u>\$ 702,202</u>
<u>Short-term Money Market Investments</u>					
U. S. Treasury Obligations (maturing	\$ -	\$ -	\$ -	\$ 5,726,538	\$ 5,726,538
Short-term mutual funds	-	408,052	-	-	408,052
California Local Agency Investment Fund (LAIF)	-	-	-	14,354,748	14,354,748
Less portion of LAMORINDA School bus transportation, not City funds	-	-	-	(498,104)	(498,104)
	<u>\$ -</u>	<u>\$ 408,052</u>	<u>\$ -</u>	<u>\$ 19,583,182</u>	<u>19,991,234</u>
Total cash and investments - City of Lafayette					<u>\$ 20,693,436</u>

Reconciliation to financial statements:

Cash and equivalents - unrestricted	<u>\$ 13,411,413</u>
Cash and equivalents - restricted/debt service	5,730,731
Cash and equivalents - low-moderate income housing	<u>1,551,292</u>
Total restricted	<u>7,282,023</u>
Total cash and equivalents	<u>\$ 20,693,436</u>

The City did not invest in any category 3 investments during the year ended June 30, 2004.

The City's investments with LAIF at June 30, 2004 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

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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.

As of June 30, 2004, the City had \$14,354,748 invested in LAIF, which had invested 1.6% of the pool investment fund in structured notes and asset-backed securities.

Investment in U.S. Treasury and Federal Agency Bonds and Notes

	PAR	Coupon	Maturity Date	Market Value
<u>Federal Agency</u>				
FHLB notes	1,000,000	2.250	12/15/2005	\$ 994,805
FNMA notes (callable)	1,000,000	2.150	1/30/2006	991,415
FHLB notes	1,000,000	2.000	2/13/2006	988,320
FHLB tap notes	500,000	4.500	2/15/2006	513,750
FNMA notes (callable)	970,000	2.340	3/29/2006	961,816
FNMA notes	1,000,000	2.125	4/15/2006	987,813
FHLMC reference notes	1,000,000	2.750	8/15/2006	993,555
FNMA notes	1,000,000	2.375	2/15/2007	975,664
FHLMC notes (callable)	1,000,000	2.850	2/23/2007	984,350
<u>U. S. Treasury</u>				
U.S. Treasury notes	400,000	1.500	3/31/2006	392,734
U.S. Treasury notes	1,000,000	4.625	5/15/2006	1,035,429
				<u>\$ 9,819,651</u>

As U. S. Government obligations, these investments are not required to be categorized.

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Notes to Financial Statements
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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 and equivalents	\$ 6,131,030	\$ 1,150,993	\$ 7,282,023
Accrued interest	15,890	2,229	18,119
Total restricted assets	\$ 6,146,920	\$ 1,153,222	\$ 7,330,142

3.C. Accounts Receivable

The amount of accounts receivable for the business-type activities was \$5,104 at June 30, 2004. Accounts receivable for the governmental activities consist of various taxes and fees dated June 30 and prior received subsequent to June 30, 2004. They include:

Transfer tax	\$	33,972
Measure C - return to source		355,642
Sales tax		387,500
Franchise taxes		47,986
Transient occupancy tax		125,005
Vehicle code fines		29,576
Motor vehicle in lieu tax		21,884
State- Department of Parks & Recreation		1,250,414
Measure C - sales tax		109,000
Metropolitan Transportation Commission / Transportation Development Act		37,000
Other		55,565
	\$	2,483,544

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3.D. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

Governmental Activities	Balance June 30, 2003	Additions	Balance June 30, 2004
Capital Assets:			
Land, easements, & right of way	\$ 8,589,850	\$ 730,853	\$ 9,320,703
Land improvements	1,422,056	82,674	1,504,730
Building & improvements	1,232,292	-	1,232,292
Infrastructure	70,809,179	2,868,115	73,677,294
Equipment & furniture	713,245	-	713,245
Construction in progress	4,668,926	2,999,613	7,668,539
Totals at historical cost	87,435,548	6,681,255	94,116,803
Accumulated depreciation:			
Land improvements	263,322	73,170	336,492
Building & improvements	350,423	18,870	369,293
Infrastructure	37,499,617	1,884,760	39,384,377
Equipment & furniture	370,041	121,733	491,774
Total accumulated depreciation	38,483,403	2,098,533	40,581,936
Governmental activities capital assets, net	\$ 48,952,145	\$ 4,582,722	\$ 53,534,867

*Depreciation expense was charged to governmental activities as follows:

Administration	\$ 5,894
Police services	75,387
Planning & engineering	5,774
Infrastructure and related improvements	2,011,478
Total depreciation	\$ 2,098,533

3.E. Accounts Payable

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

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3.F. Long-Term Debt

The reporting entity's long-term debt is general obligation bond amounts totaling \$15,565,000 and Redevelopment tax allocation bonds of \$5,585,000 to be repaid from governmental activities (see note 2.D.).

A summary of fiscal year ended June 30, 2004 general long-term debt transactions as follows:

	<u>Interest Rates</u>	<u>Balance June 30, 2003</u>	<u>Principal Additions (Retirement) (Prepaid Prior Year)</u>	<u>Balance June 30, 2004</u>
<i>Redevelopment</i>				
Tax allocation bonds				
Bonds issued FY 2003				
Matures to FY 2033	2.25 - 5.3%	\$ 5,585,000	\$ -	\$ 5,585,000
<i>General Obligation</i>				
Bonds Issued FY 1995				
Matures to FY 2026	5.6 to 6%	5,415,000	(120,000)	5,295,000
Bonds Issued FY 2002				
Matures to FY 2026	3.5 to 5%	4,320,000	(85,000)	4,235,000
Bonds Issued FY 2004				
Matures to FY 2026	2.0 to 4.7%	-	6,035,000	6,035,000
Totals		<u>\$ 15,320,000</u>	<u>\$ 5,830,000</u>	<u>\$ 21,150,000</u>

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

	<i>General Obligation Bonds- Issued 1995</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payments due in fiscal years ending June 30:			
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	155,000	276,500	431,500
2010-2014	930,000	1,234,053	2,164,053
2015-2019	1,235,000	920,989	2,155,989
2020-2024	1,635,000	494,850	2,129,850
2025-2026	795,000	48,450	843,450
	<u>\$ 5,295,000</u>	<u>\$ 4,162,459</u>	<u>\$ 9,457,459</u>

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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;			
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	110,000	191,801	301,801
2010-2014	610,000	871,756	1,481,756
2015-2019	775,000	700,628	1,475,628
2020-2024	1,095,000	479,896	1,574,896
2025-2027	1,270,000	65,856	1,335,856
	\$ 4,235,000	\$ 3,126,766	\$ 7,361,766

The following are the debt service obligation related to general obligation bonds issued in fiscal year 2004:

General Obligation Bonds - Issued 2004			
	Principal	Interest	Total
Payments due in fiscal years ending June 30;			
2005	\$ -	\$ 172,113	\$ 172,113
2006	215,000	246,687	461,687
2007	225,000	242,288	467,288
2008	230,000	237,162	467,162
2009	230,000	231,413	461,413
2010-2014	1,340,000	1,003,131	2,343,131
2015-2019	1,675,000	666,655	2,341,655
2020-2024	1,945,000	267,318	2,212,318
2025-2026	175,000	8,342	183,342
	\$ 6,035,000	\$ 3,075,109	\$ 9,110,109

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

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;			
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	110,000	286,468	396,468
2010-2014	620,000	1,354,619	1,974,619
2015-2019	780,000	1,182,887	1,962,887
2020-2024	1,015,000	935,507	1,950,507
2025-2029	1,350,000	599,378	1,949,378
2030-2032	1,380,000	164,450	1,544,450
	<u>\$ 5,585,000</u>	<u>\$ 5,704,015</u>	<u>\$ 11,289,015</u>

The following is a summary of interest and related fees expense incurred on the long-term debt for the year ended June 30, 2004:

	Paid	Incurred
General obligation bonds - 1995 issue	\$ 314,948	\$ 311,868
General obligation bonds - 2002 issue	214,788	213,424
General obligation bonds - 2004 issue	-	37,326
Redevelopment tax allocation bonds-2003 issue	299,328	299,328
Related fees	2,717	2,717
	<u>\$ 831,781</u>	<u>\$ 864,663</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

3.G. Interfund Transactions and Balances

Operating transfers

Fund	Transfers In	Transfers Out
General Fund	\$ 480,459	\$ 1,747,948
Capital project funds	2,668,641	1,014,777
Debt service funds	-	-
Redevelopment agency	-	-
Other governmental funds	326,037	736,938
Subtotal	3,475,137	3,499,663
* Proprietary fund	-	20,000
Fiduciary fund	44,526	-
	<u>\$ 3,519,663</u>	<u>\$ 3,519,663</u>

As discussed in note 1.A., the Redevelopment Agency has borrowed \$3,380,763 (at 8% per annum) from the General Fund, which is to be repaid out of future ad valorem revenues. In addition, the Redevelopment Fund has borrowed \$656,743 from another City fund to be repaid over a 20 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 \$22	\$ 6,146,920
Low/moderate income housing fund	1,153,200
Total restricted for debt service	<u>\$ 7,300,120</u>

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.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

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 2004 was approximately \$2,396,000. The City contributed \$153,597 to the Plan during the year (6.4% of payroll).

The following summarizes transactions in the Plan for the year ended June 30, 2004:

Defined contribution retirement plan:	
Balance June 30, 2003	\$ 1,537,225
Contributions	153,597
Transfers and other transactions	(24,977)
Disbursements, net	(130,796)
Earnings	182,866
Balance June 30, 2004	\$ <u>1,717,915</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.

The following summarizes transactions in the Plan for the year ended June 30, 2004:

Deferred compensation plan:	
Balance June 30, 2003	\$ 2,364,123
Contributions	228,606
Transfers and other adjustments	1,923
Disbursements	(59,855)
Earnings	317,016
Balance June 30, 2004	\$ <u>2,851,813</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

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 Coverage	Deductible (City Portion)
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	\$ 50,000,000	\$ 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

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.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2004

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 developing 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 \$683,461. 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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OTHER SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2004

Exhibit 1

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property tax	\$ 2,312,350	\$ 2,300,000	\$ 2,388,115	\$ 88,115
Sales and use tax	2,200,000	2,250,000	2,316,883	66,883
Transient lodging tax	400,000	425,000	505,076	80,076
Franchise tax	775,000	775,000	838,885	63,885
Real property transfer tax	160,751	185,000	230,175	45,175
Vehicle code fines	200,000	200,000	185,345	(14,655)
Interest income	122,000	201,000	344,379	143,379
Motor vehicle in lieu tax	450,000	450,000	1,154,214	704,214
Planning, permits and fees	843,000	866,500	1,005,872	139,372
Business registration fees	32,714	32,714	32,882	168
Police services	70,000	70,000	51,375	(18,625)
Unrealized loss on investments	-	-	(180,349)	(180,349)
Other	52,500	70,500	147,784	77,284
	<u>7,618,315</u>	<u>7,825,714</u>	<u>9,020,636</u>	<u>1,194,922</u>
Expenditures				
City council, commissions and community support				
City council	89,806	297,006	282,906	14,100
Commissions and committees	836,845	863,113	790,957	72,156
Police services	2,497,329	2,767,352	2,312,889	454,463
Public works				
Street maintenance	726,571	647,026	640,464	6,562
Traffic maintenance	342,084	317,257	222,975	94,282
Storm drain maintenance	195,742	158,724	96,896	61,828
Parks and walkway maintenance	202,573	195,276	175,600	19,676
Facilities maintenance	135,234	118,814	118,790	24
Emergency response	150,000	50,000	-	50,000
Planning and engineering				
Planning department	498,503	376,330	350,089	26,241
Engineering department	207,916	213,169	189,208	23,961
Administration				
City management	335,683	318,816	280,849	37,967
Legal services	300,000	330,000	184,531	145,469
City clerk	126,747	113,290	95,608	17,682
Finance and personnel	387,846	389,041	369,851	19,190
Technology services	130,318	123,906	117,854	6,052
Business registration fees	46,204	49,029	44,892	4,137
Rent and other expenses	86,846	80,832	74,672	6,160
Insurance - premiums and claims	150,000	180,000	81,829	98,171
	<u>7,446,247</u>	<u>7,588,981</u>	<u>6,430,860</u>	<u>1,158,121</u>
Excess of revenues over expenditures	172,068	236,733	2,589,776	2,353,043
Other financing sources				
Operating transfers - in	35,459	60,459	480,459	420,000
Operating transfers - out	(1,641,000)	(1,747,948)	(1,747,948)	-
Excess of revenues over expenditures and other financing sources	(1,433,473)	(1,450,756)	1,322,287	2,773,043
Beginning fund balance	<u>9,184,973</u>	<u>9,184,973</u>	<u>9,184,973</u>	<u>-</u>
Ending fund balance	<u>\$ 7,751,500</u>	<u>\$ 7,734,217</u>	<u>\$ 10,507,260</u>	<u>\$ 2,773,043</u>

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet
For the Year Ended June 30, 2004

Exhibit 2

ASSETS	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	
Cash	216,396	\$ -	\$ -	\$ 216,396	\$ -	\$ -	216,396
Local Agency Investment Fund	5,458,752	-	338,311	5,797,063	-	-	5,797,063
Accrued interest receivable	10,784	-	-	10,784	-	-	10,784
Other assets	1,166	725	692	2,583	-	-	2,583
Restricted assets for:							
Money Market investments	-	-	-	-	400,299	1,150,993	1,551,292
Accrued interest receivable	-	-	-	-	-	2,229	2,229
Total assets	\$ 5,687,098	\$ 725	\$ 339,003	\$ 6,026,826	\$ 400,299	\$ 1,153,222	\$ 7,580,347
LIABILITIES AND NET ASSETS							
Accounts payable and accrued liabilities	\$ 39,691	\$ 127,162	\$ 195,434	\$ 362,287	\$ -	\$ 22	\$ 362,309
Advances from general fund	1,172,204	1,323,491	885,068	3,380,763	-	-	3,380,763
Loan payable to general fund	-	-	656,743	656,743	-	-	656,743
Total liabilities and other credits	1,211,895	1,450,653	1,737,245	4,399,793	-	22	4,399,815
Fund balances							
Restricted for:							
Debt service	-	-	-	-	400,299	-	400,299
Low/moderate income housing	-	-	-	-	-	1,153,200	1,153,200
Other	4,475,203	(1,449,928)	(1,398,242)	1,627,033	-	-	1,627,033
Unrestricted							
Fund equity	4,475,203	(1,449,928)	(1,398,242)	1,627,033	400,299	1,153,200	3,180,532
Total liabilities and fund equity	\$ 5,687,098	\$ 725	\$ 339,003	\$ 6,026,826	\$ 400,299	\$ 1,153,222	\$ 7,580,347

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2004

Exhibit 3

	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	\$ 835,518	-	\$ -	\$ 835,518	\$ 295,774	\$ 369,526	\$ 1,500,818
Investment income	70,192	-	-	70,192	1,832	10,575	82,599
Other revenue	3,591	-	-	3,591	-	-	3,591
Total revenues	909,301	-	-	909,301	297,606	380,101	1,587,008
Expenditures							
Administrative costs	161,202	40,672	-	201,874	-	-	201,874
Planning and design	347,938	427,019	98,821	873,778	-	-	873,778
Real estate purchase (land)	-	683,461	47,392	730,853	-	-	730,853
Improvement costs	-	-	339,628	339,628	-	-	339,628
Interest expense	93,775	36,739	101,286	231,800	299,328	-	531,128
Professional services	4,775	-	-	4,775	-	-	4,775
Community promotion	9,024	-	-	9,024	-	-	9,024
Subsidies	-	-	-	-	-	-	-
Other expenses	19,674	9,320	-	28,994	-	64,289	64,289
Total disbursements	636,388	1,197,211	587,127	2,420,726	299,328	11,365	40,359
Excess (deficiency) of revenues over expenditures	272,913	(1,197,211)	(587,127)	(1,511,425)	(1,722)	304,447	(1,208,700)
Other financing sources (uses):							
Tax allocation bonds issue	-	-	-	-	-	-	-
Less costs of issuance	-	-	-	-	-	-	-
Operating transfers - out	(369,314)	-	369,314	-	-	-	-
Total other financing sources (uses)	(369,314)	-	369,314	-	-	-	-
Excess (deficiency) of revenues over expenditures, net of other financing sources	(96,401)	(1,197,211)	(217,813)	(1,511,425)	(1,722)	304,447	(1,208,700)
Beginning fund balances	4,571,604	(252,717)	(1,180,429)	3,138,458	402,021	848,753	4,389,232
Ending fund balances	\$ 4,475,203	\$ (1,449,928)	\$ (1,398,242)	\$ 1,627,033	\$ 400,299	\$ 1,153,200	\$ 3,180,532