

CITY OF LAFAYETTE
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2005
(With Auditors' Report Thereon)

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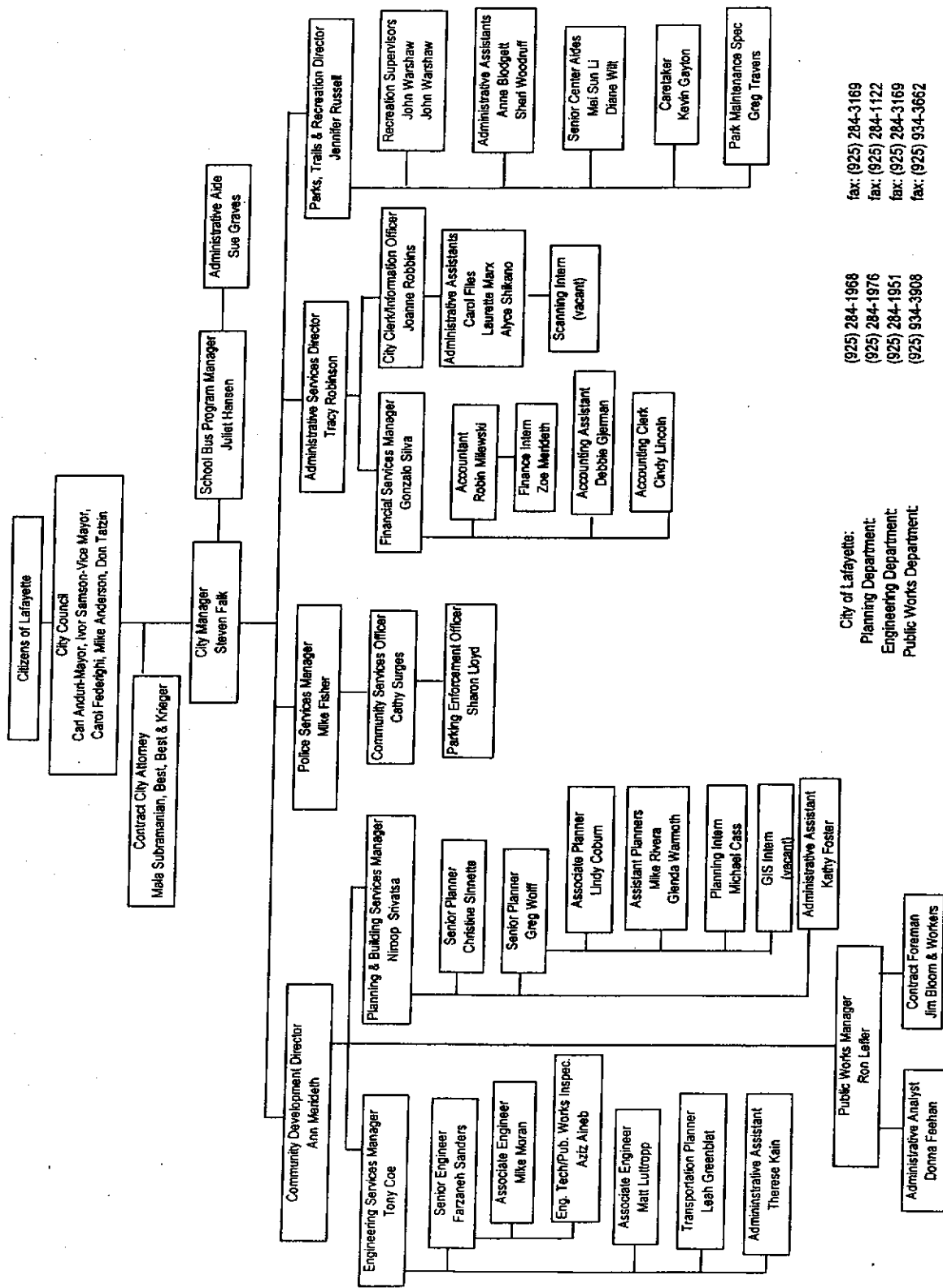
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City of Lafayette Organization Chart



City of Lafayette:
 Planning Department:
 Engineering Department:
 Public Works Department:

(925) 284-1968
 (925) 284-1976
 (925) 284-1951
 (925) 934-3808

(925) 284-3169
 (925) 284-1122
 (925) 284-3169
 (925) 934-3662

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**CITY OF LAFAYETTE
CITY OFFICIALS AS OF JUNE 30, 2005**

MAYOR

Carl Anduri

Term Expires November 2008

CITY COUNCIL

Don Tatzin
Term Expires November 2006

Carol Federighi
Term Expires November 2008

Ivor Samson
Term Expires November 2006

Mike Anderson
Term Expires November 2008

CITY MANAGER

Steven B. Falk - 15 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson - 5 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva - 15 years of service

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Management's Discussion and Analysis

INTRODUCTION

As management of the City of Lafayette (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2005

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.

FINANCIAL HIGHLIGHTS

- The City's net assets increased by \$3,542,258. The governmental net assets increased by \$3,491,919 and the business-type net assets (e.g. Parks & Recreation) increased by \$50,339.
- The City's net assets reflected combined ending fund balances of \$65,535,923 of which, \$18,827,520 is unreserved and available for spending at the council's discretion.
- In the Governmental Fund balance sheet, the unreserved fund balance for the General Fund was \$7,277,373, an increase of \$887,876 compared with the prior year.
- The City's total bond debt decreased by \$260,000 during the current fiscal year. The total debt balance at year-end was \$20,890,000.
- Motor Vehicle fees in the financial statements reflect \$1,363,185 allocated to the City in the form of Sales Tax exchange to make up for the State's reduction in vehicle license fees. (VLF).
- The increase in investment income for the year was due to the mark down to market value being greater in fiscal 2004 than it was in 2005.

Comparison of Revenues and Expenses for the years ending June 30, 2005 and 2004:

	2005	2004	Change
Revenues			
Property Tax	\$ 5,346,924	\$ 5,322,239	0.46%
Sales Tax	2,802,614	2,652,601	5.66%
Franchise Fees	885,008	838,885	5.50%
Motor Vehicle Fee	1,693,729	1,154,214	46.74%
Transient Occupancy	525,729	505,076	4.09%
Investment income	612,516	251,706	143.35%
Vehicle Fines	406,147	426,160	-4.70%
Grants	1,620,232	1,930,206	-16.06%
Fees for Service	1,097,534	1,249,801	-12.18%
Parking Fees	123,521	151,507	-18.47%
Gas Tax	463,392	464,350	-0.21%
Transfer tax	233,319	230,175	1.37%
Other	254,756	302,189	-15.70%
Recreation Programs	<u>1,138,857</u>	<u>939,462</u>	21.22%
TOTAL	<u>17,204,278</u>	<u>16,418,571</u>	4.79%
Expenses			
Council & Commissions	904,728	1,138,152	-20.51%
Police	2,710,671	2,638,276	2.74%
Public Works / Infrastructure	4,076,233	3,914,655	4.13%
Planning & Engineering	1,092,620	979,486	11.55%
Administration	2,433,513	1,774,330	37.15%
Debt Service - Interest	1,068,010	864,663	23.52%
Other	301,709	93,746	221.84%
Recreation Programs	<u>1,074,536</u>	<u>978,228</u>	9.85%
TOTAL	<u>13,662,020</u>	<u>12,381,536</u>	10.34%
Excess of Revenue over Expenses	<u>\$ 3,542,258</u>	<u>\$ 4,037,035</u>	-12.26%

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, 2005	Governmental Activities	Business Activities	Total
Beginning Net Assets	\$62,094,979	(\$101,314)	\$61,993,665
Increase/Decrease	3,491,919	50,339	3,542,258
Ending Net Assets	\$65,586,898	(\$50,975)	\$65,535,923

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 5.71 % from prior year
2. Assets exceeded liabilities by \$65,535,923 at year-end

60.30 % of the City's net assets (\$39,488,414) 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. 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 \$9,805,397 the remainder must be funded out of

general revenue. This year, the City received \$13,347,655 in general revenue, \$3,542,258 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 \$1,089,536 and revenue of \$1,139,875, that program showed a gain of \$ 50,339. Therefore, the City's net assets increased by an equal amount. This is the first year that this enterprise fund has shown a profit in the last four years.

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 on 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, 2005, the City's governmental funds reported combined ending fund balances of \$26,842,006, a decrease of \$3,515,406 in comparison to the prior year fund balance. This was due primarily to drawing down the bond proceeds that were issued to complete construction on the Veterans Memorial Building.

Approximately 72.88 % 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, 2005 totaled \$60,378,414 (net of accumulated depreciation of \$42,720,885), which represents an increase of \$6,843,547 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 28 of the financial statement.

Major capital asset additions during the current fiscal year include:

- Pleasant Hill Road Multi Purpose Path
- The Moraga Road Corridor Improvements
- 2005 Pavement Management Project

Long Term Debt

At the end of the current fiscal year, the City had a \$21,159,803 in long-term debt, which includes \$269,803 in accrued vacations and leave, \$5,535,000 in Redevelopment bonds and \$15,355,000 in General Obligation bonds. The entire debt was reduced by \$260,000 (3%) due to principal repayment.

STRENGTHS & RISKS

General Fund

The general fund is the primary operating fund of the City. At June 30, 2005, the undesignated fund balance was \$7,277,373, an increase of \$887,876 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 100 % of the general fund expenditures, which means that the City is in a very strong position and could cover 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 \$23 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 placed a measure on the November 2004 ballot asking the residents to approve the sale of \$29 millions in bonds, however, the measure did not pass. Staff is currently working with a citizen task force to recommend alternatives.

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 four years and this deficit will increase over time as expenses multiply but revenue remains flat. However, staff is currently working with a consultant to increase the Core Area Assessment. 50% of the property owners would need to approve the increase and we expect that they will be voting on this issue around July 2006.

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 7.46 % from \$3,723,135,732 in fiscal year 2003/2004 to \$4,000,826,917 in fiscal year 2004/2005 , thus increasing property tax revenue from \$5,322,239 to \$5,580,243 after the ERAF deduction of \$252,593. 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 5.66 % during the year, from \$2,652,601 to \$ 2,802,614.

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 \$1,693,729 in 2004-2005 versus \$1,154,214 in 2003-2004 an increase of \$ 539,515 in VLF revenues.

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

Request for Information

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

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

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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 June 30, 2005, 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. 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, 2005, 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.

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 have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lafayette's basic financial statements. The introductory section and combining fund financial statements of the Redevelopment Agency are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements of the Redevelopment Agency 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

October 14, 2005

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BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE
Statement of Net Assets
June 30, 2005

Statement 1

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 4,717,725	\$ 295,204	\$ 5,012,929
Investment in bonds	14,717,117	-	\$ 14,717,117
Accounts receivable	2,442,171	8,470	2,450,641
Notes receivable	458,525	-	458,525
Accrued interest receivable	180,764	391	181,155
Prepaid assets	52,606	24,828	77,434
Other assets	40,565	-	40,565
	22,609,473	328,893	22,938,366
Restricted Assets-debt service:			
Cash and cash equivalents	7,228,046	-	7,228,046
Accrued interest	2,105	-	2,105
	7,230,151	-	7,230,151
Capital Assets, net of accumulated depreciation			
Land, easements & right of way	9,320,703	-	9,320,703
Land improvements	3,031,883	-	3,031,883
Buildings & improvements	844,128	-	844,128
Infrastructure	35,943,957	-	35,943,957
Equipment & Furniture	261,434	-	261,434
Construction in progress	10,976,309	-	10,976,309
	60,378,414	-	60,378,414
Total assets	\$ 90,218,038	\$ 328,893	\$ 90,546,931
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 1,803,458	\$ 12,025	\$ 1,815,483
Accrued interest payable	473,719	-	473,719
Refundable deposits	1,190,423	8,041	1,198,464
Deferred revenue	3,787	359,802	363,539
Bonds payable-current	515,000	-	515,000
Total current liabilities	3,986,337	379,868	4,366,205
Noncurrent Liabilities:			
Accrued compensated absences	269,803	-	269,803
Bonds payable	20,375,000	-	20,375,000
Total noncurrent liabilities	20,644,803	-	20,644,803
Total liabilities	24,631,140	379,868	25,011,008
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	39,488,414	-	39,488,414
Restricted for:			
Debt service	5,778,802	-	5,778,802
Low/moderate income housing	1,441,187	-	1,441,187
Unrestricted	18,878,495	(50,975)	18,827,520
Total net assets (deficit)	65,586,898	(50,975)	65,535,923
Total liabilities and net assets	\$ 90,218,038	\$ 328,893	\$ 90,546,931

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, 2005

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	\$ 904,728	\$ -	\$ -	\$ -	\$ (904,728)	\$ -	\$ (904,728)
Administration	2,433,513	-	-	-	(2,433,513)	-	(2,433,513)
Police services	2,710,671	64,964	100,000	-	(2,545,707)	-	(2,545,707)
Public works	2,040,219	172,493	-	1,520,232	(347,494)	-	(347,494)
Infrastructure - depreciation	2,036,014	-	-	-	(2,036,014)	-	(2,036,014)
Planning & engineering	1,092,620	860,077	-	-	(232,543)	-	(232,543)
Interest & debt charges	1,068,010	-	-	-	(1,068,010)	-	(1,068,010)
Other	301,709	-	-	-	(301,709)	-	(301,709)
Total governmental activities	<u>12,587,484</u>	<u>1,097,534</u>	<u>100,000</u>	<u>1,520,232</u>	<u>(9,869,718)</u>	-	<u>(9,869,718)</u>
<i>Business Type Activities:</i>							
Recreation programs	<u>1,074,536</u>	<u>1,138,857</u>	-	-	-	<u>64,321</u>	<u>64,321</u>
Total primary government	<u>13,662,020</u>	<u>2,236,391</u>	-	-	-	<u>64,321</u>	<u>(9,805,397)</u>
General revenues:							
Property tax and Assessments	-	-	-	-	5,346,924	-	5,346,924
Sales taxes	-	-	-	-	2,802,614	-	2,802,614
Franchise taxes	-	-	-	-	885,008	-	885,008
Transient occupancy tax	-	-	-	-	525,729	-	525,729
Vehicle code fines	-	-	-	-	406,147	-	406,147
Motor vehicle in lieu tax	-	-	-	-	1,693,729	-	1,693,729
Gas Tax	-	-	-	-	463,392	-	463,392
Transfer tax	-	-	-	-	233,319	-	233,319
Business registrations	-	-	-	-	24,593	-	24,593
Parking revenues	-	-	-	-	123,521	-	123,521
Investment income	-	-	-	-	611,498	1,018	612,516
Other	-	-	-	-	230,163	-	230,163
Transfers to Enterprise Fund, net	-	-	-	-	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>
					<u>13,361,637</u>	<u>(13,982)</u>	<u>13,347,655</u>
Change in net assets					3,491,919	50,339	3,542,258
Net assets at beginning of year					<u>62,094,979</u>	<u>(101,314)</u>	<u>61,993,665</u>
Net assets at end of year					<u>\$ 65,586,898</u>	<u>\$ (50,975)</u>	<u>\$ 65,535,923</u>

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

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2005

ASSETS	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Funds	Other Governmental Funds
Cash and cash equivalents	\$ (5,536,170)	\$ 7,181,814	\$ 333,760	459,010	\$ 2,279,311
Investment in bonds	14,717,117	-	-	-	-
Accounts receivable	714,556	308,321	1,020,640	-	398,654
Notes Receivable	-	458,525	-	-	640,897
Accrued interest receivable	117,929	40,880	9,422	8,752	3,781
Prepaid expenses	52,606	0	-	-	-
Due from other funds	3,979,983	-	-	-	-
Other assets	40,565	-	-	-	-
Restricted Assets:					
Cash deposits and investments	-	-	1,853,852	5,374,194	-
Accrued interest receivable	-	-	2,105	-	-
Total assets	<u>\$ 14,086,586</u>	<u>\$ 7,989,540</u>	<u>\$ 3,219,779</u>	<u>\$ 5,841,956</u>	<u>\$ 3,322,643</u>
LIABILITIES AND NET ASSETS					
<u>Liabilities</u>					
Accounts payable and accrued expenses	\$ 838,752	\$ 254,181	\$ 579,979	\$ 800	\$ 111,645
Claims payable	18,100	-	-	-	-
Loan payable	-	-	640,897	-	-
Refundable deposits	1,190,111	312	-	-	-
Deferred revenue	17	-	-	-	3,720
Due to other funds	-	-	3,979,983	-	-
Total liabilities	<u>2,046,980</u>	<u>254,493</u>	<u>5,200,859</u>	<u>800</u>	<u>115,366</u>
<u>Net Assets</u>					
Restricted for:					
Debt service	-	-	404,608	5,374,194	-
Low/moderate income housing	-	-	1,441,187	-	-
Unrestricted:					
Designated for:					
Capital projects	-	5,770,446	-	-	-
Traffic control	226,500	-	-	-	-
Insurance	250,000	-	-	-	-
Vehicles	160,750	-	-	-	-
Redevelopment	3,979,983	-	-	-	-
Other	145,000	1,964,601	(3,826,875)	466,962	3,207,277
Undesignated	7,277,373	-	-	-	-
Total net assets	<u>12,039,606</u>	<u>7,735,047</u>	<u>(1,981,080)</u>	<u>5,841,156</u>	<u>3,207,277</u>
Total liabilities and net assets	<u>\$ 14,086,586</u>	<u>\$ 7,989,540</u>	<u>\$ 3,219,779</u>	<u>\$ 5,841,956</u>	<u>\$ 3,322,643</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> <td style="border-bottom: 1px solid black;"></td> </tr> <tr> <td>\$ 4,717,725</td> <td></td> </tr> <tr> <td>14,717,117</td> <td></td> </tr> <tr> <td>2,442,171</td> <td></td> </tr> <tr> <td>1,099,422</td> <td></td> </tr> <tr> <td>180,764</td> <td></td> </tr> <tr> <td>52,606</td> <td></td> </tr> <tr> <td>3,979,983</td> <td></td> </tr> <tr> <td>40,565</td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>7,228,046</td> <td></td> </tr> <tr> <td>2,105</td> <td></td> </tr> <tr> <td style="border-top: 1px solid black;">\$ 34,460,504</td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>\$ 1,785,357</td> <td></td> </tr> <tr> <td>18,100</td> <td></td> </tr> <tr> <td>640,897</td> <td></td> </tr> <tr> <td>1,190,423</td> <td></td> </tr> <tr> <td>3,737</td> <td></td> </tr> <tr> <td>3,979,983</td> <td></td> </tr> <tr> <td style="border-top: 1px solid black;">7,618,498</td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>5,778,802</td> <td></td> </tr> <tr> <td>1,441,187</td> <td></td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>5,770,446</td> <td></td> </tr> <tr> <td>226,500</td> <td></td> </tr> <tr> <td>250,000</td> <td></td> </tr> <tr> <td>160,750</td> <td></td> </tr> <tr> <td>3,979,983</td> <td></td> </tr> <tr> <td>1,956,965</td> <td></td> </tr> <tr> <td>7,277,373</td> <td></td> </tr> <tr> <td style="border-top: 1px solid black;">26,842,006</td> <td></td> </tr> </table>	Total Governmental Funds		\$ 4,717,725		14,717,117		2,442,171		1,099,422		180,764		52,606		3,979,983		40,565		 		7,228,046		2,105		\$ 34,460,504		 		\$ 1,785,357		18,100		640,897		1,190,423		3,737		3,979,983		7,618,498		 		5,778,802		1,441,187		 		5,770,446		226,500		250,000		160,750		3,979,983		1,956,965		7,277,373		26,842,006		<table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Total fund balances per Governmental Funds Balance Sheet</td> <td style="width: 20%; text-align: right;">\$ 26,842,006</td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>Capital assets expended for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation</td> <td style="text-align: right;">60,378,414</td> </tr> <tr> <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 style="text-align: right;">(20,890,000)</td> </tr> <tr> <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> </tr> <tr> <td style="padding-left: 40px;">Accrued interest payable</td> <td style="text-align: right;">\$ 473,719</td> </tr> <tr> <td style="padding-left: 40px;">Accrued compensated absences</td> <td style="text-align: right;">269,803</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ 743,522</td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td style="text-align: center;">Subtotal</td> <td style="text-align: right; border-top: 1px solid black;">38,744,892</td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>Total assets per Statement of Net Assets</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 65,586,898</td> </tr> </table>	Total fund balances per Governmental Funds Balance Sheet	\$ 26,842,006	 		Capital assets expended for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation	60,378,414	 		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.	(20,890,000)	 		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	\$ 473,719	Accrued compensated absences	269,803		\$ 743,522	 		Subtotal	38,744,892	 		Total assets per Statement of Net Assets	\$ 65,586,898
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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, 2005

Revenues	General Fund	Capital Project Funds	Redevelopment Fund	Debt Service Fund
Property tax and assessments	\$2,413,348	\$ -	\$ 1,418,106	\$ 892,551
Sales and use tax (including Measure C)	2,428,323	-	-	-
Transient lodging tax	525,729	-	-	-
Franchise tax	885,008	-	-	-
Real property transfer tax	233,319	-	-	-
Vehicle code fines	195,850	-	-	-
Interest income	993,118	43,949	48,800	110,130
Motor vehicle in lieu tax	1,693,729	-	-	-
Grants - federal	-	-	-	-
Grants - state and local	-	499,592	1,020,640	-
Planning, permits and engineering	860,077	-	-	-
Gas tax	-	-	-	-
Drainage impact fees	-	22,483	-	-
Business registration fees	24,593	-	-	-
Park dedication fees	-	149,261	-	-
Walkway fees	-	749	-	-
Parking revenue and fees	-	-	-	-
Police	51,296	-	-	-
Abandoned vehicles	-	-	-	-
Unrealized loss on investments	-	-	-	-
Other	145,779	45,972	38,251	-
Total	<u>10,450,169</u>	<u>762,006</u>	<u>2,525,797</u>	<u>1,002,681</u>
Expenditures Infrastructure				
City council, commissions, and community support	904,728	-	-	-
Police services	2,746,549	-	-	-
Public works	1,344,237	-	-	-
Planning and engineering	554,318	381,540	1,075,406	-
Administration	1,090,936	-	502,456	-
Capital projects	-	2,863,252	5,068,523	-
Debt service -	-	-	-	-
Principal	-	-	50,000	210,000
Interest and charges	-	-	950,524	698,146
Rent and other expenses	298,894	-	-	-
Insurance and claims	169,981	-	-	-
Total expenditures	<u>7,109,643</u>	<u>3,244,792</u>	<u>7,646,909</u>	<u>908,146</u>
Excess (deficiency) of revenues over expenditures	3,340,526	(2,482,786)	(5,121,112)	94,535
Other financing sources				
Operating transfers - in	440,000	6,465,686	-	-
Operating transfers - out	<u>(2,248,180)</u>	<u>(825,194)</u>	<u>(40,500)</u>	<u>(3,125,761)</u>
Excess (deficiency) of revenues over expenditures, net of other financing source	1,532,346	3,157,706	(5,161,612)	(3,031,226)
Beginning fund balance	<u>10,507,260</u>	<u>4,577,341</u>	<u>3,180,532</u>	<u>8,872,382</u>
Ending fund balance	<u>\$ 12,039,606</u>	<u>\$ 7,735,047</u>	<u>\$ (1,981,080)</u>	<u>\$ 5,841,156</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, 2005

Statement 4

Other Governmental Funds	Total Governmental Funds
\$ 622,919	\$ 5,346,924
374,291	2,802,614
-	525,729
-	885,008
-	233,319
210,297	406,147
67,260	1,263,257
-	1,693,729
-	-
100,000	1,620,232
-	860,077
463,392	463,392
-	22,483
-	24,593
-	149,261
-	749
123,521	123,521
-	51,296
13,668	13,668
-	-
161	230,163
<u>1,975,509</u>	<u>16,716,162</u>
-	904,728
-	2,746,549
697,895	2,042,132
-	2,011,264
639,183	2,232,575
-	7,931,775
-	260,000
-	1,648,670
-	298,894
-	169,981
<u>1,337,078</u>	<u>20,246,568</u>
638,431	(3,530,406)
429,949	7,335,635
<u>(1,081,000)</u>	<u>(7,320,635)</u>
(12,620)	(3,515,406)
<u>3,219,897</u>	<u>30,357,412</u>
<u>\$ 3,207,277</u>	<u>\$ 26,842,006</u>

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

Net change in fund balances - total governmental funds \$ (3,515,406)

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	\$ 8,982,496	
Depreciation expense	<u>(2,138,949)</u>	
	\$ 6,843,547	6,843,547

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.

Principal reduction applied to liability 260,000

Increase in accrued compensated absences previously classified in long-term debt fund constitutes an expense (25,123)

Increase in accrued interest liability previously recognized as paid constitutes an expense	<u>(71,099)</u>
Subtotal	<u>7,007,325</u>

Total change in net assets per Statement of Activities \$ 3,491,919

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, 2005

Statement 5

ASSETS

Current Assets:

Cash and cash equivalents	\$ 295,204
Accounts receivable	8,470
Accrued interest receivable	391
Prepaid expenses	<u>24,828</u>
Total assets	<u>\$ 328,893</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$ 12,025
Refundable deposits	8,041
Deferred revenue	<u>359,802</u>
Total liabilities	<u>379,868</u>

NET ASSETS

Unrestricted (deficit)	<u>(50,975)</u>
Total net assets	<u>(50,975)</u>
Total liabilities and net assets	<u>\$ 328,893</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, 2005

Statement 6

Recreation Programs	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues				
Recreation fees	\$ 910,000	\$ 1,057,862	\$ 1,024,398	\$ (33,464)
Building rentals	35,000	35,000	44,277	9,277
Interest	3,000	3,000	1,018	(1,982)
Moraga reimbursement	-	16,000	11,367	(4,633)
Other	15,000	1,500	58,815	57,315
Total	<u>963,000</u>	<u>1,113,362</u>	<u>1,139,875</u>	<u>26,513</u>
Operating expenses				
Personnel services	387,615	432,415	434,864	(2,449)
Maintenance	17,660	17,660	21,590	(3,930)
Contractual services	400,000	406,000	478,811	(72,811)
Printing and supplies	100,800	106,300	108,482	(2,182)
Utilities	4,800	4,800	4,588	212
Rental expense	18,000	18,000	21,219	(3,219)
Capital expenditures	-	-	-	-
Other	6,000	6,000	4,982	1,018
Total	<u>934,875</u>	<u>991,175</u>	<u>1,074,536</u>	<u>(83,361)</u>
Operating income	28,125	122,187	65,339	(56,848)
Operating transfers - in	-	5,000	5,000	-
Operating transfers - out	-	-	(20,000)	(20,000)
Net income and operating transfers	28,125	127,187	50,339	(76,848)
Beginning retained earnings (deficit)	<u>(101,314)</u>	<u>(101,314)</u>	<u>(101,314)</u>	<u>-</u>
Ending retained earnings (deficit)	<u>\$ (73,189)</u>	<u>\$ 25,873</u>	<u>\$ (50,975)</u>	<u>\$ (76,848)</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, 2005

Statement 7

Cash flows from operating activities

Receipts from customers	\$ 981,260
Receipts from Building rentals, net of expense	23,058
Receipts from Interest income	1,016
Other receipts and payments	70,182
Payments for contractual services	(438,811)
Payments for printing and supplies	(100,564)
Payments to employees	(434,864)
Payments for maintenance	(21,590)
Payments for utilities	(4,588)
Other receipts and payments	<u>(4,982)</u>
Net cash provided by operating activities	<u>70,117</u>

Cash flows from noncapital financing activities

Net transfers to General Fund, net	<u>(15,000)</u>
Net increase in cash deposits and investments	55,117
Cash deposits and investments at beginning of year	<u>240,087</u>
Cash deposits and investments at end of year	<u>\$ 295,204</u>

Operating income (before operating transfers)	\$ 65,339
Adjustments to reconcile net income to net cash from operating activities	
(Increase) decrease in assets	
Accounts receivable and accrued interest	(3,368)
Prepaid expenses	47,495
Increase (decrease) in liabilities	
Accounts payable	423
Refundable deposits and deferred revenue	<u>(39,772)</u>
Net cash provided by operating activities	<u>\$ 70,117</u>

The accompanying notes are an integral part of these financial statements

CITY OF LAFAYETTE
Notes to Basic Financial Statements
June 30, 2005
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

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CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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, 2005

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 \$1,036,340 (see note 2.E.). Financing is accomplished by means of interfund loans from the General Fund of \$3,979,983 (at 8% interest), a loan with an outstanding balance of \$640,897 from another fund of the City being paid over a remaining period of 18 years with interest at 8%, and tax allocation bonds outstanding of \$5,535,000. 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, 2005

- 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, 2005

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 had 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, 2005.

Major and non-major funds

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

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

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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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Notes to Financial Statements
June 30, 2005

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 (18 remaining) payable from the Redevelopment Agency to another governmental fund in the amount of \$640,897 at June 30, 2005. 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:

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

Fund Financial Statements

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

Restricted assets

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

Long-term debt

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

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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June 30, 2005

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 30,

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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).

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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, 2005.

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, 2005, 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. On July 15, 2005, \$5,170,000, the remaining balance of the 1995 G.O. Bond issue was retired in full with interest due thereon of \$152,293 and a call premium of \$100,800.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

The liability for the three issues of general obligation bonds was as follows at June 30, 2005:

	<u>Original Issue</u>	<u>Total Outstanding</u>	<u>Due in Fiscal year June 30, 2005</u>
1995 Issue	\$ 6,000,000	\$ 5,170,000	\$ 130,000
2002 Issue	4,320,000	4,150,000	95,000
2004 Issue	6,035,000	6,035,000	215,000
	<u>\$ 16,355,000</u>	<u>\$ 15,355,000</u>	<u>\$ 440,000</u>

- **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 2004-05, the City's total secured and unsecured assessed valuation is \$4,000,826,907 (full cash value).

Other long-term debt- Redevelopment Fund debt

To help finance Redevelopment projects, on August 6, 2002, the Redevelopment Agency issued - in bonded indebtedness, which will be repaid using redevelopment tax increment. A principal payment of \$75,000 was scheduled and made on August 1, 2005.

2. E. Fund Equity

Redevelopment Agency - Fund Equity

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 \$1,036,340 after recognizing accrual basis adjustments, will be increased as incremental property taxes are received. The Fund equity is calculated as follows:

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

Total Fund Balance (deficit) on a "Governmental Fund" basis	\$ (1,981,080)
Add fixed assets capitalized	8,676,671
Deduct accrued interest on debt payable	(124,251)
Proceeds on debt issuance, reflected as liability on governmental basis	<u>(5,535,000)</u>
Fund Equity - Redevelopment Fund	<u>\$ 1,036,340</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 had the following cash and investments at June 30, 2005:

<u>Cash and Cash Equivalents:</u>		<u>Moody Rating</u>
Deposits in Banks	\$ 681,153	N/A
Petty Cash	547	N/A
Local Agency Investment Fund - State of California	5,775,568	N/A
U.S. Treasury Notes, Maturing 7/15/2005 at market value	<u>5,783,707</u>	AAA
Total Cash and Cash Equivalents	12,240,975	
Investment in U.S. Treasury and Federal Agency Bonds, at market value, Maturing December 2005 to September 2006, Par \$ 14,870,000 (see listing which follows)	<u>14,717,117</u>	AAA
Total Cash and Investments	<u>\$ 26,958,092</u>	

	<u>Cash and Cash Equivalents</u>	<u>Investment in Bonds</u>
Reconciliation to financial statements:		
Cash and equivalents - unrestricted	<u>\$ 5,012,929</u>	<u>\$ 14,717,117</u>
Cash and equivalents - restricted/debt service	5,778,802	-
Cash and equivalents - low-moderate income housing	<u>1,449,244</u>	-
Total restricted	<u>7,228,046</u>	-
Total cash	<u>\$ 12,240,975</u>	<u>\$ 14,717,117</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. A. Cash and Investments (continued)

The City's investments with LAIF at June 30, 2005 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or that have embedded forwards or options.

Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2005, the City had \$5,775,568 invested in LAIF, which had invested 2.47% 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	June 30, 2005 Market Value	Moody's Ratings
<u>Federal Agency</u>					
FHLB notes	\$ 1,000,000	2.250	12/15/2005	\$ 994,063	AAA
FNMA notes (callable)	1,000,000	2.150	1/30/2006	991,052	AAA
FHLB notes	1,000,000	2.000	2/13/2006	989,687	AAA
FHLB tap notes	500,000	4.500	2/15/2006	502,344	AAA
FHLMC Global Notes	1,000,000	1.875	2/15/2006	988,438	AAA
FNMA notes (callable)	970,000	2.340	3/29/2006	959,997	AAA
FNMA notes	1,000,000	2.125	4/15/2006	987,500	AAA
FHLMC reference notes	1,000,000	2.750	8/15/2006	988,750	AAA
FHLMC notes	1,000,000	2.875	12/15/2006	987,187	AAA
FHLB tap notes	1,000,000	2.875	2/15/2007	985,313	AAA
FNMA notes	1,000,000	2.375	2/15/2007	978,125	AAA
FHLMC notes (callable)	1,000,000	2.850	2/23/2007	982,812	AAA
FHLB notes (callable)	1,000,000	3.360	4/27/2007	991,562	AAA
<u>U. S. Treasury</u>					
U.S. Treasury notes	400,000	1.500	3/31/2006	394,203	AAA
U.S. Treasury notes	1,000,000	4.625	5/15/2006	1,009,375	AAA
U.S. Treasury notes	1,000,000	2.500	9/30/2006	986,709	AAA
	<u>\$ 14,870,000</u>			<u>\$ 14,717,117</u>	

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. A. Cash and Investments

At June 30, 2005, the carrying amount of the City's deposits was 681,153. Bank balances before reconciling items were \$942,446 (before deducting outstanding checks) at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed in the following.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on a quarterly basis to the various funds based on average daily cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

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).

The City is authorized by State statutes and in accordance with the City's Investment Policy (Policy) to invest in the following:

- ❖ Securities issued or guaranteed by the Federal Government or its agencies
- ❖ State Local Agency Investment Fund (LAIF)
- ❖ Insured and /or collateralized certificates of deposit

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The City's investments comply with the established policy.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. A. Cash and Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Investments*, investments were stated at fair value using the aggregate method in all funds and component units, resulting in the following investment income:

Unrealized gain/(loss) in changes in fair value of investments	\$	(102,534)
Interest income		715,050
Total investment income	\$	612,516

The City portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The City's policy is to buy and hold investments until their maturity dates.

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	\$ 5,778,802	\$ 1,449,244	\$ 7,228,046
Accrued interest	-	2,105	2,105
Total restricted assets	\$ 5,778,802	\$ 1,451,349	\$ 7,230,151

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. C. Accounts Receivable

The amount of accounts receivable for the business-type activities was \$8,470 at June 30, 2005. Accounts receivable for the governmental activities consist of various taxes and fees dated June 30 and prior received subsequent to June 30, 2005. They include:

California State library grant	\$ 1,020,640
Transfer tax	53,200
Measure C - return to source	373,430
Sales tax	308,200
Franchise taxes	105,512
Transient occupancy tax	142,313
Vehicle code fines	37,238
Motor vehicle in lieu tax	25,224
State - Department of Parks & Recreation	68,092
Measure C - sales tax	40,229
Metropolitan Transportation Commission / Transportation Development Act	200,000
Other	68,093
	<u>\$ 2,442,171</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. D. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

Governmental Activities	Balance June 30, 2004	Additions	Capitalized Work In Progress	Balance June 30, 2005
Capital Assets:				
Land, easements, & right of way	\$ 9,320,703	\$ -	\$ -	\$ 9,320,703
Land improvements	1,504,730	-	1,938,881	3,443,611
Building & improvements	1,232,292	-	-	1,232,292
Infrastructure	73,677,294	-	3,592,947	77,270,241
Equipment & furniture	713,245	142,898	-	856,143
Construction in progress	7,668,539	8,839,598	(5,531,828)	10,976,309
Totals at historical cost	<u>94,116,803</u>	<u>8,982,496</u>	<u>-</u>	<u>103,099,299</u>
Accumulated depreciation:				
Land improvements	336,492	75,236	-	411,728
Building & improvements	369,293	18,871	-	388,164
Infrastructure	39,384,377	1,941,907	-	41,326,284
Equipment & furniture	491,774	102,935	-	594,709
Total accumulated depreciation	<u>40,581,936</u>	<u>2,138,949</u>	<u>-</u>	<u>42,720,885</u>
Governmental activities capital assets, net	<u>\$ 53,534,867</u>	<u>\$ 6,843,547</u>	<u>\$ -</u>	<u>\$ 60,378,414</u>

* Depreciation expense was charged to governmental activities as follows:

Public Works	\$ 36,852
Administration	5,834
Police services	51,720
Planning & engineering	8,529
Infrastructure and related improvements	2,036,014
Total depreciation	<u>\$2,138,949</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. E. Accounts Payable

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

3. F. Long-Term Debt

The reporting entity's long-term debt is general obligation bond amounts totaling \$15,355,000 and Redevelopment tax allocation bonds of \$5,535,000 to be repaid from governmental activities (see note 2.D.).

A summary of fiscal year ended June 30, 2005 general long-term debt transactions as follows:

	<i>Interest Rates</i>	<i>Balance June 30, 2004</i>	<i>Principal Additions (Retirement)</i>	<i>Balance June 30, 2005</i>
<i>Redevelopment</i>				
Tax allocation bonds				
Bonds issued FY 2003				
Matures to FY 2033	2.25 - 5.3%	\$ 5,585,000	\$ (50,000)	\$ 5,535,000
<i>General Obligation</i>				
Bonds Issued FY 1995				
Matures to FY 2026	5.6 to 6%	5,295,000	(125,000)	5,170,000
Bonds Issued FY 2002				
Matures to FY 2026	3.5 to 5%	4,235,000	(85,000)	4,150,000
Bonds Issued FY 2004				
Matures to FY 2026	2.0 to 4.7%	<u>6,035,000</u>	<u>-</u>	<u>6,035,000</u>
Totals		<u>\$ 21,150,000</u>	<u>\$ (260,000)</u>	<u>\$ 20,890,000</u>

The 1995 General Obligation Bonds were retired (paid) on July 15, 2005 including \$152,293 in interest and \$5,170,000 in principal.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

The following is the debt service obligations to general obligation bonds issued in fiscal year 2003:

	<u>General Obligation Bonds - Issued 2002</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payments due in fiscal years ending June 30;			
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	110,000	186,301	296,301
2011-2015	640,000	840,506	1,480,506
2016-2020	815,000	661,635	1,476,635
2021-2025	1,535,000	413,037	1,948,037
2026	650,000	16,656	666,656
	<u>\$ 4,150,000</u>	<u>\$ 2,915,589</u>	<u>\$ 7,065,589</u>

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

	<u>General Obligation Bonds - Issued 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payments due in fiscal years ending June 30;			
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	245,000	223,638	468,638
2011-2015	1,405,000	940,034	2,345,034
2016-2020	1,735,000	595,438	2,330,438
2021-2025	1,660,000	184,223	1,844,223
2026	90,000	2,115	92,115
	<u>\$ 6,035,000</u>	<u>\$ 2,902,998</u>	<u>\$ 8,937,998</u>

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

Redevelopment Tax Allocation Bonds - Issued 2003			
	Principal	Interest	Total
Payments due in fiscal years ending June 30;			
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	115,000	281,824	396,824
2011-2015	645,000	1,325,150	1,970,150
2016-2020	820,000	1,140,112	1,960,112
2021-2025	1,075,000	875,942	1,950,942
2026-2030	1,425,000	519,657	1,944,657
2031-2033	1,065,000	94,156	1,159,156
	\$ 5,535,000	\$ 5,405,250	\$ 10,940,250

The following is a summary of interest and related fees expense incurred on the long-term debt for the year ended June 30, 2005:

	Paid	Incurred
General obligation bonds - 1995 issue	\$ 308,088	\$ 304,879
General obligation bonds - 2002 issue	211,176	209,228
General obligation bonds - 2004 issue	172,113	248,838
Redevelopment tax allocation bonds-2003 issue	298,765	298,296
Related fees	6,769	6,769
	\$ 996,911	\$ 1,068,010

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

3. G. Interfund Transactions and Balances

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. The following transfers were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ 440,000	\$ 2,248,180
Capital project funds	6,465,686	825,194
Debt service funds	-	3,125,761
Redevelopment agency	-	40,500
Other governmental funds	429,949	1,081,000
Subtotal	<u>7,335,635</u>	<u>7,320,635</u>
Proprietary fund	5,000	20,000
	<u>\$ 7,340,635</u>	<u>\$ 7,340,635</u>

The Redevelopment Agency has borrowed \$3,979,983 (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 \$640,897 from another City fund to be repaid over a 20 year period at 8% (18 years remaining), also to be paid out of future ad valorem revenues.

3. H. Fund Equity

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

Debt Service Fund	\$ 5,778,802
Low/moderate income housing fund, net of accounts payable of \$10,162	<u>1,451,187</u>
Total restricted for debt service	<u>\$ 7,219,989</u>

NOTE 4. OTHER NOTES

4. A. 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 \$215 and \$515 per month for full-time employees, depending on the individual employee's length of service. Contributions for part-time employees are based on a pro rata share of the full-time contribution based on

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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 2005 was approximately \$2,909,000. The City contributed \$314,113 to the Plan during the year (10.8% of payroll).

The following summarizes transactions in the Plan for the year ended June 30, 2005:

Defined contribution retirement plan:	
Balance June 30, 2004	\$ 1,717,915
Contributions	314,113
Loan repayments	7,124
Disbursements, net	(57,918)
Earnings	102,737
Balance June 30, 2005	<u>\$ 2,083,971</u>

Employee Retirement Contribution

Employees of the City as of July 1, 2004 shall be allowed to choose between two retirement plans as follows:

Tenure-Based Contribution System

The City shall make a contribution toward a retirement fund for each regular full-time employee. The contributions will be made based on the number of months of service from the date of regular employment between \$215 and \$515 per month. Contributions for part-time employees are based on a prorate share of the full-time contributions based on hours worked. This option is only available to employees hired before July 1, 2004.

Salary -Based Contribution System

The City shall make monthly contribution toward a retirement fund for each regular employee. The contribution shall equal 9% of the employee's base salary. In addition, for every \$1.00 contributed by the employee to his/her retirement fund up to 4% of base salary, the City will contribute 50 cents. Employees may choose to be placed on the Salary-Based Contribution System at any time. However, once this option has been exercised, the employee may not revert back to the Tenure-Based Contribution System.

Employees are not required to make voluntary contributions to this system.

Employees are fully vested in the City's contributions (and interest allocated to the employee's account) after five years of continuous service by the employee, with the exception of those employees over 50 years old who are fully vested from the first month of employment.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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, 2005:

Deferred compensation plan:		
Balance June 30, 2004	\$	2,851,813
Contributions		251,215
Disbursements		(60,906)
Earnings		177,124
Balance June 30, 2005	\$	<u>3,219,246</u>

4. B. Risk Management

Insurance coverage

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

The following is a summary of coverage:

	Participating Cities' Total 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	\$ 95,000,000	\$ 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.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2005

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.

Grant programs

The City participates in several federal and state grant programs. These programs have been audited when required by the City's independent accountants in accordance with the provisions of the federal Single Audit Act of 1984 as amended and applicable State requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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

Veteran's Memorial Hall/City Library

The Redevelopment Agency (the "Agency") is in the process of developing the former Veteran's Memorial Hall property in Lafayette into a new library. As of June 30, 2005, \$1,108,437 has been expended and capitalized for the new library. In addition, the Agency has expended and capitalized \$6,234,181 in developing the new Veteran's Memorial Hall which is in the final stages of development.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LAFAYETTE
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2005

Exhibit 1

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property tax	\$ 2,350,000	\$ 2,375,000	\$ 2,413,348	\$ 38,348
Sales and use tax	2,250,000	2,250,000	2,428,323	178,323
Transient lodging tax	475,000	475,000	525,729	50,729
Franchise tax	800,000	825,000	885,008	60,008
Real property transfer tax	190,000	200,000	233,319	33,319
Vehicle code fines	180,000	180,000	195,850	15,850
Interest income	231,000	231,000	993,118	762,118
Motor vehicle in lieu tax	450,000	950,000	1,693,729	743,729
Planning, permits and fees	667,500	877,500	860,077	(17,423)
Business registration fees	33,000	33,000	24,593	(8,407)
Police services	45,000	50,000	51,296	1,296
Other	60,500	83,000	145,779	62,779
	<u>7,732,000</u>	<u>8,529,500</u>	<u>10,450,169</u>	<u>1,920,669</u>
Expenditures				
City council, commissions and community support				
City council	182,756	184,756	184,559	197
Commissions and committees	772,984	840,823	720,169	120,654
Police services	2,938,770	2,979,639	2,746,549	233,090
Public works				
Street maintenance	613,790	621,405	579,869	41,536
Traffic maintenance	284,108	302,002	252,376	49,626
Storm drain maintenance	128,044	152,752	108,813	43,939
Parks and walkway maintenance	248,735	321,315	277,300	44,015
Facilities maintenance	126,188	127,432	125,879	1,553
Emergency response	50,000	50,000	-	50,000
Planning and engineering				
Planning department	361,000	385,565	377,574	7,991
Engineering department	185,408	191,614	176,744	14,870
Administration				
City management	318,763	368,866	324,790	44,076
Legal services	350,000	350,000	244,476	105,524
City clerk	132,777	147,916	122,074	25,842
Finance and personnel	400,980	451,225	399,596	51,629
Technology services	58,384	59,192	52,131	7,061
Business registration fees	47,362	47,935	45,415	2,520
Rent and other expenses	89,108	207,274	201,348	5,926
Insurance - premiums and claims	196,111	196,111	169,981	26,130
	<u>7,485,268</u>	<u>7,985,822</u>	<u>7,109,643</u>	<u>876,179</u>
Excess of revenues over expenditures	246,732	543,678	3,340,526	2,796,848
Other financing sources				
Operating transfers - in	-	440,000	440,000	-
Operating transfers - out	-	(2,248,180)	(2,248,180)	-
Excess of revenues over expenditures and other financing sources	246,732	(1,264,502)	1,532,346	2,796,848
Beginning fund balance	<u>10,507,260</u>	<u>10,507,260</u>	<u>10,507,260</u>	<u>10,507,260</u>
Ending fund balance	<u>\$ 10,753,992</u>	<u>\$ 9,242,758</u>	<u>\$ 12,039,606</u>	<u>\$ 13,304,108</u>

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

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OTHER SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Combining Fund Balance Sheet
 For the Year Ended June 30, 2005

	Capital Projects Funds			Special Revenue Funds			
	General Projects	Library Project	Veteran's Hall	Total Capital Projects	Debt Service Fund	Low/moderate Income Housing Fund	Total Governmental Funds
ASSETS							
Cash	333,760	\$ -	\$ -	\$ 333,760	-	-	\$ 333,760
Redevelopment Interfund Balances	5,458,517	(849,166)	(4,609,351)	-	-	-	-
Local Agency Investment Fund	-	-	0	-	-	-	-
Accounts receivable	-	1,020,640	-	1,020,640	-	-	1,020,640
Accrued interest receivable	9,422	-	-	9,422	-	-	9,422
Other assets	-	-	-	-	-	-	-
Restricted assets for:							
Money Market investments	-	-	-	-	404,608	1,449,244	1,853,852
Accrued interest receivable	-	-	-	-	-	2,105	2,105
Total assets	\$ 5,801,699	\$ 171,474	\$ (4,609,351)	\$ 1,363,822	\$ 404,608	\$ 1,451,349	\$ 3,219,779

LIABILITIES AND NET ASSETS

Accounts payable and accrued liability	\$ 3,717	\$ 513,381	\$ 569,817
Advances from general fund	1,594,770	955,873	3,979,983
Loan payable to general fund	-	640,897	640,897
Total liabilities and other credit	1,598,487	2,110,151	5,190,697
Fund balances			
Restricted for:			
Debt service	-	-	404,608
Low/moderate income housing	-	-	1,441,187
Other	4,203,212	(6,719,502)	(3,826,875)
Unrestricted			
Fund equity	4,203,212	(6,719,502)	(3,826,875)
Total liabilities and fund equity	\$ 5,801,699	\$ (4,609,351)	\$ 1,363,822

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
COMBINING FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2005

	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	\$ 720,191	\$ -	\$ -	\$ 720,191	\$ 348,765	\$ 349,150	\$ 1,418,106
State and federal grants	-	1,020,640	-	1,020,640	-	-	1,020,640
Investment income	37,158	-	-	37,158	4,309	7,333	48,800
Other revenue	38,251	-	-	38,251	-	-	38,251
Total revenues	795,600	1,020,640	-	1,816,240	353,074	356,483	2,525,797
Expenditures							
Administrative costs	216,672	76,926	131,572	425,170	-	29,438	454,608
Assessment District bond principal	-	-	-	-	50,000	-	50,000
Planning and design	232,220	678,418	-	910,638	-	-	910,638
Real Estate purchase	-	-	-	-	-	-	-
Improvement costs	-	3,000	5,065,523	5,068,523	-	-	5,068,523
Interest expense	422,566	105,849	123,344	651,759	298,765	-	950,524
Professional services	105,216	-	19	105,235	-	32,555	137,790
Community promotion	18,750	8,228	-	26,978	-	-	26,978
Subsidies	-	-	-	-	-	-	-
Other expenses	31,667	8,876	802	41,345	-	6,503	47,848
Total disbursements	1,027,091	881,297	5,321,260	7,229,648	348,765	68,496	7,646,909
Excess (deficiency) of revenues over expenditures	(231,491)	139,343	(5,321,260)	(5,413,408)	4,309	287,987	(5,121,112)
Other financing sources (uses):							
Operating transfers - out	(40,500)	-	-	(40,500)	-	-	(40,500)
Total other financing sources (uses)	(40,500)	-	-	(40,500)	-	-	(40,500)
Excess (deficiency) of revenues over expenditures, net of other financing sources	(271,991)	139,343	(5,321,260)	(5,453,908)	4,309	287,987	(5,161,612)
Beginning fund balances	4,475,203	(1,449,928)	(1,398,242)	1,627,033	400,299	1,153,200	3,180,532
Ending fund balances	\$ 4,203,212	\$ (1,310,585)	\$ (6,719,502)	\$ (3,826,875)	\$ 404,608	\$ 1,441,187	\$ (1,981,080)

