

CITY OF LAFAYETTE
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2006
(With Auditors' Report Thereon)

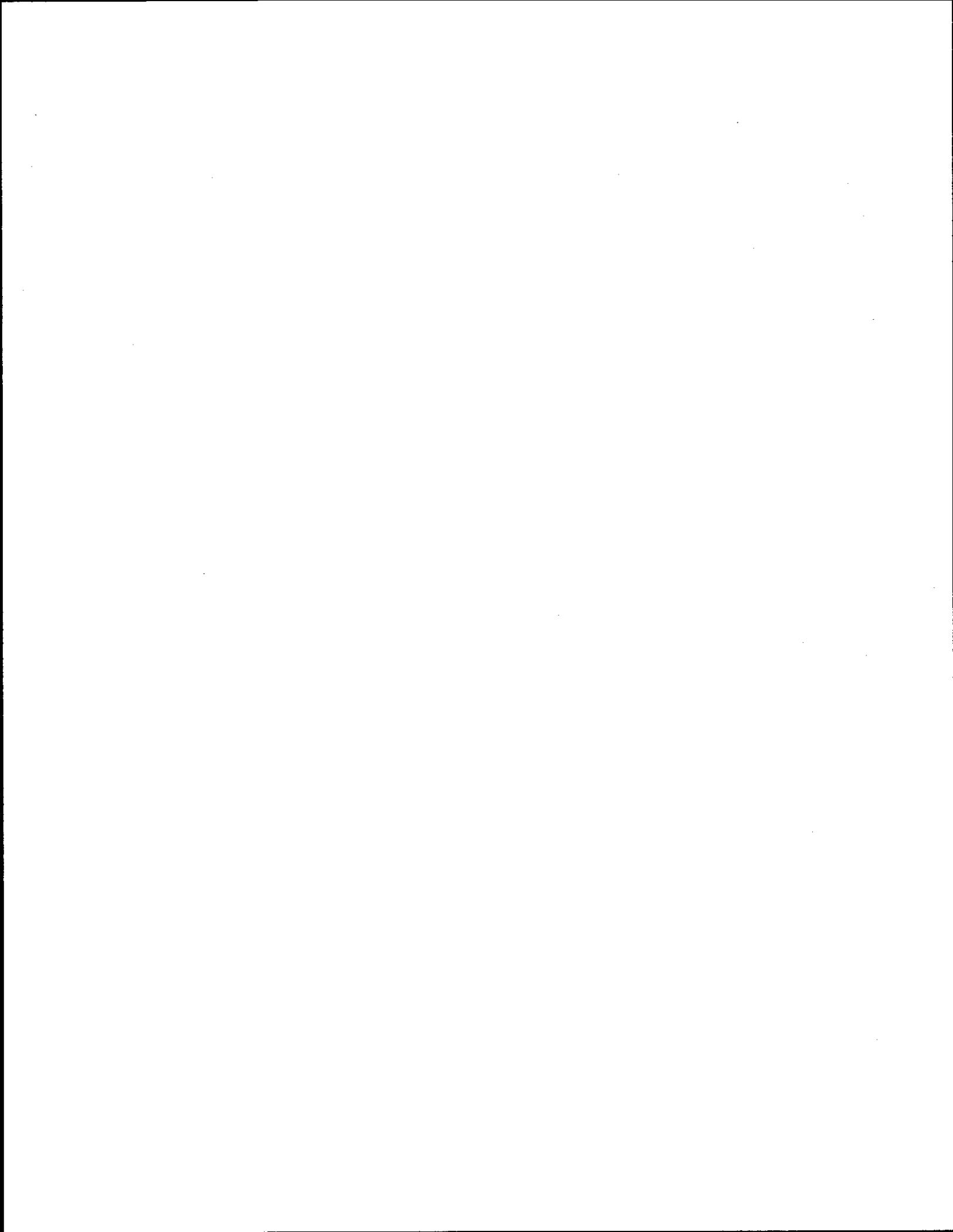


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**CITY OF LAFAYETTE
CITY OFFICIALS AS OF JUNE 30, 2006**

MAYOR

Ivor Samson

Term Expires November 2006

CITY COUNCIL

Carol Federighi, Vice Mayor
Term Expires November 2008

Don Tatzin
Term Expires November 2010

Carl Anduri
Term Expires November 2008

Mike Anderson
Term Expires November 2008

CITY MANAGER

Steven B. Falk - 16 years of service

ADMINISTRATIVE SERVICE DIRECTOR

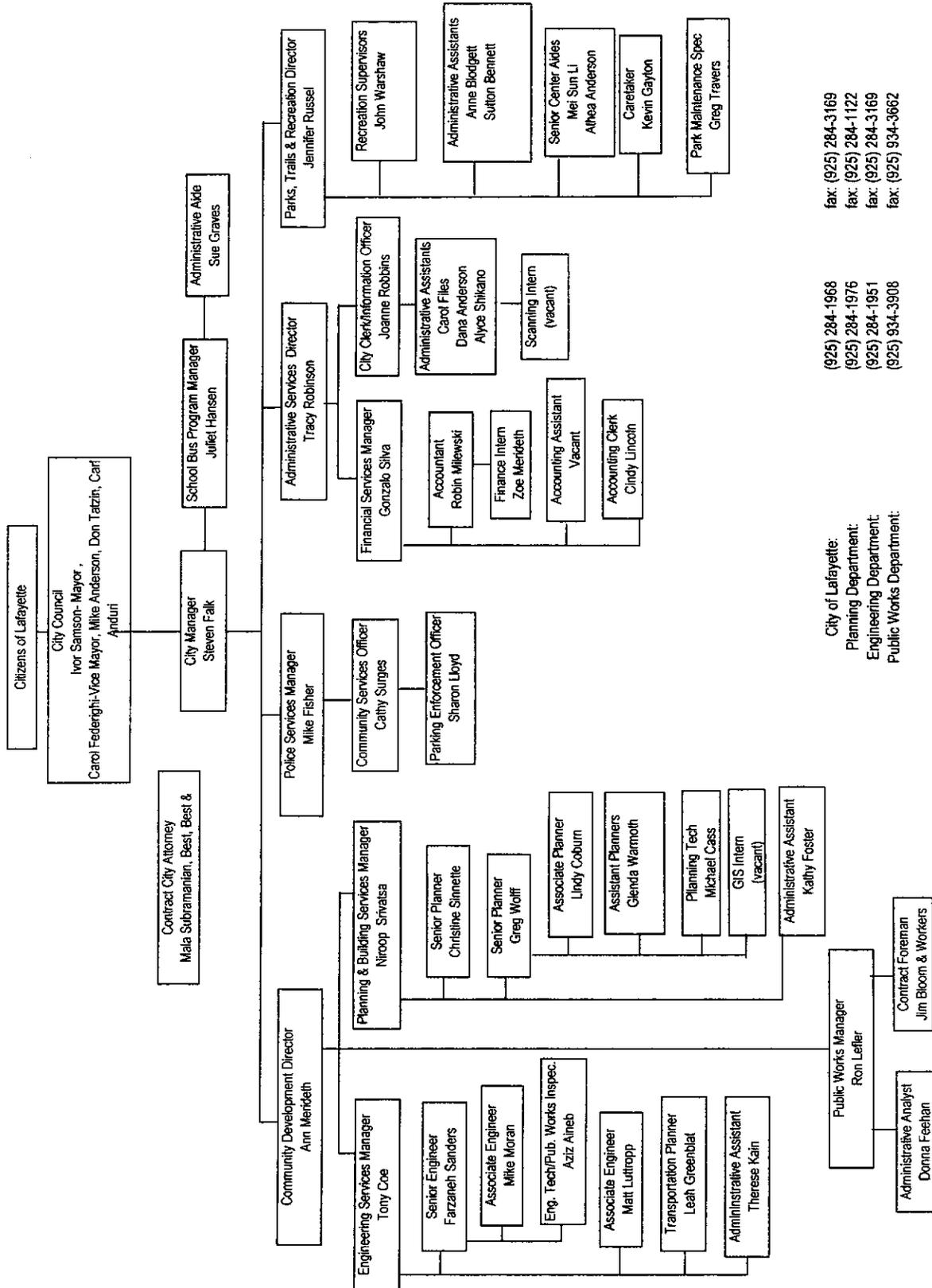
Tracy Robinson - 6 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva - 16 years of service

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City of Lafayette Organization Chart



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

(925) 284-1968
 (925) 284-1976
 (925) 284-1951
 (925) 934-3908

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

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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, 2006

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 \$13,045,230. The governmental net assets increased by \$12,978,285 and the business-type net assets (e.g. Parks & Recreation) increased by \$66,945. The increase in net assets is due primarily to bond proceeds received by the RDA for the library.
- The City's governmental funds reported combined ending fund balances of \$78,581,153, of which \$16,289,515 is unrestricted.
- The unreserved fund balance for the General Fund was \$7,075,730, a decrease of \$201,643 compared with the prior year.
- The City's total debt increased by \$6,125,000 during the current fiscal year. The total debt balance at year-end was \$27,015,000.
- There was a substantial increase of \$536,144 in Vehicle License Fee revenue received this year due to the State's repayment of the "backfill gap" owed to cities. Lafayette's total backfill was \$509,559.
- The RDA also accrued \$10,490,955 in revenue for the State Library Grant as well as \$3,651,170 owed to the RDA from the County and the City of Walnut Creek for their portion of the Veteran's Memorial Building.

The following is the year over year comparison of revenues and expenses:

| | 2004 | 2005 | 2006 | Change |
|---------------------------------|----------------------|----------------------|----------------------|----------|
| <u>Revenues</u> | | | | |
| Property Tax | 5,322,239 | 5,346,924 | 5,823,685 | 8.92% |
| Sales Tax | 2,652,601 | 2,802,614 | 2,886,865 | 3.01% |
| Franchise Fees | 838,885 | 885,008 | 981,538 | 10.91% |
| Motor Vehicle Fee | 1,154,214 | 1,693,729 | 2,229,873 | 31.65% |
| Transient Occupancy | 505,076 | 525,729 | 581,080 | 10.53% |
| Investment Income | 251,706 | 612,516 | 1,119,668 | 82.80% |
| Vehicle Fines | 426,160 | 406,147 | 395,683 | -2.58% |
| Grants Federal/State | 1,930,206 | 1,620,232 | 18,631,379 | 1049.92% |
| Fees for Service | 1,249,801 | 1,097,534 | 1,235,462 | 12.57% |
| Parking Fees | 151,507 | 123,521 | 138,715 | 12.30% |
| Gas Tax | 464,350 | 463,392 | 452,469 | -2.36% |
| Transfer Tax | 230,175 | 233,319 | 279,879 | 19.96% |
| Other | 302,189 | 254,756 | 292,885 | 14.97% |
| Recreation Programs | 939,462 | 1,138,857 | 1,134,841 | -0.35% |
| TOTAL | \$ 16,418,571 | 17,204,278 | 36,184,022 | 110.3% |
| <u>Expenses</u> | | | | |
| Council & Commissions | 1,138,152 | 904,728 | 1,012,155 | 11.87% |
| Police | 2,638,276 | 2,710,671 | 3,195,198 | 17.87% |
| Public Works / Infrastructure | 3,914,655 | 4,076,233 | 4,764,981 | 16.90% |
| Planning & Engineering | 979,486 | 1,092,620 | 1,405,650 | 28.65% |
| Administration/Redev | 1,774,330 | 2,433,513 | 2,514,499 | 3.33% |
| Debt Service | 864,663 | 1,068,010 | 1,113,408 | 4.25% |
| Vet's Building | - | - | 7,610,441 | 0.00% |
| Other | 93,746 | 301,709 | 471,429 | 56.25% |
| Recreation Programs | 978,228 | 1,074,536 | 1,051,031 | -2.19% |
| TOTAL | \$ 12,381,536 | \$ 13,662,020 | 23,138,792 | 69.37% |
| Excess of Revenue over Expenses | \$ 4,037,035 | \$ 3,542,258 | \$ 13,045,230 | |

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, 2006 | Governmental Activities | Business Activities | Total |
|--------------------------|----------------------------|------------------------|---------------------|
| Beginning Net Assets | \$65,586,898 | (\$50,975) | \$65,535,923 |
| Increase/Decrease | 12,978,285 | 66,945 | 13,045,230 |
| Ending Net Assets | \$78,565,183 | \$15,970 | \$78,581,153 |

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 20 % from prior year
2. Assets exceeded liabilities by \$ 78,581,153 at year-end

55 % of the City's total assets (\$109,889,909) are invested in capital assets (\$60,521,530). (i.e., land, buildings, utility plants, machinery and equipment) \$33,891,168 net of related debt, is invested in capital assets related to total net assets (\$78,581,153) or 43%. However, since capital assets are used to provide services to citizens, they cannot be used to liquidate liabilities. It should therefore 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 statement, 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 \$ 2,137,110 the remainder must be funded out of general revenue. This year, the City received \$15,182,340 in general revenue,

Business-Type Activities

The City reports only one program, Parks & Recreation, as a business-type activity since Recreation programs are expected to be fully self-supporting through fees, donations, gifts and grants. This year, with expenditures of \$1,051,031 and revenue of \$1,137,976 and a transfer of funds to government activities of \$20,000 that program showed a net gain of \$ 66,945. Therefore, the City's net assets increased by an equal amount. This is the second year that this enterprise fund has shown a profit in the last five years.

SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant funds. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish 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 in 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, 2006, the City's governmental funds reported combined ending fund balances of \$45,527,162, an increase of \$18,685,156 in comparison to the prior year. This was due primarily to \$11,680,000 in bond proceeds for the library

Approximately 61.50% of these funds are considered restricted, which means that they have already been committed to specific programs. The remaining funds \$12,156,362 are undesignated, which means that they are available for spending at the council's discretion. However, all except \$7,075,730 has been designated by the Council for specific purposes.

Capital Assets

The City's investment in capital assets as of June 30, 2006 totaled \$60,521,530 (net of accumulated depreciation of \$45,018,187), which represents an increase of \$143,116 over the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and bridges. The fixed assets summary can be found on page 27 of the financial statement.

Major capital asset additions during the current fiscal year include:

- Pleasant Hill Road Multi-Purpose Path
- The Moraga Road Corridor Improvements
- 2006 Pavement Management Project Burton Valley

Long Term Debt

At the end of the current fiscal year, the City had \$27,313,572 in long-term debt, which includes \$298,572 in accrued vacations and leave, \$17,140,000 in Redevelopment bonds and \$9,875,000 in General Obligation bonds. The City issued Redevelopment Bonds for the amount of \$11,680,000 this year and retired the General Obligation Bond Series 1995 for the amount of \$5,170,000 (principal) and \$ 152,293 (in interest).

STRENGTHS & RISKS

General Fund

The general fund is the primary operating fund of the City. At June 30, 2006, the undesignated fund balance was \$7,075,730 a decrease of \$201,643 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 % (83.9%) of general fund expenditures, suggesting 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 strives 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 significantly improved 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 backlog of \$24 million that should be completed over the next 5 years. Without an additional source of revenue, many of the City's residential streets will not be repaired if not maintained. Furthermore, those streets that are currently in good condition may deteriorate. The Council placed a measure on the November 2004 ballot asking the residents to approve the sale of \$29 millions in bonds. The measure, however, 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 District pays for a portion of these expenses, there has been a deficit of over \$200,000 in this fund for each of the last four years and this deficit will increase over time as expenses multiply while revenue remains flat. At Council's direction, 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 in Summer 2007.

Revenue

Property Tax and Assessments are the largest revenue source for 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. Property tax collections, however, continue to be less than 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.

Despite the comparatively low share received by the City, 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 8.02 % from \$4,000,826,917 in fiscal year 2004/2005 to \$4,321,524,487 in fiscal year 2005/2006, thus increasing property tax revenue from \$5,580,243 to \$ 5,823,685, after the ERAF deduction of \$245,310. 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 largest revenue source for the City. Sales tax revenue increased by 3 % during the year, from \$2,802,614 to \$2,886,865.

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 \$2,229,873 in 2005-2006 compared to \$1,693,729 in 2004-2005, an increase of \$536,144 in VLF revenues which was due primarily to the State's repayment of the "backfill gap". In future years, the amount of VLF will decrease and be replaced with a portion of the property taxes (known as the "triple flip"). This will likely benefit Lafayette since the City's property values have traditionally grown faster than the VLF.

Other 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 has proven difficult not only for Lafayette but for all California cities.

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, 2006, 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 and the standards applicable to financial audits contained in "Governmental Auditing Standards", issued by the Controller General of the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lafayette, California as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2006 under separate cover on our consideration of the City of Lafayette's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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 18, 2006

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BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE
Statement of Net Assets
June 30, 2006

Statement 1

| <u>ASSETS</u> | Primary Government | | |
|---|----------------------------|-----------------------------|----------------|
| | Governmental Activities | Business-Type Activities | Total |
| Cash and cash equivalents | \$ 8,110,173 | \$ 303,830 | \$ 8,414,003 |
| Investment in bonds | 18,924,984 | - | 18,924,984 |
| Accounts receivable | 16,395,947 | 2,291 | 16,398,238 |
| Notes receivable | 458,525 | - | 458,525 |
| Accrued interest receivable | 212,948 | 36 | 212,984 |
| Prepaid assets | 431,543 | 47,460 | 479,003 |
| Other assets | 40,565 | 15,000 | 55,565 |
| | 44,574,685 | 368,617 | 44,943,302 |
| Restricted Assets-debt service: | | | |
| Cash and cash equivalents | 4,386,688 | - | 4,386,688 |
| Accrued interest | 38,389 | - | 38,389 |
| | 4,425,077 | - | 4,425,077 |
| Capital Assets, net of accumulated depreciation | | | |
| Land, easements and right of way | 9,991,094 | - | 9,991,094 |
| Land improvements | 2,908,174 | - | 2,908,174 |
| Buildings and improvements | 825,257 | - | 825,257 |
| Infrastructure | 40,824,569 | - | 40,824,569 |
| Equipment and Furniture | 348,363 | - | 348,363 |
| Construction in progress | 5,624,073 | - | 5,624,073 |
| | 60,521,530 | - | 60,521,530 |
| Total assets | \$ 109,521,292 | \$ 368,617 | \$ 109,889,909 |
| <u>LIABILITIES</u> | | | |
| Accounts payable and accrued liabilities | \$ 1,716,018 | \$ 2,856 | \$ 1,718,874 |
| Accrued interest payable | 554,574 | - | 554,574 |
| Refundable deposits | 1,346,945 | 7,202 | 1,354,147 |
| Deferred revenue | 25,000 | 342,589 | 367,589 |
| Bonds payable-current | 420,000 | - | 420,000 |
| Total current liabilities | 4,062,537 | 352,647 | 4,415,184 |
| Noncurrent Liabilities: | | | |
| Accrued compensated absences | 298,572 | - | 298,572 |
| Bonds payable | 26,595,000 | - | 26,595,000 |
| Total noncurrent liabilities | 26,893,572 | - | 26,893,572 |
| Total liabilities | 30,956,109 | 352,647 | 31,308,756 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 33,891,168 | - | 33,891,168 |
| Restricted for: | | | |
| Debt service | 2,608,527 | - | 2,608,527 |
| Low/moderate income housing | 1,816,487 | - | 1,816,487 |
| Redevelopment | 16,977,892 | - | 16,977,892 |
| Other | 6,997,564 | - | 6,997,564 |
| Unrestricted | 16,273,545 | 15,970 | 16,289,515 |
| Total net assets | 78,565,183 | 15,970 | 78,581,153 |
| Total liabilities and net assets | \$ 109,521,292 | \$ 368,617 | \$ 109,889,909 |

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, 2006

Statement 2

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Assets | | |
|--|---------------|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | |
| City council, commissions & community support | \$ 1,012,155 | \$ - | \$ - | \$ - | \$ (1,012,155) | \$ - | \$ (1,012,155) |
| Administration | 2,514,499 | - | - | - | (2,514,499) | - | (2,514,499) |
| Police services | 3,195,198 | 61,772 | 100,000 | - | (3,033,426) | - | (3,033,426) |
| Public works | 2,584,279 | - | - | 18,531,379 | 15,947,100 | - | 15,947,100 |
| Infrastructure - depreciation | 2,180,702 | - | - | - | (2,180,702) | - | (2,180,702) |
| Planning & engineering | 1,405,650 | 1,173,690 | - | - | (231,960) | - | (231,960) |
| Interest & debt charges | 1,113,408 | - | - | - | (1,113,408) | - | (1,113,408) |
| Contribution of Vets Building | 7,610,441 | - | - | - | (7,610,441) | - | (7,610,441) |
| Other | 471,429 | - | - | - | (471,429) | - | (471,429) |
| Total governmental activities | \$ 22,087,761 | 1,235,462 | 100,000 | 18,531,379 | (2,220,920) | - | (2,220,920) |
| <i>Business Type Activities:</i> | | | | | | | |
| Recreation programs | 1,051,031 | 1,134,841 | - | - | - | 83,810 | 83,810 |
| Total primary government | \$ 23,138,792 | 2,370,303 | - | - | - | 83,810 | (2,137,110) |
| General revenues: | | | | | | | |
| Property tax and Assessments | - | - | - | - | 5,823,685 | - | 5,823,685 |
| Sales taxes | - | - | - | - | 2,886,865 | - | 2,886,865 |
| Franchise taxes | - | - | - | - | 981,538 | - | 981,538 |
| Transient occupancy tax | - | - | - | - | 581,080 | - | 581,080 |
| Vehicle code fines | - | - | - | - | 395,683 | - | 395,683 |
| Motor vehicle in lieu tax | - | - | - | - | 2,229,873 | - | 2,229,873 |
| Gas Tax | - | - | - | - | 452,469 | - | 452,469 |
| Transfer tax | - | - | - | - | 279,879 | - | 279,879 |
| Business registrations | - | - | - | - | 24,595 | - | 24,595 |
| Parking revenues | - | - | - | - | 138,715 | - | 138,715 |
| Investment income | - | - | - | - | 1,116,533 | 3,135 | 1,119,668 |
| Other | - | - | - | - | 268,290 | - | 268,290 |
| | - | - | - | - | 15,179,205 | 3,135 | 15,182,340 |
| Transfers to Enterprise Fund, net | - | - | - | - | 20,000 | (20,000) | - |
| | - | - | - | - | 15,199,205 | (16,865) | 15,182,340 |
| Change in net assets | - | - | - | - | 12,978,285 | 66,945 | 13,045,230 |
| Net assets at beginning of year | - | - | - | - | 65,586,898 | (50,975) | 65,535,923 |
| Net assets at end of year | - | - | - | - | \$ 78,565,183 | \$ 15,970 | \$ 78,581,153 |

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

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2006

| <u>ASSETS</u> | General Fund | Capital Project Funds | Redevelopment Fund | Debt Service Funds |
|---------------------------------------|----------------------|--------------------------|-----------------------|--------------------------|
| Cash and cash equivalents | \$ (6,479,390) | \$ 6,972,818 | \$ 4,575,296 | \$ 13,610 |
| Investments | 15,677,829 | - | 3,247,155 | - |
| Accounts receivable | 741,906 | 1,122,638 | 14,142,125 | - |
| Notes Receivable | - | 458,525 | - | - |
| Accrued interest receivable | 114,990 | 18,982 | 64,840 | 152 |
| Prepaid expenses | 38,731 | 300 | 6,758 | 874 |
| Due from other funds | 4,298,382 | - | - | - |
| Other assets | 40,565 | - | - | - |
| Restricted Assets: | | | | |
| Cash deposits and investments | - | - | 3,779,729 | 606,959 |
| Accrued interest receivable | - | - | 38,389 | - |
| Total assets | <u>\$ 14,433,013</u> | <u>\$ 8,573,263</u> | <u>\$ 25,854,292</u> | <u>\$ 621,595</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| <u>Liabilities</u> | | | | |
| Accounts payable and accrued expenses | \$ 910,718 | \$ 484,637 | \$ 136,179 | \$ - |
| Claims payable | 19,300 | - | - | - |
| Loan payable | - | - | 623,784 | - |
| Refundable deposits | 1,346,633 | 312 | - | - |
| Deferred revenue | - | 25,000 | - | - |
| Due to other funds | - | - | 4,298,382 | - |
| Total liabilities | <u>2,276,651</u> | <u>509,949</u> | <u>5,058,345</u> | <u>-</u> |
| <u>Fund Balance</u> | | | | |
| Restricted for: | | | | |
| Debt service | - | - | 2,001,568 | 606,959 |
| Low/moderate income housing | - | - | 1,816,487 | - |
| Redevelopment | - | - | 16,977,892 | - |
| Capital projects | - | 5,433,504 | - | - |
| Special Purpose sources | - | - | - | - |
| Designated for: | | | | |
| Capital projects | - | 2,629,810 | - | - |
| Special purpose | - | - | - | - |
| General traffic control | 226,500 | - | - | - |
| Insurance | 250,000 | - | - | - |
| Vehicles | 160,750 | - | - | - |
| Redevelopment loan | 4,298,382 | - | - | - |
| Other | 145,000 | - | - | 14,636 |
| Undesignated | <u>7,075,730</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balance | <u>12,156,362</u> | <u>8,063,314</u> | <u>20,795,947</u> | <u>621,595</u> |
| Total liabilities and fund balan | <u>\$ 14,433,013</u> | <u>\$ 8,573,263</u> | <u>\$ 25,854,292</u> | <u>\$ 621,595</u> |

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

CITY OF LAFAYETTE
Balance Sheet-Governmental Funds
June 30, 2006

Statement 3

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 3,027,839 | \$ 8,110,173 |
| - | 18,924,984 |
| 389,278 | 16,395,947 |
| 623,784 | 1,082,309 |
| 13,984 | 212,948 |
| 242 | 46,905 |
| - | 4,298,382 |
| - | 40,565 |
| - | 4,386,688 |
| - | 38,389 |
| <u>\$ 4,055,127</u> | <u>\$ 53,537,290</u> |
| \$ 165,183 | \$ 1,696,717 |
| - | 19,300 |
| - | 623,784 |
| - | 1,346,945 |
| - | 25,000 |
| - | 4,298,382 |
| <u>165,183</u> | <u>8,010,128</u> |
| - | 2,608,527 |
| - | 1,816,487 |
| - | 16,977,892 |
| - | 5,433,504 |
| 1,164,060 | 1,164,060 |
| - | - |
| - | 2,629,810 |
| 2,725,884 | 2,725,884 |
| - | 226,500 |
| - | 250,000 |
| - | 160,750 |
| - | 4,298,382 |
| - | 159,636 |
| - | 7,075,730 |
| <u>3,889,944</u> | <u>45,527,162</u> |
| <u>\$ 4,055,127</u> | <u>\$ 53,537,290</u> |

| | |
|--|---------------|
| Total fund balances per Governmental Funds Balance Sheet | \$ 45,527,162 |
| Capital assets expensed for "governmental fund" activities, but capitalized as fixed assets in the Statement of Net Assets less accumulated depreciation | 60,521,530 |
| Bond issuance costs | 384,637 |
| <i>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.</i> | (27,015,000) |
| <i>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.</i> | |
| Accrued interest payable | \$ 554,574 |
| Accrued compensated absences | 298,572 |
| | (853,146) |
| Subtotal | 33,038,021 |
| Total assets per Statement of Net Assets | \$ 78,565,183 |

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, 2006

| Revenues | General Fund | Capital Project Funds | Redevelopment Fund | Debt Service Fund |
|--|----------------------|--------------------------|-----------------------|----------------------|
| Property tax and assessments | \$ 2,611,484 | \$ - | \$ 1,678,834 | \$ 900,290 |
| Sales and use tax (including Measure C) | 2,513,865 | - | - | - |
| Transient lodging tax | 581,080 | - | - | - |
| Franchise tax | 981,538 | - | - | - |
| Real property transfer tax | 279,879 | - | - | - |
| Vehicle code fines | 201,472 | - | - | - |
| Interest income | 718,560 | 194,549 | 402,750 | 77,983 |
| Motor vehicle in lieu tax | 2,229,873 | - | - | - |
| Grants - federal | - | 1,471,234 | - | - |
| Grants - state and local | - | 2,144,416 | 14,511,061 | - |
| Planning, permits and engineering | 962,189 | - | - | - |
| Gas tax | - | - | - | - |
| Drainage impact fees | - | 14,942 | - | - |
| Business registration fees | 24,595 | - | - | - |
| Park dedication fees | - | 195,909 | - | - |
| Walkway fees | - | 650 | - | - |
| Parking revenue and fees | - | - | - | - |
| Police | 49,530 | - | - | - |
| Abandoned vehicles | - | - | - | - |
| Sale of Property | - | 404,668 | - | - |
| Other | 161,097 | 47,905 | 34,288 | - |
| Total | <u>11,315,162</u> | <u>4,474,273</u> | <u>16,626,933</u> | <u>978,273</u> |
| Expenditures | | | | |
| City council, commissions, and community support | 1,012,155 | - | - | - |
| Police services | 3,284,740 | - | - | - |
| Public works | 1,850,666 | - | - | - |
| Planning and engineering | 616,894 | 424,109 | 530,230 | - |
| Administration | 1,222,296 | - | 535,911 | 101,800 |
| Capital projects | - | 6,385,181 | 2,795,875 | - |
| Debt service - | - | - | - | - |
| Principal | - | - | 75,000 | 5,480,000 |
| Interest and charges | - | - | 790,046 | 605,658 |
| Real estate purchase | - | - | 411,686 | - |
| Rent and other expenses | 263,724 | - | - | 10,376 |
| Insurance and claims | 183,694 | - | - | - |
| Total expenditures | <u>8,434,169</u> | <u>6,809,290</u> | <u>5,138,748</u> | <u>6,197,834</u> |
| Excess (deficiency) of revenues over expenditures | 2,880,993 | (2,335,017) | 11,488,185 | (5,219,561) |
| Other financing sources | | | | |
| Proceeds from bonds | - | - | 11,680,000 | - |
| Bond issuance costs | - | - | (391,158) | - |
| Operating transfers - in | 450,000 | 3,398,256 | 6,710,745 | - |
| Operating transfers - out | <u>(3,214,237)</u> | <u>(734,972)</u> | <u>(6,710,745)</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures, net of other financing sources | 116,756 | 328,267 | 22,777,027 | (5,219,561) |
| Beginning fund balance | <u>12,039,606</u> | <u>7,735,047</u> | <u>(1,981,080)</u> | <u>5,841,156</u> |
| Ending fund balance | <u>\$ 12,156,362</u> | <u>\$ 8,063,314</u> | <u>\$ 20,795,947</u> | <u>\$ 621,595</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, 2006

Statement 4

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 633,077 | \$ 5,823,685 |
| 373,000 | 2,886,865 |
| - | 581,080 |
| - | 981,538 |
| - | 279,879 |
| 194,211 | 395,683 |
| 92,362 | 1,486,204 |
| - | 2,229,873 |
| - | 1,471,234 |
| 100,000 | 16,755,477 |
| - | 962,189 |
| 452,469 | 452,469 |
| - | 14,942 |
| - | 24,595 |
| - | 195,909 |
| - | 650 |
| 138,715 | 138,715 |
| - | 49,530 |
| 12,242 | 12,242 |
| - | 404,668 |
| 25,000 | 268,290 |
| <u>2,021,076</u> | <u>35,415,717</u> |
| - | 1,012,155 |
| - | 3,284,740 |
| 746,947 | 2,597,613 |
| - | 1,571,233 |
| 712,416 | 2,572,423 |
| - | 9,181,056 |
| - | 5,555,000 |
| - | 1,395,704 |
| - | 411,686 |
| - | 274,100 |
| - | 183,694 |
| <u>1,459,363</u> | <u>28,039,404</u> |
| 561,713 | 7,376,313 |
| - | 11,680,000 |
| - | (391,158) |
| 513,518 | 11,072,519 |
| <u>(392,565)</u> | <u>(11,052,519)</u> |
| 682,666 | 18,685,155 |
| <u>3,207,278</u> | <u>26,842,007</u> |
| <u>\$ 3,889,944</u> | <u>\$ 45,527,162</u> |

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

Net change in fund balances - total governmental funds \$ 18,685,155

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 | \$ 10,050,859 | |
| Depreciation expense | (2,297,302) | |
| Contribution of the Veterans Hall to the County | <u>(7,610,441)</u> | 143,116 |

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 | 5,555,000 | |
| Proceeds from bonds issued recognized as a liability | (11,680,000) | |
| Bond issuance costs to be amortized over 30 years | 384,638 | |

Increase in accrued compensated absences previously classified in long-term debt fund constitutes an expense (28,769)

Increase in accrued interest liability previously recognized as paid constitutes an expense (80,855)

Subtotal (5,706,870)

Total change in net assets per Statement of Activities \$ 12,978,285

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, 2006

Statement 5

ASSETS

Current Assets:

| | |
|-----------------------------|-------------------|
| Cash and cash equivalents | \$ 303,830 |
| Accounts receivable | 2,291 |
| Accrued interest receivable | 36 |
| Security deposits | 15,000 |
| Prepaid expenses | <u>47,460</u> |
| Total assets | <u>\$ 368,617</u> |

LIABILITIES

Current Liabilities:

| | |
|--|----------------|
| Accounts payable and accrued liabilities | \$ 2,856 |
| Refundable deposits | 7,202 |
| Deferred revenue | <u>342,589</u> |
| Total liabilities | <u>352,647</u> |

NET ASSETS

| | |
|----------------------------------|-------------------|
| Unrestricted (deficit) | <u>15,970</u> |
| Total net assets | <u>15,970</u> |
| Total liabilities and net assets | <u>\$ 368,617</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-Recreation Programs
Budget and Actual
For the Year Ended June 30, 2006

Statement 6

| | <u>Original Budget</u> | <u>Final Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------------|----------------------------|-------------------------------------|------------------|---|
| Operating revenues | | | | |
| Recreation fees | \$ 1,057,862 | \$ 1,035,700 | \$ 1,069,596 | \$ 33,896 |
| Building rentals | 35,000 | 44,000 | 48,163 | 4,163 |
| Interest | 3,000 | 3,000 | 3,135 | 135 |
| Moraga reimbursement | 16,000 | 16,000 | 11,010 | (4,990) |
| Other | 1,500 | 2,700 | 6,072 | 3,372 |
| Total | <u>1,113,362</u> | <u>1,101,400</u> | <u>1,137,976</u> | <u>36,576</u> |
| Operating expenses | | | | |
| Personnel services | 486,121 | 485,006 | 476,205 | 8,801 |
| Maintenance | 17,660 | 19,000 | 15,553 | 3,447 |
| Contractual services | 420,000 | 380,000 | 422,084 | (42,084) |
| Printing and supplies | 104,300 | 104,300 | 105,532 | (1,232) |
| Utilities | 4,800 | 5,200 | 3,171 | 2,029 |
| Rental expense | 18,000 | 18,000 | 25,908 | (7,908) |
| Other | 4,250 | 4,632 | 2,578 | 2,054 |
| Total | <u>1,055,131</u> | <u>1,016,138</u> | <u>1,051,031</u> | <u>(34,893)</u> |
| Operating income | 58,231 | 85,262 | 86,945 | 1,683 |
| Operating transfers - in | - | 5,000 | 5,000 | - |
| Operating transfers - out | <u>-</u> | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> |
| Net income and operating transfers | 58,231 | 65,262 | 66,945 | 1,683 |
| Beginning retained earnings (deficit) | <u>(50,975)</u> | <u>(50,975)</u> | <u>(50,975)</u> | <u>-</u> |
| Ending retained earnings | <u>\$ 7,256</u> | <u>\$ 14,287</u> | <u>\$ 15,970</u> | <u>\$ 1,683</u> |

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

City of Lafayette
Statement of Cash Flows
Business Fund Type
Recreation Programs
For the year ended June 30, 2006

Statement 7

Cash flows from operating activities

| | |
|--|----------------|
| Receipts from customers | \$ 1,035,091 |
| Receipts from Building rentals, net of expense | 22,255 |
| Receipts from Interest income | 3,490 |
| Other receipts and payments | (9,665) |
| Payments for contractual services | (422,084) |
| Payments for printing and supplies | (105,532) |
| Payments to employees | (476,205) |
| Payments for maintenance | (15,553) |
| Payments for utilities | <u>(3,171)</u> |
| Net cash provided by operating activities | <u>28,626</u> |

Cash flows from noncapital financing activities

| | |
|--|-------------------|
| Net transfers to General Fund, net | <u>(20,000)</u> |
| Net increase in cash deposits and investments | 8,626 |
| Cash deposits and investments at beginning of year | <u>295,204</u> |
| Cash deposits and investments at end of year | <u>\$ 303,830</u> |

| | |
|--|------------------|
| Operating income (before operating transfers) | \$ 86,945 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| (Increase) decrease in assets | |
| Accounts receivable and accrued interest | 6,534 |
| Security deposit | (15,000) |
| Prepaid expenses | (22,632) |
| Increase (decrease) in liabilities | |
| Accounts payable | (9,169) |
| Refundable deposits and deferred revenue | <u>(18,052)</u> |
| Net cash provided by operating activities | <u>\$ 28,626</u> |

The accompanying notes are an integral part of these financial statements

CITY OF LAFAYETTE
Notes to Basic Financial Statements
June 30, 2006
Index

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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, 2006

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 and a debt service fund to track bond obligations. The Redevelopment Agency had a combined fund balance of \$6,209,298 (see note 2.E.). Financing is accomplished by means of interfund loans from the General Fund of \$4,298,382 (at 8% interest), a loan with an outstanding balance of \$623,784 from another fund of the City being paid over a remaining period of 17 years with interest at 8%, and tax allocation bonds outstanding of \$17,140,000. The fund balance will increase and the debt service will decrease in future periods from Redevelopment incremental tax allocation revenues. Pursuant to an agreement dated April 2006, the Agency transferred title of the Veteran's Building to Contra Costa County.

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, 2006

- 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.

Redevelopment Agency Fund

The Redevelopment Agency Fund (RDA) accounts for activities of the RDA as previously described.

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, 2006

Fiduciary funds (not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. There were no remaining Agency Funds at June 30, 2006.

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 |

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.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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.

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.

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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 (17 remaining) payable from the Redevelopment Agency to another governmental fund in the amount of \$623,784 at June 30, 2006. 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.

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

CITY OF LAFAYETTE
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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.). Certain capital project funds and special revenue funds are restricted by the sources for specific purposes such as gas tax, measure C (streets) and maintenance assessment districts.

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 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

CITY OF LAFAYETTE
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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, 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

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Notes to Financial Statements
June 30, 2006

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, 2006

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 must

CITY OF LAFAYETTE
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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, 2006.

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, 2006, 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
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The liability for the three issues of general obligation bonds was as follows at June 30, 2006:

| | <u>Original Issue</u> | <u>Total Outstanding</u> | <u>Due in Fiscal year June 30, 2006</u> |
|------------|-----------------------|--------------------------|---|
| 2002 Issue | 4,320,000 | 4,055,000 | 95,000 |
| 2004 Issue | 6,035,000 | 5,820,000 | 225,000 |
| | <u>\$ 10,355,000</u> | <u>\$ 9,875,000</u> | <u>\$ 320,000</u> |

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. Refer to note 3.F. for details on long-term debt.

- **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 2005-06, the City's total secured and unsecured assessed valuation is \$4,321,524,487 (full cash value).

Other long-term debt- Redevelopment Fund debt

To help finance Redevelopment projects, on August 6, 2002 and on November 9, 2005, the Redevelopment Agency issued bonded indebtedness, which will be repaid using redevelopment tax increment. A principal payment of \$75,000 was scheduled and made on August 1, 2005. A principal payment of \$100,000 was made on August 1, 2006. Refer to note 3.F. on long term debt.

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. It has a net asset balance of \$6,209,298. The Fund equity is calculated as follows:

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

| | |
|---|---------------------|
| Total Fund Balance (deficit) on a "Governmental Fund" basis | \$ 20,795,947 |
| Add fixed assets capitalized | 12,144,892 |
| Less cost of Veteran's building transferred to Contra Costa County | (7,610,441) |
| Deduct accrued interest on debt payable | (348,856) |
| Record prepaid debt issuance costs, net of amortization | 384,638 |
| Proceeds on debt issuance, reflected as liability on governmental basis | (17,140,000) |
| Net Assets - Redevelopment Fund | <u>\$ 8,226,180</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, 2006:

Cash and Cash Equivalents:

| | | Moody Rating |
|--|-------------------|-----------------|
| Deposits in Banks | \$ 680,883 | N/A |
| Petty Cash | 2,092 | N/A |
| Local Agency Investment Fund - State of California | 5,275,890 | N/A |
| Liquid mutual funds | 5,305,670 | AAA |
| Total Cash and Cash Equivalents | <u>11,264,535</u> | |

Investment in U.S. Treasury and Federal Agency Bonds, at market value,
Maturing July 2006 to July 2007, Par \$ 20,676,767
(see listing which follows)

| | | |
|-----------------------------------|----------------------|-----|
| | 20,461,140 | AAA |
| Total Cash and Investments | <u>\$ 31,725,675</u> | |

Reconciliation to financial statements:

Unrestricted:

| | |
|-----------------------------------|-------------------|
| Cash and cash equivalents | \$ 8,414,003 |
| Investments in bonds | 18,924,984 |
| Unrestricted cash and investments | <u>27,338,987</u> |

Restricted for debt service and low and moderate housing:

| | |
|----------------------|------------------|
| Cash and equivalents | 2,850,532 |
| Investment in bonds | 1,536,156 |
| | <u>4,386,688</u> |

| | |
|-------|----------------------|
| Total | <u>\$ 31,725,675</u> |
|-------|----------------------|

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

3. A. Cash and Investments (continued)

The City's investments with LAIF at June 30, 2006 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, 2006, the City had \$5,275,890 invested in LAIF, which had invested 2.57% 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 Percentage | Maturity Date | June 30, 2006 Market Value | Moody's Ratings |
|-----------------------------|----------------------|----------------------|-----------------|-------------------------------|--------------------|
| <u>Federal Agency</u> | | | | | |
| FHLMC Global Ref Notes | \$ 3,000,000 | 2.75-2.85 | 8/15/06-2/23/07 | \$ 2,968,450 | AAA |
| FHLB TAP Notes | 3,000,000 | 2.85-7.25 | 2/15/07-4/30/07 | 2,976,250 | AAA |
| FNMA Notes | 1,930,000 | 2.38-3.63 | 2/15/07-3/15/07 | 1,898,738 | AAA |
| U.S. Treasury Notes | 1,000,000 | 2.50 | 9/30/06 | 993,550 | AAA |
| Federal Agency - disc notes | 6,855,000 | discount | 7/6/06-9/27/06 | 6,839,074 | AAA |
| First American Gov't Fund | 1,767 | | | 1,767 | AAA |
| Total PFM Asset Management | <u>15,786,767</u> | | | <u>15,677,829</u> | |
| FHL Mortgage Corp. | 2,450,000 | | 7/31/06-2/15/07 | 2,391,868 | AAA |
| FNMA Note | 1,340,000 | | 4/27/07-7/15/07 | 1,293,749 | AAA |
| FHLB | 1,100,000 | | 11/15/06 | 1,097,594 | AAA |
| | <u>4,890,000</u> | | | <u>4,783,311</u> | |
| | <u>\$ 20,676,767</u> | | | <u>\$ 20,461,140</u> | |

At June 30, 2006, the carrying amount of the City's deposits was \$680,883. Bank balances before reconciling items were \$2,173,908 (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

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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.

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 | \$ (81,915) |
| Interest income (all investments) | <u>1,201,583</u> |
| Total investment income | \$ <u>1,119,668</u> |

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 rise.

CITY OF LAFAYETTE
Notes to Financial Statements
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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 | \$ 2,586,139 | \$ 1,800,529 | \$ 4,386,668 |
| Accrued interest | 22,368 | 16,021 | 38,389 |
| Total restricted assets | <u>\$ 2,608,507</u> | <u>\$ 1,816,550</u> | <u>\$ 4,425,057</u> |

3. C. Accounts Receivable

The amount of accounts receivable for the business-type activities was \$2,291 at June 30, 2006. Accounts receivable for the governmental activities consist of various taxes and fees dated June 30 and prior received subsequent to June 30, 2006. They include:

| | |
|--|----------------------|
| California State library grant (RDA) | \$ 10,490,955 |
| Contra Costa County (RDA) | 2,351,170 |
| City of Walnut Creek (RDA) | 1,300,000 |
| Department of Transportation (Federal / State) | 1,076,997 |
| Measure C - return to source | 373,430 |
| Sales tax | 349,200 |
| Transient occupancy tax | 155,608 |
| Franchise taxes | 91,240 |
| Transfer tax | 43,216 |
| Vehicle code fines | 32,471 |
| Other | 131,660 |
| | <u>\$ 16,395,947</u> |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

3. D. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

| <u>Governmental Activities</u> | <u>Balance June 30, 2005</u> | <u>Additions</u> | <u>Capitalized Work In Progress</u> | <u>Transfer to Contra Costa County</u> | <u>Balance June 30, 2006</u> |
|---------------------------------------|----------------------------------|-------------------|---|--|----------------------------------|
| <i>Capital Assets:</i> | | | | | |
| Land, easements, and right of way: | | | | | |
| City | \$ 7,986,650 | - | - | - | \$ 7,986,650 |
| RDA | 1,334,053 | 1,732,669 | - | (1,062,278) | 2,004,444 |
| Land improvements | 3,443,611 | - | - | - | 3,443,611 |
| Building / improvements | 1,232,292 | - | - | - | 1,232,292 |
| Infrastructure | 77,270,241 | - | 6,918,734 | - | 84,188,975 |
| Equipment and furniture | 856,143 | 203,529 | - | - | 1,059,672 |
| Construction in progress: | | | | | |
| City | 3,633,691 | 6,379,109 | (6,918,734) | - | 3,094,066 |
| RDA | 7,342,618 | 1,735,552 | - | (6,548,163) | 2,530,007 |
| Total capital assets at cost | 103,099,299 | 10,050,859 | - | (7,610,441) | 105,539,717 |
| <i>Accumulated depreciation:</i> | | | | | |
| Land improvements | 411,728 | 123,709 | - | - | 535,437 |
| Building / improvements | 388,164 | 18,871 | - | - | 407,035 |
| Infrastructure | 41,326,284 | 2,038,122 | - | - | 43,364,406 |
| Equipment and furniture | 594,709 | 116,600 | - | - | 711,309 |
| Total accum. depreciation | 42,720,885 | 2,297,302 | - | - | 45,018,187 |
| Total capital assets, net | \$ 60,378,414 | 7,753,557 | - | (7,610,441) | \$ 60,521,530 |

Current Depreciation

| | |
|---|---------------------|
| Public Works | \$ 46,144 |
| Infrastructure and related improvements | 2,180,702 |
| Police services | 54,509 |
| Planning & engineering | 8,388 |
| Rentals | 1,298 |
| Park facilities | 2,276 |
| Parking Program | 3,988 |
| Total depreciation | \$ 2,297,302 |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

3. E. Accounts Payable

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

3. F. Long-Term Debt

The reporting entity's long-term debt is general obligation bond amounts totaling \$9,875,000 and Redevelopment tax allocation bonds of \$17,140,000 to be repaid from governmental activities (see note 2.D.).

A summary of fiscal year ended June 30, 2006 general long-term debt transactions as follows:

| | Interest Rates | Balance June 30, 2005 | Principal Additions (Retirement) | Balance June 30, 2006 |
|----------------------------|-------------------|-----------------------------|--|-----------------------------|
| <i>Redevelopment:</i> | | | | |
| Tax allocation bonds | | | | |
| Bonds issued FY 2003 | | | | |
| Matures to FY 2033 | 2.25 - 5.3% | \$ 5,535,000 | \$ (75,000) | \$ 5,460,000 |
| Bonds issued FY 2005 | | | | |
| Matures to FY 2030 | 3.0 -4.7% | - | 11,680,000 | 11,680,000 |
| <i>General Obligation:</i> | | | | |
| Bonds Issued FY 1995 | | | | |
| Matures to FY 2026 | 5.6 to 6% | 5,170,000 | (5,170,000) | - |
| Bonds Issued FY 2002 | | | | |
| Matures to FY 2026 | 3.5 to 5% | 4,150,000 | (95,000) | 4,055,000 |
| Bonds Issued FY 2004 | | | | |
| Matures to FY 2026 | 2.0 to 4.7% | 6,035,000 | (215,000) | 5,820,000 |
| Totals | | <u>\$ 20,890,000</u> | <u>\$ 6,125,000</u> | <u>\$ 27,015,000</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, 2006

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

| | General Obligation Bonds - Issued 2002 | | |
|--|--|--------------|--------------|
| | Principal | Interest | Total |
| Payments due in fiscal years ending June 30; | | | |
| 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 | 115,000 | 180,676 | 295,676 |
| 2012-2016 | 670,000 | 807,756 | 1,477,756 |
| 2017-2021 | 860,000 | 620,655 | 1,480,655 |
| 2022-2026 | 1,995,000 | 322,747 | 2,317,747 |
| | \$ 4,055,000 | \$ 2,708,913 | \$ 6,763,913 |

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

| | General Obligation Bonds - Issued 2004 | | |
|--|--|--------------|--------------|
| | Principal | Interest | Total |
| Payments due in fiscal years ending June 30; | | | |
| 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 | 260,000 | 213,538 | 473,538 |
| 2012-2016 | 1,470,000 | 873,561 | 2,343,561 |
| 2017-2021 | 1,800,000 | 520,970 | 2,320,970 |
| 2022-2026 | 1,360,000 | 113,741 | 1,473,741 |
| | \$ 5,820,000 | \$ 2,656,311 | \$ 8,476,311 |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

| | <u>Redevelopment Tax Allocation Bonds - Issued 2003</u> | | |
|--|---|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| Payments due in fiscal years ending June 30; | | | |
| 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 | 115,000 | 276,821 | 391,821 |
| 2012-2016 | 680,000 | 1,293,359 | 1,973,359 |
| 2017-2021 | 860,000 | 1,094,117 | 1,954,117 |
| 2022-2026 | 1,140,000 | 812,751 | 1,952,751 |
| 2027-2031 | 1,505,000 | 435,419 | 1,940,419 |
| 2032-2033 | 730,000 | 42,550 | 772,550 |
| | <u>\$ 5,460,000</u> | <u>\$ 5,108,172</u> | <u>\$ 10,568,172</u> |

| | <u>Redevelopment Tax Allocation Bonds - Issued 2005</u> | | |
|--|---|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| Payments due in fiscal years ending June 30; | | | |
| 2007 | \$ - | \$ 541,301 | \$ 541,301 |
| 2008 | - | 541,301 | 541,301 |
| 2009 | 80,000 | 540,101 | 620,101 |
| 2010 | 195,000 | 535,781 | 730,781 |
| 2011 | 220,000 | 529,086 | 749,086 |
| 2012-2016 | 1,210,000 | 2,510,975 | 3,720,975 |
| 2017-2021 | 1,520,000 | 2,206,973 | 3,726,973 |
| 2022-2026 | 1,875,000 | 1,832,350 | 3,707,350 |
| 2027-2031 | 2,350,000 | 1,344,435 | 3,694,435 |
| 2032-2036 | 4,230,000 | 608,000 | 4,838,000 |
| | <u>\$ 11,680,000</u> | <u>\$ 11,190,303</u> | <u>\$ 22,870,303</u> |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

The following is a summary of interest and related fees expense incurred on the long-term debt for the year ended June 30, 2006:

| | Paid | Incurred |
|---|--------------|--------------|
| General obligation bonds - 1995 issue | \$ 152,294 | \$ 12,692 |
| General obligation bonds - 2002 issue | 206,676 | 204,499 |
| General obligation bonds - 2004 issue | 246,687 | 244,716 |
| Redevelopment tax allocation bonds-2003 issue | 297,078 | 296,140 |
| Redevelopment tax allocation bonds-2005 issue | 123,297 | 348,840 |
| | \$ 1,026,032 | \$ 1,106,887 |

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 | \$ 450,000 | \$ 3,214,237 |
| Capital project funds | 3,398,256 | 734,972 |
| Redevelopment agency | 6,710,745 | 6,710,745 |
| Other governmental funds | 513,518 | 392,565 |
| Subtotal | 11,072,519 | 11,052,519 |
| Proprietary fund | - | 20,000 |
| | \$ 11,072,519 | \$ 11,072,519 |

The Redevelopment Agency has borrowed \$4,298,382 (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 \$623,784 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 | \$ 2,608,527 |
| Low/moderate income housing fund, net of accounts payable of \$63 | 1,816,487 |
| Total restricted for debt service | \$ 4,425,014 |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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 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 2006 was approximately \$2,946,000. The City contributed \$256,936 to the Plan during the year (8.72% of payroll).

The following summarizes transactions in the Plan for the year ended June 30, 2006:

| | |
|---------------------------------------|---------------------|
| Defined contribution retirement plan: | |
| Balance June 30, 2005 | \$ 2,083,971 |
| <i>Contributions:</i> | |
| City - regular | 233,390 |
| City - employee match | 41,484 |
| Forfeitures applied | <u>(17,938)</u> |
| Net City contributions | 256,936 |
| Employee contributions | <u>82,972</u> |
| Total Contributions | 339,908 |
| Loan repayments | 551 |
| Rollovers | 137,237 |
| Disbursements, net | (50,872) |
| Earnings | <u>195,165</u> |
| Balance June 30, 2006 | \$ <u>2,705,960</u> |

Employee Retirement Contribution

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

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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.

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, 2006:

| | |
|-----------------------------|---------------------|
| Deferred compensation plan: | |
| Balance June 30, 2005 | \$ 3,219,246 |
| Contributions | 277,244 |
| Disbursements | (202,750) |
| Earnings | 316,162 |
| Balance June 30, 2006 | \$ <u>3,609,902</u> |

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

4. B. Risk Management

Insurance coverage

The City purchases its insurance through the Municipal Pooling Authority of Northern California (MPA). The following is a summary of coverage as of June 30, 2006:

| | Participating Cities' Total <u>Coverage</u> | Deductible <u>(City Portion)</u> |
|----------------------------|---|-------------------------------------|
| All risk fire and property | \$ 1,000,000,000 | \$ 5,000 |
| Boiler and machinery | \$ 100,000,000 | \$ 5,000 |
| Liability | \$ 15,000,000 | \$ 5,000 |
| Auto-physical damage | \$ 250,000 | \$ 2,000 |
| Workers' compensation | \$ 145,000,000 | \$ 0 |

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

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

4. C. Commitments and Contingencies

Claims involving the City of Lafayette

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

Grant programs

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

CITY OF LAFAYETTE
Notes to Financial Statements
June 30, 2006

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, 2006, \$4,534,451 has been expended and capitalized for the new library. In addition, the Agency has expended and capitalized \$7,610,441 in developing the new Veteran’s Memorial Hall which was completed during the year and transferred to Contra Costa County to maintain and operate.

4. E. New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. (effective for “fiscal years beginning after December 31, 2007”).

The City is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In December 2004, GASB issued GASBS No. 46, Net Assets Restricted by Enabling Legislation. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This statement has not have a material effect on the City.

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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, 2006

Exhibit 1

| | Original Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------|----------------------------|----------------------|--|
| Revenues | | | | |
| Property tax | \$ 2,475,000 | \$ 2,497,816 | \$ 2,611,484 | \$ 113,668 |
| Sales and use tax | 2,548,347 | 2,425,000 | 2,513,865 | 88,865 |
| Transient lodging tax | 500,000 | 500,000 | 581,080 | 81,080 |
| Franchise tax | 855,000 | 865,000 | 981,538 | 116,538 |
| Real property transfer tax | 222,329 | 241,485 | 279,879 | 38,394 |
| Vehicle code fines | 195,000 | 195,000 | 201,472 | 6,472 |
| Interest income | 306,000 | 306,000 | 718,560 | 412,560 |
| Motor vehicle in lieu tax | 1,205,000 | 1,405,000 | 2,229,873 | 824,873 |
| Planning, permits and fees | 915,000 | 815,000 | 962,189 | 147,189 |
| Business registration fees | 32,714 | 32,714 | 24,595 | (8,119) |
| Police services | 50,000 | 50,000 | 49,530 | (470) |
| Other | 80,000 | 80,000 | 161,097 | 81,097 |
| | <u>9,384,390</u> | <u>9,413,015</u> | <u>11,315,162</u> | <u>1,902,147</u> |
| Expenditures | | | | |
| City council, commissions and community support | | | | |
| City council | 192,606 | 285,106 | 233,327 | 51,779 |
| Commissions and committees | 828,907 | 875,566 | 778,538 | 97,028 |
| Police services | 3,286,309 | 3,489,084 | 3,285,030 | 204,054 |
| Public works | | | | |
| Street maintenance | 754,492 | 804,445 | 798,190 | 6,255 |
| Traffic maintenance | 324,785 | 344,562 | 325,017 | 19,545 |
| Parks and walkway maintenance | 372,935 | 405,359 | 396,466 | 8,893 |
| Facilities maintenance | 158,483 | 163,036 | 153,047 | 9,989 |
| Emergency response | 50,000 | 50,000 | 177,946 | (127,946) |
| Planning and engineering | | | | |
| Planning department | 422,424 | 481,819 | 418,295 | 63,524 |
| Engineering department | 199,201 | 203,603 | 198,598 | 5,005 |
| Administration | | | | |
| City management | 361,359 | 359,656 | 339,103 | 20,553 |
| Legal services | 350,000 | 350,000 | 287,189 | 62,811 |
| City clerk | 134,414 | 144,061 | 99,372 | 44,689 |
| Finance and personnel | 449,201 | 475,426 | 448,272 | 27,154 |
| Technology services | 84,156 | 111,989 | 91,732 | 20,257 |
| Business registration fees | 52,500 | 52,755 | 48,361 | 4,394 |
| Rent and other expenses | 115,408 | 175,888 | 171,992 | 3,896 |
| Insurance - premiums and claims | 183,824 | 183,824 | 183,694 | 130 |
| | <u>8,321,004</u> | <u>8,956,179</u> | <u>8,434,169</u> | <u>522,010</u> |
| Excess of revenues over expenditures | 1,063,386 | 456,836 | 2,880,993 | 2,424,157 |
| Other financing sources | | | | |
| Operating transfers - in | - | 450,000 | 450,000 | - |
| Operating transfers - out | - | (3,179,237) | (3,214,237) | (35,000) |
| Excess (deficiency) of revenues over expenditures and other financing sources | 1,063,386 | (2,272,401) | 116,756 | 2,389,157 |
| Beginning fund balance | <u>12,039,606</u> | <u>12,039,606</u> | <u>12,039,606</u> | <u>10,507,260</u> |
| Ending fund balance | <u>\$ 13,102,992</u> | <u>\$ 9,767,205</u> | <u>\$ 12,156,362</u> | <u>\$ 12,896,417</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, 2006

Exhibit 2

| ASSETS | Capital Projects Funds | | | | Total | |
|----------------------------------|------------------------|-----------------|----------------|------------------|--------------|-------------------|
| | Redevelopment Program | Library Project | Veteran's Hall | Capital Projects | | |
| | | | | | | Debt Service Fund |
| Cash | \$ (4,748,253) | \$ 6,336,676 | \$ 2,980,213 | \$ 4,568,636 | - | \$ 4,568,636 |
| Investments | - | 3,247,155 | - | 3,247,155 | - | 3,247,155 |
| Redevelopment Interfund Balances | 5,458,517 | (849,166) | (4,609,351) | - | - | - |
| Local Agency Investment Fund | 5,349 | 1,311 | - | 6,660 | - | 6,660 |
| Accounts receivable | - | 10,490,955 | 3,651,170 | 14,142,125 | - | 14,142,125 |
| Accrued interest receivable | 5,449 | 59,391 | - | 64,840 | - | 64,840 |
| Other assets | 4,282 | 2,476 | - | 6,758 | - | 6,758 |
| Restricted assets for: | | | | | | |
| Cash and investments | - | - | - | - | 1,979,200 | 3,779,729 |
| Accrued interest receivable | - | - | - | - | 22,368 | 38,389 |
| Total assets | \$ 725,344 | \$ 19,288,798 | \$ 2,022,032 | \$ 22,036,174 | \$ 2,001,568 | \$ 25,854,292 |

LIABILITIES AND FUND BALANCE

| | | | | | | | |
|--|------------|---------------|--------------|---------------|--------------|--------------|---------------|
| Accounts payable and accrued liabilities | \$ 25,808 | \$ 102,366 | \$ 7,942 | \$ 136,116 | \$ - | \$ 63 | \$ 136,179 |
| Advances from general fund | 1,594,770 | 1,521,676 | 1,181,936 | 4,298,382 | - | - | 4,298,382 |
| Loan payable to general fund | - | - | 623,784 | 623,784 | - | - | 623,784 |
| Total liabilities and other credits | 1,620,578 | 1,624,042 | 1,813,662 | 5,058,282 | - | 63 | 5,058,345 |
| Fund balances | | | | | | | |
| Restricted for: | | | | | | | |
| Debt service | - | - | - | - | 2,001,568 | - | 2,001,568 |
| Low/moderate income housing | - | - | - | - | - | 1,816,487 | 1,816,487 |
| Other | (895,234) | 17,664,756 | 208,370 | 16,977,892 | - | - | 16,977,892 |
| Unrestricted | | | | | | | |
| Fund balance | (895,234) | 17,664,756 | 208,370 | 16,977,892 | 2,001,568 | 1,816,487 | 20,795,947 |
| Total liabilities and fund balance | \$ 725,344 | \$ 19,288,798 | \$ 2,022,032 | \$ 22,036,174 | \$ 2,001,568 | \$ 1,816,550 | \$ 25,854,292 |

CITY OF LAFAYETTE
 Redevelopment Agency
 Combining Fund Statement of Revenues, Expenditures, and
 Changes in Fund Balance
 For the Year Ended June 30, 2006

| | Capital Projects Funds | | | | Total Capital Projects | Debt Service Fund | Special Revenue Fund | Total Governmental Funds |
|---|------------------------|---------------------|-------------------|---------------------|------------------------------|----------------------|-------------------------|--------------------------------|
| | General Projects | Library Project | Veteran's Hall | | | | | |
| Revenues | | | | | | | | |
| Tax increment revenue | \$ 891,673 | \$ - | \$ - | \$ 891,673 | \$ 372,078 | \$ 415,083 | \$ 1,678,834 | |
| State and federal grants | - | 10,859,891 | 3,651,170 | 14,511,061 | - | - | 14,511,061 | |
| Investment income | 10,798 | 272,840 | 57,645 | 341,283 | 38,103 | 23,364 | 402,750 | |
| Other revenue | 1,560 | 565 | 32,163 | 34,288 | - | - | 34,288 | |
| Total revenues | <u>904,031</u> | <u>11,133,296</u> | <u>3,740,978</u> | <u>15,778,305</u> | <u>410,181</u> | <u>438,447</u> | <u>16,626,933</u> | |
| Expenditures | | | | | | | | |
| Administrative costs | 126,275 | 213,309 | 86,693 | 426,277 | - | 34,536 | 460,813 | |
| Assessment District bond principal | - | - | - | - | 75,000 | - | 75,000 | |
| Planning and design | 208,349 | 59,025 | - | 267,374 | - | - | 267,374 | |
| Real Estate purchase | - | - | 411,686 | 411,686 | - | - | 411,686 | |
| Improvement costs | - | 2,659,968 | 135,907 | 2,795,875 | - | - | 2,795,875 | |
| Interest expense | - | 92,336 | 277,335 | 369,671 | 420,375 | - | 790,046 | |
| Professional services | 212,552 | - | 3,887 | 216,439 | - | 7,969 | 224,408 | |
| Community promotion | 31,132 | 7,316 | - | 38,448 | - | - | 38,448 | |
| Subsidies | - | - | - | - | - | - | - | |
| Other expenses | 13,424 | 32,689 | 8,343 | 54,456 | - | 20,642 | 75,098 | |
| Total expenditures | <u>591,732</u> | <u>3,064,643</u> | <u>923,851</u> | <u>4,580,226</u> | <u>495,375</u> | <u>63,147</u> | <u>5,138,748</u> | |
| Excess (deficiency) of revenues over expenditures | <u>312,299</u> | <u>8,068,653</u> | <u>2,817,127</u> | <u>11,198,079</u> | <u>(85,194)</u> | <u>375,300</u> | <u>11,488,185</u> | |
| Other financing sources (uses): | | | | | | | | |
| Proceeds from Bonds | - | 9,997,846 | - | 9,997,846 | 1,682,154 | - | 11,680,000 | |
| Bond issuance costs | - | (391,158) | - | (391,158) | - | - | (391,158) | |
| Operating transfers - in | - | 1,300,000 | 5,410,745 | 6,710,745 | - | - | 6,710,745 | |
| Operating transfers - out | (5,410,745) | - | (1,300,000) | (6,710,745) | - | - | (6,710,745) | |
| Total other financing sources (uses) | <u>(5,410,745)</u> | <u>10,906,688</u> | <u>4,110,745</u> | <u>9,606,688</u> | <u>1,682,154</u> | <u>-</u> | <u>11,288,842</u> | |
| Excess (deficiency) of revenues over expenditures, net of other financing sources | (5,098,446) | 18,975,341 | 6,927,872 | 20,804,767 | 1,596,960 | 375,300 | 22,777,027 | |
| Beginning fund balance | 4,203,212 | (1,310,585) | (6,219,502) | (3,826,875) | 404,608 | 1,441,187 | (1,981,080) | |
| Ending fund balance | <u>(895,234)</u> | <u>\$17,664,756</u> | <u>\$ 208,370</u> | <u>\$16,977,892</u> | <u>\$ 2,001,568</u> | <u>\$ 1,816,487</u> | <u>\$ 20,795,947</u> | |

THE CITY OF LAFAYETTE
 Capital Projects
 Combining Funds Balance Sheet
 June 30, 2006

Exhibit 4

| ASSETS | Park Facilities | Walkways and Bikeways | Streets and Signals | Storm Drains | Public Facilities | City Office | Road and Drain Improvement Fund | Total Capital Project Funds |
|-----------------------------|--------------------|--------------------------|------------------------|-----------------|----------------------|----------------|---------------------------------------|-----------------------------------|
| Cash and investments | \$ 980,561 | \$ 191,961 | \$ 538,807 | \$ 104,813 | \$ 233,925 | \$ 1,919,509 | \$ 3,003,242 | \$ 6,972,818 |
| Accounts receivable | - | - | 1,122,638 | - | - | - | - | 1,122,638 |
| Accrued interest receivable | 64 | 43 | 239 | 23 | 52 | 17,910 | 651 | 18,982 |
| Notes receivable | - | - | - | - | - | 458,525 | - | 458,525 |
| Prepaid Expenses | 300 | - | - | - | - | - | - | 300 |
| Total assets | \$ 980,925 | \$ 192,004 | \$ 1,661,684 | \$ 104,836 | \$ 233,977 | \$ 2,395,944 | \$ 3,003,893 | \$ 8,573,263 |

LIABILITIES AND FUND BALANCE

| | | | | | | | | |
|--|------------|------------|--------------|------------|------------|--------------|--------------|--------------|
| Accounts payable and accrued liabilities | \$ 1,286 | - | \$ 483,240 | - | \$ 111 | - | - | \$ 484,637 |
| Deferred Revenue | - | - | 25,000 | - | - | - | - | 25,000 |
| Due to other funds | - | - | - | - | - | - | - | - |
| Project deposits | - | - | 312 | - | - | - | - | 312 |
| Total liabilities | 1,286 | - | 508,552 | - | 111 | - | - | 509,949 |
| Fund Balance | | | | | | | | |
| Restricted by source | 979,639 | 192,004 | 1,153,132 | 104,836 | - | - | 3,003,893 | 5,433,504 |
| Designated | - | - | - | - | 233,866 | 2,395,944 | - | 2,629,810 |
| Total fund balance | 979,639 | 192,004 | 1,153,132 | 104,836 | 233,866 | 2,395,944 | 3,003,893 | 8,063,314 |
| Total liabilities and net assets | \$ 980,925 | \$ 192,004 | \$ 1,661,684 | \$ 104,836 | \$ 233,977 | \$ 2,395,944 | \$ 3,003,893 | \$ 8,573,263 |

THE CITY OF LAFAYETTE
Capital Projects
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended June 30, 2006

Exhibit 5

| | Park Facilities | Walkways and Bikeways | Streets and Signals | Storm Drains | Public Facilities | City Office | Road and Drain Improvement Fund | Total Capital Project Funds |
|---|--------------------|--------------------------|------------------------|-----------------|----------------------|----------------|---------------------------------------|-----------------------------------|
| Revenues | | | | | | | | |
| Interest income | \$ 27,742 | \$ 953 | \$ 15,753 | \$ 696 | \$ 1,015 | \$ 26,675 | \$ 121,715 | \$ 194,549 |
| Grants - federal | - | - | 1,471,234 | - | - | - | - | 1,471,234 |
| Grants - state and local | - | - | 2,144,416 | - | - | - | - | 2,144,416 |
| Drainage Impact fees | - | - | - | 14,942 | - | - | - | 14,942 |
| Walkways fees | - | 600 | - | 50 | - | - | - | 650 |
| Happy Valley Improvement Association Park dedication fees | 195,909 | - | - | - | - | - | - | 195,909 |
| Sale of Property | 2,000 | - | 45,905 | - | - | 404,668 | - | 404,668 |
| Other revenues and donations | 225,651 | 1,553 | 3,677,308 | 15,688 | 1,015 | 431,343 | 121,715 | 4,474,273 |
| Total revenues | | | | | | | | |
| | \$ 27,742 | \$ 953 | \$ 15,753 | \$ 696 | \$ 1,015 | \$ 26,675 | \$ 121,715 | \$ 194,549 |
| Expenditures | | | | | | | | |
| Capital projects | 64,148 | - | 6,319,862 | - | 1,171 | - | - | 6,385,181 |
| Administration | 29,235 | - | 394,874 | - | - | - | - | 424,109 |
| Total expenditures | 93,383 | - | 6,714,736 | - | 1,171 | - | - | 6,809,290 |
| Excess (deficiency) of revenues over expenditures | 132,268 | 1,553 | (3,037,428) | 15,688 | (156) | 431,343 | 121,715 | (2,335,017) |
| Other financing sources: | | | | | | | | |
| General obligations bonds issued | - | - | - | - | - | - | - | - |
| Operating transfers - in | 243,940 | - | 3,096,816 | - | 57,500 | - | - | 3,398,256 |
| Operating transfers - out | (10,000) | - | - | (45,000) | - | - | (679,972) | (734,972) |
| Excess (deficiency) of revenues over expenditures, net of other financing sources: | 366,208 | 1,553 | 59,388 | (29,312) | 57,344 | 431,343 | (558,257) | 328,267 |
| Beginning fund balance | 613,431 | 190,451 | 1,093,744 | 134,148 | 176,522 | 1,964,601 | 3,562,150 | 7,735,047 |
| Ending net fund balance | \$ 979,639 | \$ 192,004 | \$ 1,153,132 | \$ 104,836 | \$ 233,866 | \$ 2,395,944 | \$ 3,003,893 | \$ 8,063,314 |

CITY OF LAFAYETTE
 Other Governmental
 Combining Funds Balance Sheet
 As of June 30, 2006

Exhibit 6

| ASSETS | Parking Programs | Vehicle Abatement | Senior Transportation | Gas Tax | Measure C Return to Source | Supplemental Law Enforcement | Assessment Districts | | | Total Other Governmental Funds |
|-------------------------------|------------------|-------------------|-----------------------|------------|----------------------------|------------------------------|----------------------|-----------------------|----------------------|--------------------------------|
| | | | | | | | Street Lighting | Core Area Maintenance | Stormwater Pollution | |
| Cash deposits and investments | \$ 2,063,812 | \$ 3,286 | \$ 53,941 | \$ 353,897 | \$ (329,359) | \$ 4,082 | \$ 102,130 | \$ 332,435 | \$ 443,615 | \$ 3,027,839 |
| Accounts receivable | 16,278 | - | - | - | 373,000 | - | - | - | - | 389,278 |
| Note receivable | 623,784 | - | - | - | - | - | - | - | - | 623,784 |
| Accrued interest receivable | 13,620 | 4 | - | 171 | 5 | 17 | 24 | 70 | 73 | 13,984 |
| Prepaid expenses | - | - | 242 | - | - | - | - | - | - | 242 |
| Total assets | \$ 2,717,494 | \$ 3,290 | \$ 54,183 | \$ 354,068 | \$ 43,646 | \$ 4,099 | \$ 102,154 | \$ 332,505 | \$ 443,688 | \$ 4,055,127 |

LIABILITIES AND FUND BALANCE

| | | | | | | | | | | |
|--|--------------|----------|-----------|------------|-----------|----------|------------|------------|------------|--------------|
| Liabilities | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 47,427 | \$ 576 | \$ 1,080 | \$ - | \$ 22,810 | \$ - | \$ 2,777 | \$ 74,228 | \$ 16,285 | \$ 165,183 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - |
| Deferred Revenue | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 47,427 | 576 | 1,080 | - | 22,810 | - | 2,777 | 74,228 | 16,285 | 165,183 |
| Fund Balance | | | | | | | | | | |
| Restricted | - | - | - | 354,068 | 20,836 | 4,099 | 99,377 | 258,277 | 427,403 | 1,164,060 |
| Designated | 2,670,067 | 2,714 | 53,103 | - | - | - | - | - | - | 2,725,884 |
| Total fund balance | 2,670,067 | 2,714 | 53,103 | 354,068 | 20,836 | 4,099 | 99,377 | 258,277 | 427,403 | 3,889,944 |
| Total liabilities and fund bal. | \$ 2,717,494 | \$ 3,290 | \$ 54,183 | \$ 354,068 | \$ 43,646 | \$ 4,099 | \$ 102,154 | \$ 332,505 | \$ 443,688 | \$ 4,055,127 |

CITY OF LAFAYETTE
Other Governmental
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
As of the Year Ended June 30, 2006

| | Parking Programs | Vehicle Abatement | Senior Transportation | Gas Tax | Measure C Return To Source | Supplemental Law Enforcement | Street Lighting | Assessment Districts | | Total Other Governmental Funds |
|--|------------------|-------------------|-----------------------|----------------|----------------------------|------------------------------|-----------------|-----------------------|----------------------|--------------------------------|
| | | | | | | | | Core Area Maintenance | Stormwater Pollution | |
| Revenues | | | | | | | | | | |
| Parking revenue | 138,715 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | 138,715 |
| Vehicle code fines | 194,211 | - | - | - | - | - | - | - | - | 194,211 |
| Property tax and assessments | - | - | - | - | - | - | 17,959 | 220,057 | 395,061 | 633,077 |
| Interest income | 74,278 | 37 | - | 6,912 | 5 | 322 | 488 | 8,579 | 1,741 | 92,362 |
| Gas tax | - | - | - | 452,469 | - | - | - | - | - | 452,469 |
| Sales tax - Measure C | - | - | - | - | 373,000 | - | - | - | - | 373,000 |
| Abandoned vehicles | - | 12,242 | - | - | - | - | - | - | - | 12,242 |
| Grants - state | - | - | - | - | - | 100,000 | - | - | - | 100,000 |
| Other revenue | - | - | 25,000 | - | - | - | - | - | - | 25,000 |
| Total revenues | 407,204 | 12,279 | 25,000 | 459,381 | 373,005 | 100,322 | 18,447 | 228,636 | 396,802 | 2,021,076 |
| Expenditures | | | | | | | | | | |
| Public works | - | - | - | - | - | - | 16,320 | 366,731 | 363,896 | 746,947 |
| Administration | 208,028 | 42,805 | 6,897 | - | 89,168 | 365,518 | - | - | - | 712,416 |
| Police | - | - | - | - | - | - | - | - | - | - |
| Interest expense | - | - | - | - | - | - | - | - | - | - |
| Professional service | - | - | - | - | - | - | - | - | - | - |
| Loss on sale of property | - | - | - | - | - | - | - | - | - | - |
| Total expenditures | 208,028 | 42,805 | 6,897 | - | 89,168 | 365,518 | 16,320 | 366,731 | 363,896 | 1,459,363 |
| Excess (deficiency) of revenues over expenditures | 199,176 | (30,526) | 18,103 | 459,381 | 283,837 | (265,196) | 2,127 | (138,095) | 32,906 | 561,713 |
| Other financing sources | | | | | | | | | | |
| Operating transfers - in | - | 23,000 | 35,000 | - | - | 265,518 | - | 190,000 | - | 513,518 |
| Operating transfers - out | - | - | - | (108,784) | (283,781) | - | - | - | - | (392,565) |
| Excess (deficiency) of revenues over expenditures, net of other financing sources | 199,176 | (7,526) | 53,103 | 350,597 | 56 | 322 | 2,127 | 51,905 | 32,906 | 682,666 |
| Beginning fund balance | 2,470,891 | 10,240 | - | 3,471 | 20,780 | 3,777 | 97,250 | 206,372 | 394,497 | 3,207,278 |
| Ending fund balance | 2,670,067 | 2,714 | 53,103 | 354,068 | 20,836 | 4,099 | 99,377 | 238,277 | 427,403 | 3,889,944 |

