

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
COMPONENT UNIT FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(With Auditors' Report Thereon)

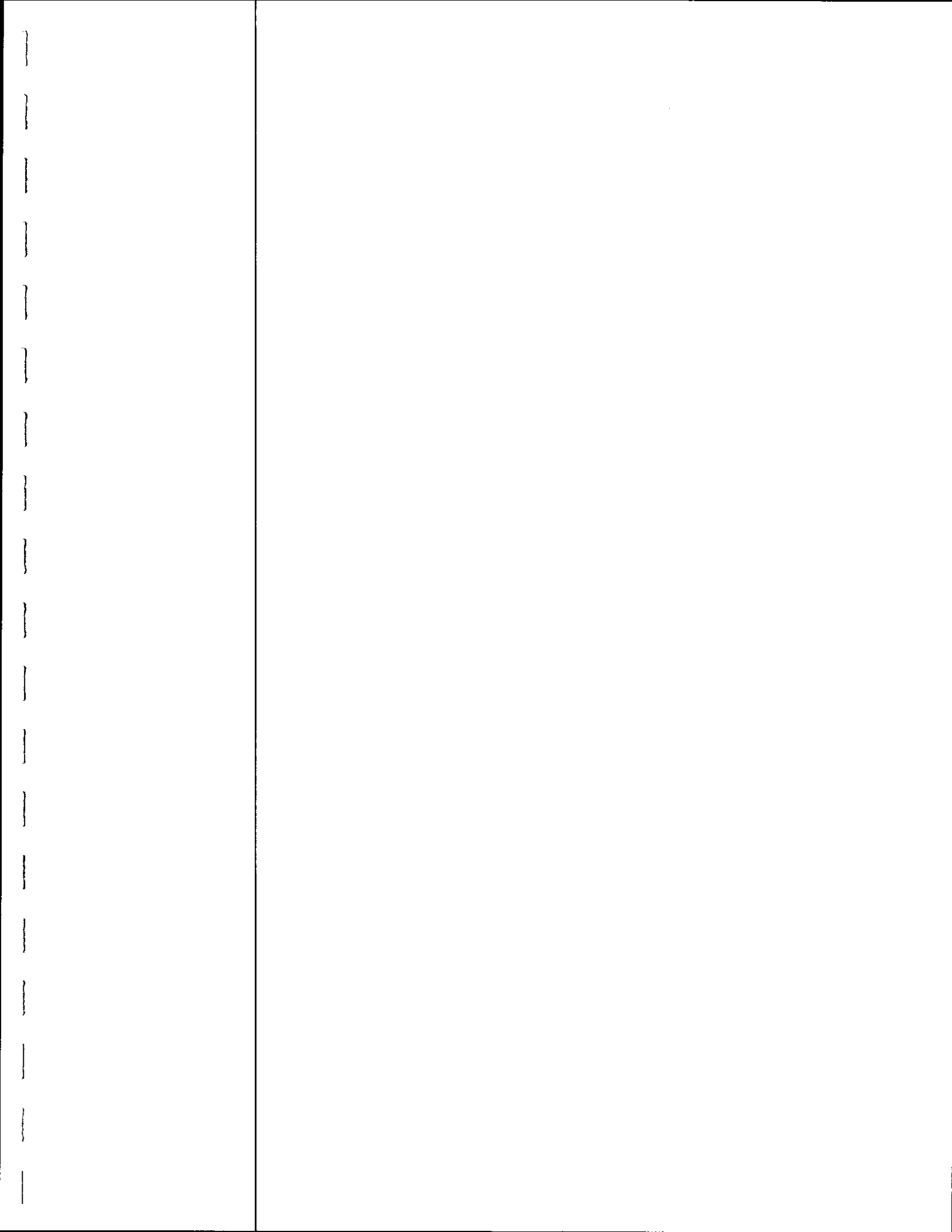


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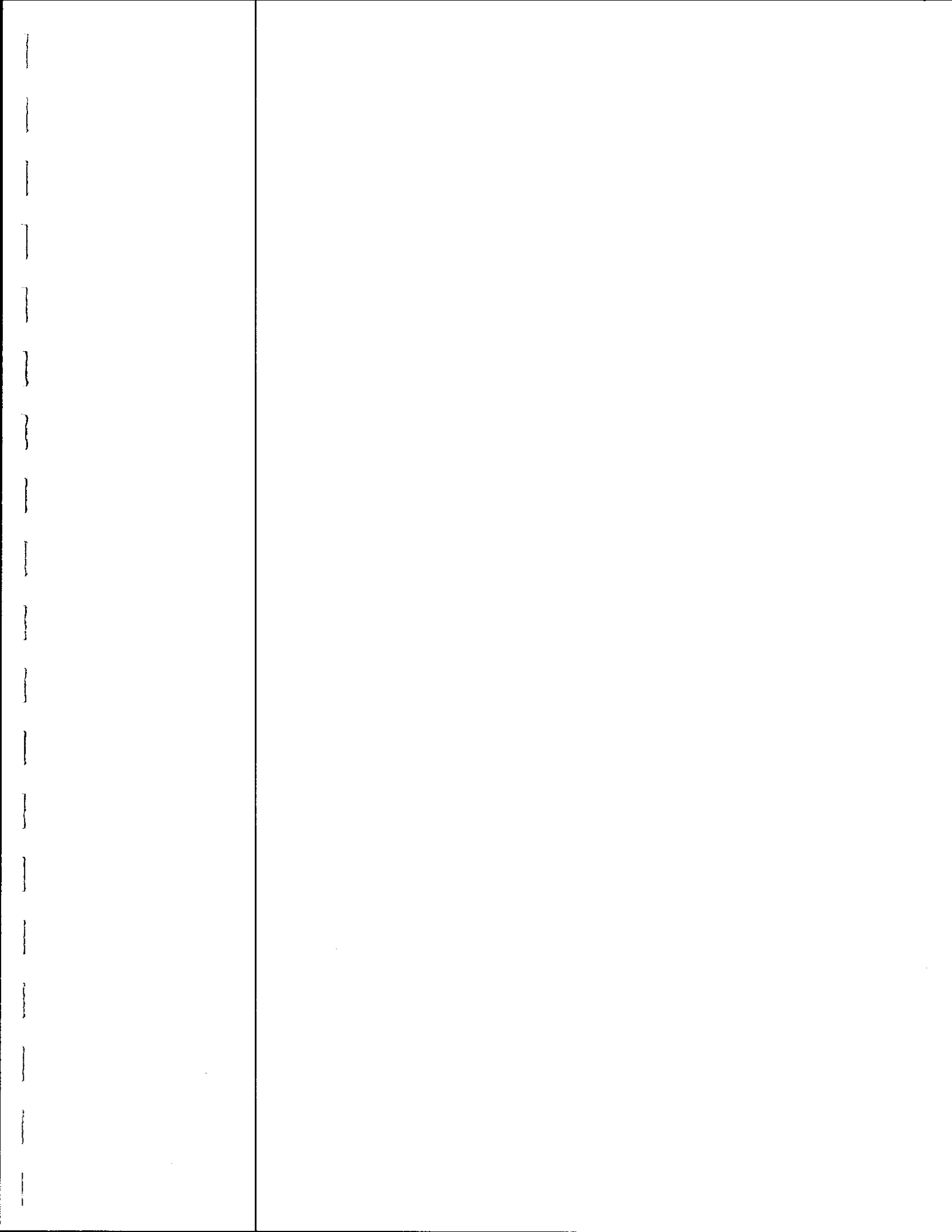
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**CITY OF LAFAETTE
CITY OFFICIALS AS OF JUNE 30, 2007**

MAYOR

Carol Federighi

Term Expires November 2008

CITY COUNCIL

Brandt Anderson

Term Expires November 2010

Don Tazin

Term Expires November 2010

Mike Anderson, Vice Mayor

Term Expires November 2008

Carl Anduri

Term Expires November 2008

CITY MANAGER

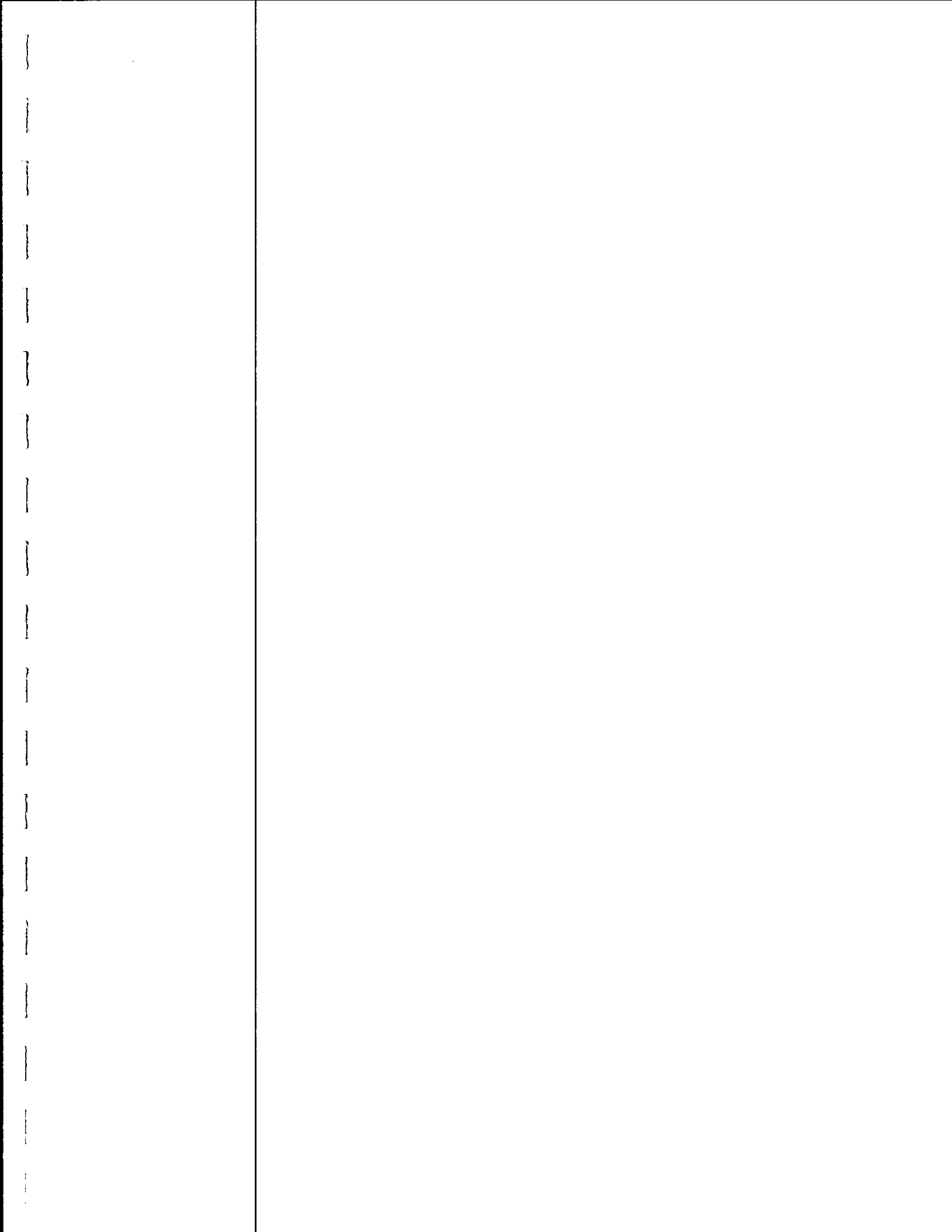
Steven B. Falk-17 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson- 7 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva - 17 years of service



Management's Discussion and Analysis

Our discussion and analysis of the Lafayette Redevelopment Agency's financial performance for the fiscal year ended June 30, 2007 provides an overview of year ending results based on the government-wide statements and analysis on the Agency's overall financial position and results of operations to assist users in evaluating the Agency's financial position.

Profile of the Agency

The agency was established pursuant to the Redevelopment Law and is charged with the authority and responsibility of redeveloping and improving blighted areas of the City.

The agency was created by the City Council Ordinance No. 126 adopted on May 1, 1974. The Agency was established pursuant to the Community Redevelopment Law of California. The Redevelopment Plan was adopted by the Agency on December 27, 1994. The project Area occupies approximately 290 acres located in the downtown area and constitutes approximately 3% of the land area of the City. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

Agency Powers and Duties

All powers of the Agency are vested in five members who are also members of the City Council. The Agency exercises all the governmental functions as authorized under the Redevelopment Law and has among others powers the authority to acquire, administer, develop, lease or sell property, including the right of eminent domain. The Agency can clear buildings and other improvements and can develop as a building site any real property owned or acquired in connection with such development.

Organization

The City Council serves as the Board of Directors of the Agency. The City of Lafayette was incorporated as a general law city in 1968. The City operates under a council-manager form of government. The five Council Members are elected at large for staggered four-year term.

The Executive Director/City Manager is appointed by the Agency/Council and serves at the Board's/Council pleasure as the administrative head of the Agency and the City. The Executive Director/City Manager is responsible for appointment of all Agency and City employees except the Agency/City Attorney, who is appointed directly by the Board/Council.

Member of the Board and City Council as of June 30, 2007, and their term of office are shown below:

Member

Position

Term Expires

Carol Federighi

Agency Chair and Mayor

November 2008

Mike Anderson

Vice Chair and Vice Mayor

November 2008

Don Tatzin

Board Member

November 2010

Carl Anduri

Board Member

November 2008

Brandt Andersson

Board Member

November 2010

Agency and City Staff

Steven B. Falk, Executive Director and City Manager

Tracy Robinson, Administrative Services Director

Gonzalo L. Silva, Financial Services Manager

Best, Best and Krieger LLP, Agency Counsel and City Attorney.

The agency's primary source of revenue is incremental property taxes. Property taxes allocated to the Agency are computed in the following manner:

a. The assessed valuation of all property within the Project Area was frozen on the date of adoption of the Redevelopment Plan.

b. Property taxes related to any incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency.

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
Incremental Assessed Value**

2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
-----------	-----------	-----------	-----------	-----------

Secure Value

423,019,990 443,324,554 465,807,196 500,201,044 557,828,158

Unsecured Value

35,676,984 34,197,713 36,504,517 36,469,719 41,670,759

Total Assessed Value

457,217,703 479,829,071 501,646,923 538,670,763 599,498,917

Less: Base Year Value

(331,871,939) (332,248,715) (332,248,715) (332,248,715) (332,248,715)

Increment Assessed Value

\$125,345,764 \$147,580,356 \$169,398,208 \$206,422,048 \$267,250,202

* Note: For fiscal years 2003-2004 and thereafter, The County Auditor/Controller increased the Agency's base year value from \$331,781,939 to \$332,248,715

(1) Less Housing Set Aside and County Administration

Fiscal Year	Estimated Assessed Value	Projected Incremental Value	Projected Gross Tax Increment Revenues	Projected Gross Tax Revenues to Agency (1)
2007-2008	560,433,062	228,184,347	2,281,843	1,796,267
2008-2009	571,641,723	239,393,008	2,393,930	1,884,502
2009-2010	583,074,558	250,825,843	2,508,258	1,974,501

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
Projected Gross Tax Increment Revenue and Tax Revenues**

1994-1995	331,871,939	0	331,871,939	341,069
1995-1996	332,213,008	0.10%	331,871,939	6,042,493
1996-1997	337,914,432	1.72%	331,871,939	5,356,446
1997-1998	337,228,385	-0.20%	331,871,939	21,920,745
1998-1999	353,792,684	4.91%	331,871,939	41,689,180
1999-2000	373,561,119	5.59%	331,871,939	71,813,591
2000-2001	403,685,530	8.06%	331,871,939	98,317,039
2001-2002	430,188,978	6.57%	331,871,939	125,345,224
2002-2003	457,217,163	6.28%	331,871,939	147,580,356
2003-2004	479,829,071	4.95%	332,248,715	169,398,208
2004-2005	501,646,923	4.55%	332,248,715	206,422,048
2005-2006	538,670,763	7.38%	332,248,715	267,250,202
2006-2007	599,498,917	11.30%	332,248,715	

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
Historical Valuations**

STATEMENT OF NET ASSETS
Year ended June 30, 2007

Total	
Beginning Net Assets (Statement 2)	\$ 8,226,180
Increase/Decrease	\$ 561,540
Ending Net Assets	\$ 8,787,720

The agency's net assets as of June 30, 2007 increased by \$561,540. This increase in net assets is reflected in the Statement of Activities. The Agency's Net Assets are discussed below:

- Total assets for the Agency were \$32,006,715 versus \$30,773,381 from prior year, an increase of \$1,233,334.
- Total liabilities for the Agency were \$23,218,995 versus \$22,547,201 from prior year, an increase of \$671,794.
- The net assets were \$8,787,720 versus \$8,226,180 an increase of \$561,540 from prior year.

ANALYSES OF MAJOR FUNDS

Capital Project Funds

The Capital Project Funds are used to account for the acquisition or construction of capital projects. They include the Library Fund and other projects.

The Fund's net revenues were \$1,978,655 versus \$15,778,305 from prior year, a decrease of \$13,799,650

Fund expenditures were \$3,799,255 versus \$4,580,226 from prior year, a decrease of \$780,971. Of the total fund expenditures, \$2,739,208 was spent in the construction of the Library.

Low and Moderate Income Housing Fund

Of the gross tax increment received by the Agency in any year, 20% must be deposited in this fund and used for the purpose of "increasing, improving, and preserving the community's supply of low-and moderate income housing available at affordable housing cost to persons and families of low or moderate income"

The Fund's revenues were \$639,159 versus \$438,447 from prior year an increase of \$200,712 or 46%

Fund expenditures were \$123,078 versus \$63,147 from prior year, an increase of \$59,931 or 95 %.

Debt Service Fund

This Fund accounts for the activities related to the Agency's Tax Allocation Bonds. In fiscal year 2002/2003, the Redevelopment Agency issued \$5,585,000 bonds that bear interest at 2.25% to 5.75% and are due in 2032. The proceeds of these bonds were used to construct the Veteran's Hall. As of June 30, 2007, the principal outstanding of the tax allocation bonds is \$5,360,000. In addition, the Redevelopment Agency acquired in 2004 a property for \$683,461. The purchase was financed by a loan from the City of Lafayette Parking Fund. At June 30, 2007 the outstanding amount of this loan is \$605,302. In October 2005, special revenue bonds were issued for the amount of \$11,680,000 to complete the library project. As of June 30, 2007, the principal outstanding of this revenue bond was \$11,680,000.

Summary

During Fiscal Year 2006-2007, the Lafayette Redevelopment Agency continued to focus on the new Lafayette Library and Learning Center project. The final construction documents were completed after review by the State Office of Library Construction, State Architect, County Building, and County Fire, and after a peer-contractability review. The project was put out for bidding in January, and the City received four bids. The low bid of \$29,490,000 was within 2.5 percent of the engineer's estimate. Construction on the project began in March.

The Agency began a planning process entitled the *Strategy for Downtown Lafayette - A Vision and Specific Plan for 2025*. The planning area generally shares the same boundaries as the Redevelopment Project Area. An urban design consulting firm, Wallace Roberts & Todd, was selected to complete the 18-month community-based planning process. This process began in May.

The Agency continued its participation in mixed-use projects and multi-family residential projects. The Lafayette Mercantile retail, office and public parking project neared construction completion. The Agency negotiated with the owner of Town Center regarding a project with affordable housing and public parking. The Agency continued discussions regarding the redevelopment of the Hillside Motel into condominiums with some on-site or off-site affordable housing units.

Finally, the Senior Housing Task Force identified sites for the development of affordable housing for seniors within the Redevelopment Project Area and selected Eden Housing as the project developer.

Request for Information

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

City of Lafayette
Finance Department
3675 Mt Diablo Blvd, Suite 210
Lafayette, Ca 94549

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October 29, 2007

CROPPER ACCOUNTANCY CORPORATION

Cropper Accountancy Corporation

The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary information for the City as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the City of Lafayette Redevelopment Agency, as of June 30, 2007 and 2006, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

basis for our opinion.

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

We have audited the accompanying component unit financial statements of the City of Lafayette Redevelopment Agency (the "Agency"), a component unit of the City of Lafayette, California, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

The Honorable Mayor,
And Members of the Governing Board of the
City of Lafayette Redevelopment Agency
Lafayette, California

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

2977 Ygnacio Valley Road, #460
Walnut Creek, California 94598
Tel: (925) 932-3860
Fax: (925) 932-3862

Cropper Accountancy Corporation
Certified Public Accountants

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BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Statement of Net Assets
 June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 4,754,554	\$ 4,575,296
Investments	6,017,104	3,247,155
Accrued interest receivable	51,911	64,840
Accounts receivable	10,075,696	14,142,125
Prepaid assets	374,112	391,396
Total current assets	<u>21,273,377</u>	<u>22,420,812</u>
Restricted assets:		
Debt service	1,561,889	1,979,200
Cash and investments	5,878	22,368
Accrued interest receivable	1,561,889	1,979,200
Low/Moderate Income Housing	2,344,350	1,800,529
Cash and investments	17,643	16,021
Accrued interest receivable	3,929,760	3,818,118
Capital assets:		
Land	2,004,444	2,004,444
Improvements in progress	4,799,134	2,530,007
Total capital assets	<u>6,803,578</u>	<u>4,534,451</u>
Total assets	<u>\$ 32,006,715</u>	<u>\$ 30,773,381</u>
LIABILITIES AND NET ASSETS		
Current liabilities	\$ 678,556	\$ 136,179
Accounts payable	347,439	348,856
Note payable to parking fund - current	19,961	18,482
Current portion - tax allocation bonds	105,000	100,000
Total current liabilities	<u>1,150,956</u>	<u>603,517</u>
Noncurrent liabilities	4,547,698	4,298,382
Advances from general fund	585,341	605,302
Note payable to parking fund	16,935,000	17,040,000
Tax allocation bonds payable	22,068,039	21,943,684
Total noncurrent liabilities	<u>23,218,995</u>	<u>22,547,201</u>
Net Assets	-	-
Invested in capital assets, net of related debt	-	-
Restricted for	1,567,767	2,001,568
Debt service	2,361,993	1,816,487
Low/Moderate income housing	4,857,960	4,408,125
Unrestricted	-	-
Designated for Redevelopment	8,787,720	8,226,180
Undesignated	-	-
Net assets	<u>8,787,720</u>	<u>8,226,180</u>
Total liabilities and net assets	<u>\$ 32,006,715</u>	<u>\$ 30,773,381</u>

The accompanying notes are an integral part of the financial statements

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

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Statement of Activities
 For the Year Ended June 30, 2007
 with Comparative Amounts for 2006

Primary Government	Functions/Programs		Program Revenues		Net Revenues (Expenses)	
	2007	2006	Operating	Capital	2007	2006
Expenses:						
Administration	\$ 411,021	\$ -				
Capital grants	-	-				
Professional services	197,500	-				
Community promotion	5,041	-				
Interest on debt and issuance cost amortization	1,146,394	-				
Contribute Veterans' home to County	-	-				
Transfer to capital project fund	119,956	-				
Other expenses	620,469	-				
Total Redevelopment Agency expenses	\$ 2,500,381	\$ -				
General revenues:						
Tax incremental revenue	2,448,324	1,678,834				
Investment income	612,449	402,750				
Other revenue	1,148	34,288				
Change in net assets	561,540	7,189,840				
Net assets at beginning of year	8,226,180	1,036,340				
Net assets at end of year	\$ 8,787,720	\$ 8,226,180				
Reconciliation from Statement of Revenues, Expenditures, and Changes in Fund Balance for Governmental Funds to Statement of Activities (above):						
Excess of revenues over expenditures and other sources (uses)	\$ (1,795,965)	\$ 22,777,027				
Current year Capital assets capitalized	2,269,127	3,468,221				
(Increase) Decrease in accrued interest payable	1,417	(224,605)				
Reduction Bond indebtedness - current year principal payment	100,000	75,000				
Bond indebtedness issued during the year	-	(11,680,000)				
Bond issuance costs paid, net of current year amortization of \$13,039 (\$6,520 in 2006)	(13,039)	384,638				
Contribution of Veterans' building to Contra Costa County	-	(7,610,441)				
Change in net assets for the year ended June 30, 2007	\$ 561,540	\$ 7,189,840				

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet - Governmental Funds
June 30, 2007 and 2006

ASSETS		Capital Projects Funds				Debt Service Fund		Special Revenue Fund	
		Total	Library Project	Redevelopment Program	Capital Projects	Debt Service Fund	Income Housing Fund	Low/moderate Fund	
Cash and equivalents	\$ 2,477,601	\$ 4,754,554	\$ 2,276,953	\$ 2,477,601	\$ 4,754,554	\$ -	\$ -	\$ -	
Investments in bonds	-	6,017,104	6,017,104	-	6,017,104	-	-	-	
Redevelopment Interfund Balances	849,166	-	(849,166)	-	-	-	-	-	
Accounts receivable	-	10,075,696	10,075,696	-	10,075,696	-	-	-	
Accrued interest receivable	32,678	51,911	19,233	32,678	51,911	-	-	-	
Other assets	-	2,513	2,513	-	2,513	-	-	-	
Restricted assets for:									
Cash and investments	-	-	-	-	-	1,561,889	2,344,350	-	
Accrued interest receivable	-	5,878	-	-	5,878	-	17,643	-	
Total assets	\$ 3,359,445	\$ 20,901,778	\$ 17,542,333	\$ 3,359,445	\$ 20,901,778	\$ 1,567,767	\$ 2,361,993	\$ 2,361,993	
LIABILITIES AND NET ASSETS									
Accounts payable and accrued liabilities	\$ 138,810	\$ 649,131	\$ 510,321	\$ 138,810	\$ 649,131	\$ -	\$ 29,425	\$ 29,425	
Advances from general fund	2,904,288	4,547,698	1,643,410	2,904,288	4,547,698	-	-	-	
Loan payable to parking fund	605,302	605,302	-	605,302	605,302	-	-	-	
Total liabilities and other credits	3,648,400	5,802,131	2,153,731	3,648,400	5,802,131	-	-	-	
Fund balances									
Restricted for:									
Debt service	-	-	-	-	-	1,567,767	-	-	
Low/moderate income housing	-	-	-	-	-	-	2,332,568	2,332,568	
Other	(288,955)	15,099,647	15,388,602	(288,955)	15,099,647	-	-	-	
Unrestricted	-	-	-	-	-	-	-	-	
Net assets	(288,955)	15,099,647	15,388,602	(288,955)	15,099,647	1,567,767	2,332,568	2,332,568	
Total liabilities and net assets	\$ 3,359,445	\$ 20,901,778	\$ 17,542,333	\$ 3,359,445	\$ 20,901,778	\$ 1,567,767	\$ 2,361,993	\$ 2,361,993	

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

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Balance Sheet - Governmental Funds
 June 30, 2007 and 2006

Total Governmental Funds

	2007	2006
Total Fund Balance - Governmental Fund Balance Sheet (Statement 3)	\$ 18,999,982	\$ 18,999,982
Adjustments:		
To record capital assets, previously expensed	10,075,696	14,142,125
To record accrued interest payable on debt, previously recognized on a "when due" basis	3,906,239	3,779,729
To record tax allocation bonds payable, previously recognized as revenue	23,521	38,389
To record prepaid bond issuance costs	2,513	6,758
Total adjustments	14,585,169	18,767,001
Net assets on Statement of Net Assets (Statement 1)	\$ 678,556	\$ 136,179
	4,547,698	4,298,382
	605,302	623,784
	5,831,538	5,058,345
	1,567,767	2,001,568
	2,332,568	1,816,487
	15,099,647	16,977,892
	18,999,982	20,795,947
	24,831,538	25,854,292

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2007 and 2006

Statement 4

	Capital Projects Funds			Debt Service Fund	Special Revenue Funds		Total Governmental Funds	
	General Projects	Library Project	Total Capital Projects		Low/moderate Income Housing Fund	2007	2006	
Revenues								
Tax increment revenue	\$ 1,457,284	\$ -	\$ 1,457,284	\$ 394,252	\$ 596,788	\$ 2,448,324	\$ 1,678,834	
State and federal grants	-	-	-	49,855	42,371	-	14,511,061	
Investment income	58,120	462,103	520,223	-	-	612,449	402,750	
Other revenue	197	951	1,148	-	-	1,148	34,288	
Total revenues	1,515,601	463,054	1,978,655	444,107	639,159	3,061,921	16,626,933	
Expenditures								
Administrative costs	104,328	262,219	366,547	-	44,474	411,021	460,813	
Assessment District bond - Principal	-	-	-	100,000	-	100,000	75,000	
Planning and design	107,133	322	107,455	-	-	107,455	267,374	
Real estate purchase	-	-	-	-	-	-	411,686	
Improvement costs	-	2,281,628	2,281,628	-	-	2,281,628	2,795,875	
Interest expense	177,485	121,734	299,219	835,553	-	1,134,772	790,046	
Professional services	140,873	-	140,873	-	56,627	197,500	224,408	
Community promotion	132	4,909	5,041	-	-	5,041	38,448	
Loss on Veterans Hall	521,170	-	521,170	-	-	521,170	-	
Other expenses	8,926	68,396	77,322	-	21,977	99,299	75,098	
Total disbursements	1,060,047	2,739,208	3,799,255	935,553	123,078	4,857,886	5,138,748	
Excess (deficiency) of revenues over expenditures	455,554	(2,276,154)	(1,820,600)	(491,446)	516,081	(1,795,965)	11,488,185	
Other financing sources (uses):								
Proceeds from Bonds	-	-	-	-	-	-	11,680,000	
Bond issuance costs	-	-	-	-	-	-	(391,158)	
Operating transfers - in	-	-	-	57,645	-	57,645	6,710,745	
Operating transfers - out	(57,645)	-	(57,645)	57,645	-	(57,645)	(6,710,745)	
Total other financing sources (uses)	(57,645)	-	(57,645)	57,645	-	-	11,288,842	
Excess (deficiency) of revenues over expenditures, net of other financing sources	397,909	(2,276,154)	(1,878,245)	(433,801)	516,081	(1,795,965)	22,777,027	
Beginning fund balances	(686,864)	17,664,756	16,977,892	2,001,568	1,816,487	20,795,947	(1,981,080)	
Ending fund balances	(288,955)	15,388,602	15,099,647	1,567,767	2,332,568	18,999,982	\$ 20,795,947	

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

<p>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</p>	<p>A. B. C. D. E.</p>	<p>Financial Reporting Entity Basis of Presentation Measurement Focus and Basis of Accounting Assets, Liabilities, and Equity Revenues, Expenditures, and Expenses</p>
<p>NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY</p>	<p>A. B. C. D.</p>	<p>Fund Accounting Requirements Deposits and Investments Laws and Regulations Revenue Restrictions Debt Restrictions and Covenants</p>
<p>NOTE 3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS</p>	<p>A. B. C. D. E. F. G.</p>	<p>Cash and Investments Restricted Assets Capital Assets Accounts Payable Long-term Debt Interfund Transactions and Balances Fund Equity</p>
<p>NOTE 4. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS</p>	<p>A. B. C. D.</p>	<p>Employee Benefit Plans Risk Management Commitments and Contingencies Subsequent Events</p>

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lafayette Redevelopment Agency 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, 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. 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 City of Lafayette Redevelopment Agency (the "Agency") is a Component Unit of the City of Lafayette (the "City") which carries out the Redevelopment Plan of the City.

The Redevelopment Plan sets forth a legal framework and a broad policy framework for the activities of the City of Lafayette Redevelopment Agency in connection with the Lafayette Redevelopment Project. The Redevelopment Plan contains provisions to comply with the Lafayette Redevelopment Plan and further includes purposes and objectives of the Agency. A basic principle of the Agency in connection with the Redevelopment Plan is that activities to implement the Redevelopment Plan shall be consistent with and further the implementation of the General Plan of the City of Lafayette.

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 of Lafayette. This 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 Agency proposes to:

1. Encourage the redevelopment of the Project Area subject to and consistent with the City's General Plan and/or Specific Plans as may be adopted from time to time through the cooperation of private enterprise and public agencies.
2. Enhance the long term economic well-being of the community.
3. Provide for the rehabilitation of commercial structures and residential dwelling units.
4. Promote the goals and policies of those sections of the General Plan emphasizing: central area, transportation, and population and housing.

5. Provide public infrastructure improvements and community facilities, such as the installation, construction, and/or reconstruction of streets, utilities, public buildings, and facilities (such as parking facilities, storm drains, utility under groundings, or structures, street lighting, landscaping and other improvements which are necessary for the effective redevelopment of the project area.

6. Promote the enhancement of the Mt. Diablo Boulevard corridor to achieve the concepts envisioned by the General Plan.

7. Provide for participation in the redevelopment of property in the project area by owners who agree to so participate in conformity with the Redevelopment Plan.

8. Encourage joint efforts and cooperative efforts among property owners, businesses, and public agencies to satisfy off-street parking requirements.

9. Increase, improve, and preserve the community's supply of affordable housing.

10. Provide a procedural and financial mechanism by which the Agency can assist, complement, and coordinate public and private development, redevelopment, revitalization, and enhancement of the community.

Description of fund accounts

All transactions are recorded in separate governmental funds of the City of Lafayette. The funds are classified and described under Governmental Funds.

Basis of accounting

The Agency follows the modified accrual basis of accounting, under which expenditures, other than interest on indebtedness, are recorded when the liability is incurred, and revenues are recorded when received in cash unless susceptible to accrual (i.e. measurable and available to finance the Agency's current operations).

1.B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Agency as a whole. They include all Agency funds of the Governmental Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. 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. All funds of the Agency are classified as governmental. An emphasis is placed on major funds within the Agency. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type or are considered major by the City (in this case all Governmental funds are considered major).
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental funds.

The funds of the financial reporting entity are described below:

Governmental 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 which for the Redevelopment Agency is the "Low/Moderate Income Housing Fund" which includes 20% of gross tax increment revenue.

Capital Project Funds

Capital Project Funds are used to account for the acquisition or construction of capital projects or items. They include the Library Fund and other projects.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of interest and principle on the debt of the Redevelopment Agency which consists of debt issuance with outstanding principle balances as of June 30, 2007 fiscal year of \$17,040,000 which is to be repaid out of future tax increment revenues and is secured by property within the Lafayette City limits.

The funds are further classified as major as follows:

<u>Fund</u>	<u>Brief Description</u>
Capital Project Funds	Account and provide for specific capital projects
Debt Service Fund	Accounts for resources for payment of interest and Principal of long-term debt issued by the Agency.
Special Revenue Fund: Low/Moderate Income Housing Fund	Accounts for moneys restricted to low to moderate income housing expenditures.

1.C. Measurement Focus and Basis of Accounting

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

Measurement focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities (or which there are none) are presented using the economic resources measurement focus as defined as follows:

The governmental-wide statements use 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 non-current) associated with their activities are reported. Fund equity is classified as net assets.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as follows:

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.

Basis of accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental 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 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.

1.D. Assets, Liabilities, And Equity

Cash and investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, certificates of deposits of the Agency, and the investment in the State of California fund called the "Local Agency Investment Fund (LAIF)" which is available for immediate withdrawal. 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 "loans payable or advances" from other funds. In addition, there is a note payable with payments scheduled for the next 16 years from the Redevelopment Agency to another governmental fund in the amount of \$605,302 at June 30, 2007. Interfund receivables and payables between the Agency's funds within governmental activities (if any) are eliminated in the Statement of Net Assets. The Redevelopment Agency has also been advanced \$4,547,698 from the General Fund of the City bearing interest at 8% per annum.

Receivables

In the government-wide statements, receivables consist of all revenues earned or contributed at year-end and not yet received. The balance of \$10,075,696 at June 30, 2007 consists of \$10,075,696 for the remaining balance of a state library grant.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets would be recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation would be provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is currently recorded on the land and improvements in process.

The range of estimated useful lives by type of asset will be as follows (no assets are currently subject to depreciation):

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

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. They are capitalized in the "government-wide financial statements"; (see note 3.C. for Capital Assets).

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. They also include assets held by the "Low/Moderate Income Housing Fund" which are restricted for expenditures.

Long-term debt

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and debt incurred as a result of long-term advances from other City of Lafayette funds.

Bonds payable 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 principal and interest reported as expenditures. The accounting in the government-wide statements is that principal payments are reflected as reductions in the liability and interest as expenses.

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. The capital assets on the Statement of Net Assets were financed 100% by debt.

- 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 "invested in capital assets, net of related debt" or "restricted for debt or other purposes" are categorized as "unrestricted" which are further categorized as "designated" or "undesignated". All redevelopment net assets are categorized as "designated for redevelopment" or "undesignated".

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as restricted and unrestricted, with unrestricted further split between designated and undesignated. See Note 3.G. for additional disclosures.

I.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 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.

Valuation dates	Lien/levy dates	Due dates	Delinquent as of
March 1	March 1	50% on November 1	50% on February 1
March 1	March 1	50% on November 1	December 10
March 1	March 1	July 1	April 10
March 1	March 1	August 31	August 31

Incremental property taxes assessed on property within the Lafayette Redevelopment area will be used to fund Redevelopment expenditures and debt service.

Expenditures / expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities (the Redevelopment Agency does not have 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

In the fund financial statements, governmental funds report expenditures of financial 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 of the Agency have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. Fund Accounting Requirements

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

<u>Fund</u>	<u>Required By</u>
Low/Moderate Income Housing	State Law
Debt Service Fund	Bond Indenture

2.B. Deposits and Investments Laws and Regulations

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

The Agency may waive collateral requirements for deposits, which are insured by federal depository insurance. The Agency had not waived such requirements as of June 30, 2007.

2.C. Revenue Restrictions

The Agency 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>
20% of Ad Valorem Taxes	Low/Moderate Income Housing

For the year ended June 30, 2007, the Agency complied, in all material respects, with these revenue restrictions.

2.D. Debt Restrictions and Covenants

Ad valorem tax

- Authority of Issuance

The bonds authorized by resolutions of the Agency and the City were issued pursuant to the indentures and in accordance with the Redevelopment Law and the other applicable laws of the State of California. (see note 3.E. Long-Term Debt).

- Repayment Funding

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, and other debt of the Agency, the Agency 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. A portion of said taxes, when collected will be placed in the Debt Service Fund of the Agency for the bonds.

- Assessed Valuation of Property Within the City – Ad Valorem

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 2006-07, the City's total secured and unsecured assessed valuation was \$4,712,484,211 (full cash value).

Other long-term debt

At June 30, 2007, the Agency was committed to meet debt service of \$605,302 (at 8% interest) to the City of Lafayette relating to a note payable to the City. In addition, the Agency has borrowed \$4,597,698 from the General Fund of the City which bears interest at 8% with no defined maturity date.

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

At June 30, 2007, the carrying amount of the Agency's deposits (through the City) was \$416,036. Bank balances before reconciling items were \$478,989 (before deducting outstanding checks) at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed in the following.

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

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first 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 and certain investments. 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

**CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007**

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.

The combined Agency's proportion of the City's cash and investments at June 30, 2007 are categorized as follows:

Cash and Cash Equivalents:	
Deposits in Bank - pooled account, net of \$62,953 outstanding checks	\$ 416,036
Deposit in bank - not pooled	3,877,437
Local Agency Investment Fund - State of California	3,249,800
Total Cash and Cash Equivalents	<u>7,543,273</u>
Investments:	
Liquid Mutual Fund (C.A.M.P.)	6,834,774
FNMA Global Benchmark Note	299,850
Total Investments	<u>7,134,624</u>
Total Cash and Investments	<u>\$ 14,677,897</u>

Reconciliation to financial statements:	
<i>Unrestricted:</i>	
Cash and cash equivalents	4,754,554
Investments	6,017,104
Unrestricted cash and investments	<u>10,771,658</u>
<i>Restricted Assets:</i>	
Debt-service	1,561,889
Low/Moderate Income Housing	<u>2,344,350</u>
Total	<u>\$ 14,677,897</u>

The Agency's investments with LAIF (through the City) at June 30, 2007 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, 2007, the RDA had \$3,249,800 invested in LAIF, which had invested 4.26% of the pool investment fund in structured notes and asset-backed securities.

3.B. Restricted Assets

The amounts reported as restricted assets are held for debt service payments and Low/Moderate Income Housing. The restricted assets are as follows (see note 3.H.):

	\$	444,369	\$	1,462,146	
Cash					
Local Agency Investment Fund		-		882,204	
Liquid Mutual Funds		817,670		-	
Investment in bonds		299,850		-	
Accrued interest		5,878		17,643	
Related Accounts Payable		1,567,767		2,361,993	
Net Restricted Assets	\$	<u>1,567,767</u>	\$	<u>2,332,568</u>	

3.C. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance	June 30, 2006	Additions	Balance	June 30, 2007
Governmental Activities					
Capital Assets:					
Land	\$	2,004,444	\$	-	2,004,444
Land and building improvements in process	\$	<u>2,530,007</u>	\$	<u>2,269,127</u>	<u>4,799,134</u>
Total	\$	<u>4,534,451</u>	\$	<u>2,269,127</u>	<u>6,803,578</u>

No depreciation expense has been incurred because construction is in process. The transfer to Contra Costa County was the Veterans' Building. Remaining is the library which is in process.

3.D. Accounts Payable

Payables in the governmental funds and enterprise fund are composed of payables to various vendors, which are paid in the normal course of events in one or two months.

CITY OF LAFAYETTE
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June 30, 2007

3.F. Long-Term Debt

The Agency's long-term debt is as follows:

	Advances from General Fund	\$ 4,547,698	Long-Term
	Loan Payable - Parking Fund	585,341	
	Tax Allocation Bonds - 2003 issue	5,255,000	
	Tax Allocation Bonds - 2005 issue	11,680,000	
	<u>\$ 22,068,039</u>		
Due Within			
One Year	\$ 19,961		
Total	\$ 4,547,698		

The liability for Lafayette Redevelopment Project Tax Allocation Bonds was as follows at June 30, 2007.

Original Issue	Interest Rates	Balance June 30, 2006	Additions (Retirements)	Balance June 30, 2007
2002 Issue	2.25 to 5.3%	\$ 5,460,000	\$ (100,000)	\$ 5,360,000
2003, matures to Issued fiscal year 2005	3.0 to 4.7%	11,680,000	-	\$ 11,680,000
2006, matures to Issued fiscal year 2009		\$ 17,140,000	\$ 100,000	\$ 17,040,000

Bonds - Issued 2003 Total

Payments due in fiscal years ending June 30:

	2008	\$ 105,000	\$ 290,610	\$ 395,610	
	2009	110,000	286,468	296,468	
	2010	115,000	281,824	396,824	
	2011	115,000	276,821	391,821	
	2012	125,000	271,388	396,388	
	2013 - 2017	710,000	1,259,146	1,969,146	
	2018 - 2022	910,000	1,044,740	1,954,740	
	2023 - 2027	1,205,000	745,703	1,950,703	
	2028 - 2032	1,590,000	346,438	1,936,438	
	2033	375,000	10,781	385,781	
		<u>\$ 5,360,000</u>	<u>\$ 4,813,919</u>	<u>\$ 10,173,919</u>	

CITY OF LAFAYETTE
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Bonds - Issued 2005 Total	Payments due in fiscal years ending June 30:		
	Tax Allocation	Redevelopment Principal	Interest
541,301	541,301	-	2008
620,101	540,101	80,000	2009
730,781	535,781	195,000	2010
749,086	529,086	220,000	2011
741,661	521,661	220,000	2012
3,726,109	2,456,109	1,270,000	2013 - 2017
3,719,854	2,139,854	1,580,000	2018 - 2022
3,704,638	1,744,638	1,960,000	2023 - 2027
3,695,473	1,230,473	2,465,000	2028 - 2032
4,080,000	390,000	3,690,000	2033 - 2036
<u>\$ 22,309,004</u>	<u>\$ 10,629,004</u>	<u>\$ 11,680,000</u>	

The following is a debt retirement schedule on the Loan from the City of Lafayette - Parking Fund:

Due Year-end June 30,	Annual Payments Due at June 30, Principal	Interest (8%)	Principal Balance Remaining
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2007	68,385	48,424	605,302
2008	68,385	46,827	585,341
2009	68,385	21,558	563,783
2010	68,385	23,282	540,501
2011	68,385	25,145	515,356
2012	68,385	27,156	488,200
2013	68,385	29,329	458,871
2014	68,385	31,675	427,196
2015	68,385	34,209	392,987
2016	68,385	36,946	356,041
2017	68,385	39,902	316,139
2018	68,385	43,094	273,045
2019	68,385	46,541	226,504
2020	68,385	50,265	176,239
2021	68,385	54,286	121,953
2022	68,385	58,629	63,324
2023	68,385	63,324	-
	<u>\$ 605,302</u>	<u>\$ 488,858</u>	<u>\$ 1,094,160</u>

3.F. Intfund Transactions and Balances

As discussed in note 1.A. and 3.E., the Redevelopment Agency has borrowed \$4,547,698 (at 8% per annum) from the General Fund, which is to be repaid out of future ad valorem revenues. In addition, the Redevelopment Fund had borrowed \$671,415 (balance of \$605,302 at June 30, 2007) from another City fund to be repaid over a 21 (16 remaining) payments of \$68,385) year period at 8%, also to be paid out of future ad valorem revenues.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

3.G. Fund Equity

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

The following "net asset balances" are restricted:

	Debt Service Fund	\$ 1,567,767
	Low/moderate income housing fund	2,332,568
	Total	<u>\$ 3,900,335</u>

NOTE 4. OTHER NOTES

4A. Employee Benefit Plans

City employees working for the Redevelopment Agency participate in the City's 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 \$15 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 2007 was approximately \$2,890,000. Contributions to the plans totaled \$415,666 during the year.

Employee Retirement Contribution

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

Tenure-Based Contribution System

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

Salary-Based Contribution System

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

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

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

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.

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, 2007:

	Participating Cities'		Total		Coverage		Deductible		(City Portion)
			\$		700,000,000		\$		5,000
			\$		100,000,000		\$		5,000
			\$		19,000,000		\$		5,000
			\$		250,000		\$		2,000
			\$		150,000,000		\$		0
					Workers' compensation				
					Auto-physical damage				
					Liability				
					Boiler and machinery				
					All risk fire and property				

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 or the Agency, if any, not covered by insurance resulting from litigation are adequately provided for in the General Fund of the City.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Budget Actual
June 30, 2006

Exhibit 1

	Capital Projects Funds			Debt Service Fund			Low/Moderate Income Housing Fund		
	Budget Original	Budget Revised	Actual	Budget Original	Budget Revised	Actual	Budget Original	Budget Revised	Actual
Revenues									
Tax increment revenue	\$ 943,464	\$ 1,306,866	1,457,284	\$ -	\$ -	394,252	\$ 429,490	\$ 429,611	\$ 596,788
Investment income	53,470	261,176	520,223	100,000	100,000	49,855	15,000	15,000	42,371
Grant revenue	19,570,306	8,378,622	-	-	-	-	-	-	-
Other revenue	-	-	1,148	-	-	-	-	-	-
Total revenues	20,567,240	9,946,664	1,978,655	100,000	100,000	444,107	444,490	444,611	639,159
Expenditures									
Bond principal and interest	-	-	-	-	1,023,422	935,553	-	-	-
Administrative costs	641,031	668,600	366,547	-	-	-	46,784	47,266	44,474
Planning and design	-	-	107,455	-	-	-	-	-	-
Improvement costs and real estate	37,982,000	35,900,133	2,281,628	-	-	-	1,250,000	1,350,000	-
Interest expense	-	-	299,219	-	-	-	-	-	-
Professional services	286,800	186,800	140,873	-	-	-	70,000	70,000	56,627
Community promotion	5,000	5,000	5,041	-	-	-	-	-	-
Other expenses	4,300	4,300	598,492	-	-	-	-	-	21,977
Total disbursements	38,919,131	36,764,833	3,799,255	395,254	1,023,422	935,553	1,366,784	1,367,266	123,078
Excess (deficiency) of revenues over expenditures	(18,351,891)	(26,818,169)	(1,820,600)	(295,254)	(923,422)	(491,446)	(922,294)	(922,655)	516,081
Other financing sources (uses):									
Operating transfers in (out)	10,894,694	-	(57,645)	(9,594,694)	-	57,645	-	-	-
Proceeds from bonds	8,000,000	8,000,000	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-	-
Total other financing	18,894,694	8,000,000	(57,645)	(9,594,694)	-	57,645	-	-	-
Excess (deficiency) of revenues over expenditures, net of other financing sources	542,803	(18,818,169)	(1,878,245)	(9,889,948)	(923,422)	(433,801)	(922,294)	(922,655)	516,081
Beginning fund balances	16,977,892	16,977,892	16,977,892	2,001,568	2,001,568	2,001,568	1,816,487	1,816,487	1,816,487
Ending fund balances (deficit)	\$ 17,520,695	\$ (1,840,277)	\$ 15,099,647	\$ (7,888,380)	\$ 1,078,146	\$ 1,567,767	\$ 894,193	\$ 893,832	\$ 2,332,568

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

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Fax: (925) 932-3862

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE GUIDELINES

The Honorable Mayor,
And Members of the Governing Board of the
City of Lafayette Redevelopment Agency
Lafayette, California

We have audited the financial statements of the Lafayette Redevelopment Agency (the "Agency") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the City of Lafayette Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lafayette Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses is a condition in which the design or operation of one or more misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the Agency, and the State Controller's Office, and is not intended to be used by anyone other than these specified parties.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION

October 29, 2007

