

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
COMPONENT UNIT FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003
(With Auditors' Report Thereon)

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CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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

MAYOR

Carol Federighi

Term Expires November 2004

CITY COUNCIL

Don Tatzin
Term Expires November 2006

Erlin Horn
Term Expires November 2004

Ivor Samson
Term Expires November 2006

Carl Anduri
Term Expires November 2004

CITY MANAGER

Steven B. Falk - 14 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson - 4 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva - 14 years of service

Management's Discussion and Analysis

INTRODUCTION

As management of the City of Lafayette (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2004

The management discussion and analysis is designed to

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

OVERVIEW

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

THE CITY AS A WHOLE

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

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

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

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

STATEMENT OF NET ASSETS

Year Ended June 30, 2004	Governmental Activities	Business Activities	Total
Beginning Net Assets	\$57,999,178	(42,548)	\$57,956,630
Increase/Decrease	4,095,801	(58,766)	4,037,035
Ending Net Assets	\$62,094,979	(101,314)	\$61,993,665

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

1. The City's net assets increased by 6.97 % from prior year
2. Assets exceeded liabilities by \$61,993,665 at year-end

52.24 % of the City's net assets (\$32,384,867) are invested in capital assets (i.e., land, buildings, utility plants, machinery and equipment) and are reported net of related debt. However, since capital assets are used to provide services to citizens, they cannot be used to liquidate liabilities therefore, it should be noted that the money needed to repay debt must be provided from other sources.

STATEMENT OF ACTIVITIES

Governmental Activities

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

In this table, you will notice that expenses are listed in combination with the revenue for each particular program. This format shows how much of each program is funded through fees and/or grants and highlights the relative financial burden of each program for the City's taxpayers. Since total expenses minus revenues show a negative \$8,262,067 the remainder must be funded out of general revenues. This year, the City received \$12,299,102 -- \$4,037,035 more than what was necessary to cover expenses, thus resulting in an increase in net assets.

Business-Type Activities

The City reports only one program, Parks & Recreation, as a business-type activity since it is expected to be fully self-supporting through fees, donations, gifts and grants. This year, with expenditures of \$978,228, that program showed a deficit of \$58,766 (i.e. about 6% of operations are not covered by fees). Therefore, the City's net assets decreased by an equal amount. This is the third year in a row that this enterprise fund has shown a deficit, however projections for the current fiscal year (2004-05) show that the entire deficit should be wiped out this year due primarily to a \$2 per transaction fee that was added to each recreation class.

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

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

SIGNIFICANT FUNDS

Fund Financial Statements

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

- Governmental funds—The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps determine what financial resources are available in the near future to finance the City's programs. The relationship between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled at the bottom of the fund financial statements.

- Proprietary funds—These funds make up the business-type activities reported in the *Statement of Net Assets* and the *Statement of Activities* but provide more detail and additional information, such as cash flows.
- Redevelopment Agency Special Revenue Funds. The Redevelopment Agency is responsible for redevelopment areas identified under the Community Redevelopment Law is being blighted. The Agency's operation are funded primarily by the issuance of debt, which is expected to be repaid out of property tax increment revenue generated by increased in property assessed values in the redevelopment areas.
- The Redevelopment Agency Capital Project Fund was established to account for capital improvement projects related to the various redevelopment areas. At the end of fiscal year June 30, 2004, the ending fund balance was \$1,627,033 a decrease of \$1,511,425 from the prior year.

FINANCIAL ANALYSIS

Governmental Funds

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

As of the fiscal year ended June 30, 2004, the City's governmental funds reported combined ending fund balances of \$30,357,412 an increase of \$5,402,146 in comparison to the prior year. Approximately 79 % of these funds are considered reserved, which means that they have already been committed to specific programs. The remaining funds are undesignated, which means that they are available for spending at the council's discretion.

Capital Assets

The City's investment in capital assets as of June 30, 2004 totaled \$53,534,867 (net of accumulated depreciation of \$40,581,936), which represents an increase of \$4,582,722 over the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and bridges. The fixed assets summary can be found on page 27 of the financial statement notes.

Major capital asset additions during the current fiscal year include:

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

Long Term Debt

At the end of the current fiscal year, the City had \$21,134,680 in long-term debt, which included \$244,680 in accrued vacations and leave. This compares with \$15,333,496 last year -- a 42 %

increase. The increase is due primarily to the issuance of General Obligation Bonds totaling \$6,035,000, which will be used to finance road repairs and pay off some General Obligation Bonds issued in 1995.

STRENGTHS & RISKS

General Fund

The general fund is the primary operating fund of the City. At June 30, 2004, the undesignated fund balance was \$6,389,497 a decrease of \$838,131 over the prior year. The City's policy is to maintain a cash reserve of 50% of general fund expenditures. The year-end general fund balance represents almost 78% of the general fund expenditures, which means that the City is in a very strong position and could cover almost an entire year of expenses without revenue.

Expenses

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

Over the last 7 years, the City has been able to significantly improve the condition of most of the City's major thoroughfares and arterials. In order to maintain this investment, the City's General Fund contributes approximately \$1 million each year to the Pavement Management Program (PMP). However, the Capital Improvement program for roads and drains still has a deficit of \$29 million over the next 5 years. Without an additional source of revenue many of the City's residential streets will never be repaired. Furthermore, those streets that are currently in good condition will deteriorate. The Council has placed a measure on the November 2004 ballot asking the residents to approve the sale of \$29 million in bonds.

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

Revenue

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

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

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

Sales Tax is the second most important revenue source of the City. Sales tax revenue increased by less than 2% during the year, from \$2,612,769, to \$2,652,601 due primarily to the weaker economy. However, because Lafayette has a relatively small retail base dominated by "daily needs" service businesses, fluctuations in sales tax, both positive and negative, are less severe than other cities that rely more heavily on big box, mall or auto retailers for their sales tax revenue.

Vehicle License Fees (VLF) are the third largest source of revenue for the City. The State imposes an annual vehicle license fee (VLF) on the ownership of each registered vehicle in California, in place of taxing vehicles as personal property. The City received \$1,154,214 in 2003-2004 versus \$1,446,059 in 2002-2003 in VLF revenues and has budgeted \$1,450,000 in 2004-2005 reflecting the Governor's promise to restore the "back-fill" in return for a designated two-year contribution to the state to help alleviate the budget crisis. As part of this deal, the Governor has agreed to campaign for Proposition 1A which will protect local revenues in the future. It is unknown at this time whether or not this proposition will pass. If not, there may be serious consequences to both public safety and the City's aggressive new public works projects repair program in the future should the State again decide to balance their budget using local revenue.

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

Request for Information

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

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

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

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, 2004 and 2003, 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.

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 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.

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, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

September 24, 2004

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2004 and 2003

Statement 1

<u>ASSETS</u>	Governmental Activities	
	2004	2003
Cash deposits and investments	\$ 6,013,459	\$ 5,212,060
Accrued interest receivable	10,784	24,030
Other assets	2,583	574
Total current assets	6,026,826	5,236,664
Restricted assets:		
Debt service;		
Cash deposits and investments	400,299	402,021
Low/Moderate Income Housing;		
Cash deposits and investments	1,150,993	845,610
Accrued interest receivable	2,229	3,142
Total restricted assets	1,553,521	1,250,773
Capital Assets:		
Land	1,334,053	603,200
Improvements in process	1,363,456	150,050
Total capital assets	2,697,509	753,250
Total assets	\$ 10,277,856	\$ 7,240,687
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable	\$ 362,309	\$ 142,925
Accrued interest payable	124,720	124,720
Note payable to parking fund - current	15,846	14,672
Current portion - tax allocation bonds	50,000	-
Total current liabilities	552,875	282,317
Noncurrent liabilities:		
Advances from general fund	3,380,763	1,283,865
Note payable to parking fund	640,897	656,743
Tax allocation bonds payable	5,535,000	5,585,000
Total liabilities	10,109,535	7,807,925
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	-	-
Restricted for:		
Debt service	400,299	402,021
Low/moderate income housing	1,153,200	848,752
Unrestricted:		
Designated for Redevelopment (deficit)	(1,385,178)	(1,818,011)
Undesignated	-	-
Net assets (deficit)	168,321	(567,238)
Total liabilities and net assets	\$ 10,277,856	\$ 7,240,687

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, 2004
with Comparative Amounts for 2003

Statement 2

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses)	
		Charges for Services	Grants and Contributions		2004	2003
			Operating	Capital		
Primary Government						
<i>Redevelopment Activities</i>						
Expenses:						
Administration	\$ 211,194	\$ -	\$ -	\$ -	\$ (211,194)	(77,423)
Planning	-	-	-	-	-	(504,455)
Professional services	4,775	-	-	-	(4,775)	(32,497)
Community promotion	9,024	-	-	-	(9,024)	(21,696)
Interest on debt	531,129	-	-	-	(531,129)	(421,735)
Costs of debt issuance	-	-	-	-	-	(174,255)
Subsidies - low/moderate income housing	64,289	-	-	-	(64,289)	-
Other expenses	31,039	-	-	-	(31,039)	-
Transfer to capital project fund	-	-	-	-	-	(158,220)
Total Redevelopment Agency expenses	<u>851,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(851,450)</u>	<u>(1,390,281)</u>
General revenues:						
					1,500,818	1,185,234
					82,600	108,633
					3,591	5,893
					<u>1,587,009</u>	<u>1,299,760</u>
					735,559	(90,521)
					<u>(567,238)</u>	<u>(476,717)</u>
					<u>\$ 168,321</u>	<u>\$ (567,238)</u>
 Reconciliation from Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to Statement of Activities (above):						
Excess of revenues over expenditures and other sources (uses)					\$ (1,208,700)	\$ 4,865,949
Current year Capital assets capitalized					1,944,259	753,250
Increase in accrued interest payable					-	(124,720)
Proceeds from bonds issued					<u>-</u>	<u>(5,585,000)</u>
Reduction in net assets (deficit) for the year					<u>\$ 735,559</u>	<u>\$ (90,521)</u>

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet - Governmental Funds
For the Year Ended June 30, 2004 and 2003

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

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet - Governmental Funds
For the Year Ended June 30, 2004 and 2003

Statement 3

Total Governmental Funds

<u>2004</u>	<u>2003</u>
\$ 216,396	\$ (496,200)
5,797,063	5,708,259
10,784	24,030
2,583	574
-	-
1,551,292	1,247,632
2,229	3,142
<u>\$ 7,580,347</u>	<u>\$ 6,487,437</u>
\$ 362,309	\$ 142,925
3,380,763	1,283,865
656,743	671,415
<u>4,399,815</u>	<u>2,098,205</u>
400,299	402,021
1,153,200	848,753
1,627,033	3,138,458
-	-
<u>3,180,532</u>	<u>4,389,232</u>
<u>\$ 7,580,347</u>	<u>\$ 6,487,437</u>

Total Fund Balance - Governmental Fund Balance Sheet (Statement 3)	<u>\$ 3,180,532</u>
Adjustments:	
To record capital assets, previously expensed	2,697,509
To record accrued interest payable on debt, previously recognized on a "when due" b	(124,720)
To record tax allocation bonds payable, previously recognized as revenue	<u>(5,585,000)</u>
Total adjustments	<u>(3,012,211)</u>
Net assets on Statement of Net Assets (Statement 1)	<u>\$ 168,321</u>

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-
Gov. Funds
For the Year Ended June 30, 2004 and 2003

Statement 4

	Capital Projects Funds			Total Capital Projects
	General Projects	Library Project	Veteran's Hall	
Revenues				
Tax increment revenue	\$ 835,518	\$ -	\$ -	\$ 835,518
Investment income	70,193	-	-	70,193
Other revenue	3,591	-	-	3,591
Total revenues	<u>909,302</u>	<u>-</u>	<u>-</u>	<u>909,302</u>
Expenditures				
Administrative costs	161,202	49,992	-	211,194
Planning	347,938	427,019	98,821	873,778
Real estate purchase	-	683,461	47,392	730,853
Improvement costs	-	-	339,628	339,628
Interest expense	93,776	36,739	101,286	231,801
Professional services	4,775	-	-	4,775
Community promotion	9,024	-	-	9,024
Subsidies	-	-	-	-
Other expenses	19,674	-	-	19,674
Total disbursements	<u>636,389</u>	<u>1,197,211</u>	<u>587,127</u>	<u>2,420,727</u>
Excess (deficiency) of revenues over expenditures	<u>272,913</u>	<u>(1,197,211)</u>	<u>(587,127)</u>	<u>(1,511,425)</u>
Other financing sources (uses):				
Tax allocation bonds issue	-	-	-	-
Less costs of issuance	-	-	-	-
Operating transfers - out	(369,314)	-	369,314	-
Total other financing sources (uses)	<u>(369,314)</u>	<u>-</u>	<u>369,314</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures, net of other financing sources	(96,401)	(1,197,211)	(217,813)	(1,511,425)
Beginning fund balances	4,571,604	(252,717)	(1,180,429)	3,138,458
Ending fund balances	<u>\$ 4,475,203</u>	<u>\$ (1,449,928)</u>	<u>\$ (1,398,242)</u>	<u>\$ 1,627,033</u>

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-
Gov. Funds
For the Year Ended June 30, 2004 and 2003

Special Revenue Funds		Total Governmental Funds	
Debt Service Fund	Low/moderate Income Housing Fund	2004	2003
\$ 295,774	\$ 369,526	\$ 1,500,818	\$ 1,185,234
1,832	10,575	82,600	108,634
-	-	3,591	5,893
<u>297,606</u>	<u>380,101</u>	<u>1,587,009</u>	<u>1,299,761</u>
-	-	211,194	61,047
-	-	873,778	504,455
-	-	730,853	603,220
-	-	339,628	150,050
299,328	-	531,129	297,015
-	-	4,775	32,497
-	-	9,024	21,696
-	64,289	64,289	-
-	11,365	31,039	16,357
<u>299,328</u>	<u>75,654</u>	<u>2,795,709</u>	<u>1,686,337</u>
<u>(1,722)</u>	<u>304,447</u>	<u>(1,208,700)</u>	<u>(386,576)</u>
-	-	-	5,585,000
-	-	-	(174,255)
-	-	-	(158,220)
-	-	-	<u>5,252,525</u>
(1,722)	304,447	(1,208,700)	4,865,949
402,021	848,753	4,389,232	(476,717)
<u>\$ 400,299</u>	<u>\$ 1,153,200</u>	<u>\$ 3,180,532</u>	<u>\$ 4,389,232</u>

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

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CITY OF LAFAYETTE
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June 30, 2004
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CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements
June 30, 2004

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 facilities for pedestrian circulation, bikeways, and parking facilities), storm drains, utility under grounding, 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).

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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, Veterans Memorial Fund and other projects.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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 a debt issuance in the June 30, 2003 fiscal year of \$5,585,000 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 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 (of 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.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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.

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Notes to Component Unit Financial Statements
 June 30, 2004

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 20 years from the Redevelopment Agency to another governmental fund in the amount of \$656,743 at June 30, 2004. 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 \$3,380,763 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 at year-end and not yet received. The only receivable at June 30, 2004 was accrued interest.

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 will 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”.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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.

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 in the government-wide statements is that principal payments are reflected as reductions in the liability.

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 unrestricted net assets are categorized as "designated for redevelopment".

CITY OF LAFAYETTE
 REDEVELOPMENT AGENCY
 Notes to Component Unit Financial Statements
 June 30, 2004

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. 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 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.

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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 legally required funds used by the Agency include the following:

<u>Fund</u>	<u>Required By</u>
Low/Moderate Income Housing	State Law
Long-term Debt Funds	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.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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, 2004.

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, 2004, 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 were authorized by a resolution of the Agency on July 22, 2002, and a resolution of the City, adopted on July 22, 2002 and were issued pursuant to the indenture and in accordance with the Redevelopment Law and the other applicable laws of the State of California.

The liability for the Lafayette Redevelopment Project Tax Allocation Bonds was as follows at June 30, 2004:

2002 Issue	<u>Original Issue</u> 5,585,000	<u>Outstanding</u> 5,585,000
------------	------------------------------------	---------------------------------

- 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.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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

Other long-term debt

The Agency is committed to meet debt service of \$656,743 (at 8% interest) to the City of Lafayette relating to a note payable to the City. In addition, the Agency has borrowed \$3,380,763 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

The City of Lafayette maintains a cash deposit and investment pool that is available for use by all funds including the Agency.

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

Categorization of cash

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

Category I: Deposits, which are insured by the FDIC.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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

Category 3: Deposits, which are uninsured or uncollateralized.

Categorization of investments

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

Category 1: Insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

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

The combined Agency's proportion of the City's cash and cash equivalents at June 30, 2004 are categorized as follows:

	Categories			<u>Not Required</u>	<u>Total</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>		
Cash items					
Pooled cash, deposits and investments					
Checking accounts	\$117,200	\$616,685	\$ -	\$ -	\$733,885
Less outstanding checks					(155,186)
Deposits in transit					849
Total cash items					<u>579,548</u>
Investments					
California Local Agency Investment Fund (LAIF)				6,581,345	6,581,345
Money Market Investments (primarily debt service)				<u>403,858</u>	<u>403,858</u>
Total investments				<u>\$6,985,203</u>	<u>6,985,203</u>
Total cash equivalents					<u>\$7,564,751</u>

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

Per balance sheet:

Cash	\$	216,396
Local Agency Investment Fund		5,797,063
Restricted – U.S. Treasury Notes		400,299
Cash		366,711
Local Agency Investment Fund		784,282
	\$	<u>7,564,751</u>

As of June 30, 2004, the Agency had \$6,581,345 invested in LAIF, which had invested 1.6% 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.):

	Debt Service	Low/moderate Housing Income
Cash	\$ -	\$ 366,711
Local Agency Investment Fund	-	784,282
Money Market Investments	400,299	-
Accrued interest	-	2,229
	\$ 400,299	\$ 1,153,222

3.C. Capital Assets

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

Governmental Activities	Balance June 30, 2003	Additions	Balance June 30, 2004
Capital Assets:			
Land	\$ 603,200	\$ 730,853	\$ 1,334,053
Land and building improvements in process	150,050	1,213,406	1,363,456
Total	\$ 753,250	\$ 1,944,259	\$ 2,697,509

* No depreciation expense has been incurred because construction is in process.

3.D. Accounts Payable

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

3.E. Long-Term Debt

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

	Long-Term	Due Within One Year
Advances from General Fund	\$ 3,380,763	\$ -
Loan Payable- Parking Fund	640,897	15,846
Tax Allocation Bonds	5,535,000	50,000
	\$ 9,556,660	\$ 65,846

- Lafayette Redevelopment Tax Allocation Bonds

On August 6, 2002 (in the prior fiscal year), the Redevelopment Agency of the City of Lafayette (the Agency) issued "Tax Allocation Bonds", series 2002 (the Bonds) for the purpose of funding certain improvements, funding a reserve fund, and paying the costs of issuance of the Bonds. The bonds are limited obligations of the Agency, payable and secured by property tax incremental revenues.

The bond proceeds were distributed as follows:

Available for improvements	\$ 5,011,478
Costs of Issuance	174,255
Deposit to Reserve Fund	399,267
Total Debt Issuance	\$ 5,585,000

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

The following is a bond retirement schedule after June 30, 2004:

	Redevelopment Tax Allocation Bonds - Issued 2003		
	Principal	Interest	Total
Payments due in fiscal years ending June 30;			
2005	\$ 50,000	\$ 298,765	\$ 348,765
2006	75,000	297,078	372,078
2007	100,000	294,253	394,253
2008	105,000	290,610	395,610
2009	110,000	286,468	396,468
2010	115,000	281,824	396,824
2011	115,000	276,821	391,821
2012	125,000	271,388	396,388
2013	130,000	265,457	395,457
2014	135,000	259,129	394,129
2015	140,000	252,355	392,355
2016	150,000	245,030	395,030
2017	155,000	237,175	392,175
2018	165,000	228,772	393,772
2019	170,000	219,555	389,555
2020	180,000	209,580	389,580
2021	190,000	199,035	389,035
2022	205,000	187,798	392,798
2023	215,000	175,827	390,827
2024	225,000	163,267	388,267
2025	240,000	150,015	390,015
2026	255,000	135,844	390,844
2027	270,000	120,750	390,750
2028	285,000	104,794	389,794
2029	300,000	87,975	387,975
2030	315,000	70,294	385,294
2031	335,000	51,606	386,606
2032	355,000	31,769	386,769
2033	375,000	10,781	385,781
	<u>\$ 5,585,000</u>	<u>\$ 5,704,015</u>	<u>\$ 11,289,015</u>

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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

Due at Year-end June 30,	Annual Payments Due at June 30,			Principal Balance Remaining
	Interest (8%)	Principal	Total	
2004	\$ 53,713	\$ 14,672	\$ 68,385	\$ 656,743
2005	52,539	15,846	68,385	640,897
2006	51,272	17,113	68,385	623,784
2007	49,903	18,482	68,385	605,302
2008	48,424	19,961	68,385	585,341
2009	46,827	21,558	68,385	563,783
2010	45,103	23,282	68,385	540,501
2011	43,240	25,145	68,385	515,356
2012	41,229	27,156	68,385	488,200
2013	39,056	29,329	68,385	458,871
2014	36,710	31,675	68,385	427,196
2015	34,176	34,209	68,385	392,987
2016	31,439	36,946	68,385	356,041
2017	28,483	39,902	68,385	316,139
2018	25,291	43,094	68,385	273,045
2019	21,844	46,541	68,385	226,504
2020	18,120	50,265	68,385	176,239
2021	14,099	54,286	68,385	121,953
2022	9,756	58,629	68,385	63,324
2023	5,061	63,324	68,385	-
	<u>\$ 696,285</u>	<u>\$ 671,415</u>	<u>\$ 1,367,700</u>	

3.F. Interfund Transactions and Balances

As discussed in note 1.A. and 3.E., the Redevelopment Agency has borrowed \$1,283,865 (at 8% per annum) from the General Fund, which are to be repaid out of future ad valorem revenues. In addition, the Redevelopment Fund had borrowed \$671,415 (balance of \$656,743 at June 30, 2004) from another City fund to be repaid over a 21 year period at 8%, also to be paid out of future ad valorem revenues.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

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	\$ 400,299
Low/moderate income housing fund	1,153,200
Total	<u>\$ 1,553,499</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 \$200 and \$500 per month for full-time employees, depending on the individual employee's length of service. Contributions for part-time employees are based on a pro rata share of the full-time contribution based on hours worked. Employees are under no obligation to contribute to the Plans. Employees are fully vested in the City's contributions (and interest allocated to the employee's account) after five years' continuous service by the employee. City contributions and interest forfeited by employees who leave employment before five-year service are used to reduce the City's current-period contribution requirement.

Deferred compensation plan

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2004

4.B. Risk Management

Insurance coverage

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

The following is a summary of coverage:

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

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

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

4.C. Commitments and Contingencies

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.

4.D. Subsequent Events

Veteran's Memorial Hall/City Library

The Redevelopment Agency (the "Agency") during the current fiscal year acquired the Veteran's Memorial Hall property in the City of Lafayette at a cost of \$683,461 for the purpose of constructing a new library. It is planned that a new Veteran's Memorial Hall will be constructed on land presently owned by the City. To facilitate the plan, on July 10, 2002 the City acquired adjacent land at a cost of \$650,212. The estimated total cost of the new Veteran's Memorial Hall is estimated to approximate \$5 million.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Capital Projects Funds		
	Budget		Actual
	Original	Revised	
Revenues			
Tax increment revenue	\$ 489,208	\$ 602,672	\$ 835,528
Investment income	1,700	28,000	70,183
Other revenue	5,000,000	-	3,591
Total revenues	<u>5,490,908</u>	<u>630,672</u>	<u>909,302</u>
Expenditures			
Administrative costs	65,037	218,598	211,194
Planning and design	50,000	1,712,000	873,778
Real estate purchase	2,600,000	1,093,461	730,853
Improvement costs	2,800,000	5,173,749	339,628
Interest expense	125,929	98,672	231,801
Professional services	271,577	30,000	4,775
Community promotion	12,000	40,000	9,024
Subsidies	-	-	-
Other expenses	260,000	-	19,674
Total disbursements	<u>6,184,543</u>	<u>8,366,480</u>	<u>2,420,727</u>
Excess (deficiency) of revenues over expenditures	<u>(693,635)</u>	<u>(7,735,808)</u>	<u>(1,511,425)</u>
Other financing sources (uses):			
Operating transfers in (out)	4,500,000	(27,330)	-
Total other financing sources (uses)	<u>4,500,000</u>	<u>(27,330)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures, net of other financing sources	3,806,365	(7,763,138)	(1,511,425)
Beginning fund balances	<u>3,138,458</u>	<u>3,138,458</u>	<u>3,138,458</u>
Ending fund balances	<u>\$ 6,944,823</u>	<u>\$ (4,624,680)</u>	<u>\$ 1,627,033</u>

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 Balances
Governmental Funds - Budget and Actual Exhibit 1
For the Year Ended June 30, 2003

Debt Service Fund			Low/Moderate Income Housing Fund		
Budget		Actual	Budget		Actual
Original	Revised		Original	Revised	
\$ 297,328	\$ 297,328	\$ 295,774	\$ 290,000	\$ 290,000	\$ 369,526
-	2,000	1,832	6,000	6,000	10,575
-	-	-	-	-	-
<u>297,328</u>	<u>299,328</u>	<u>297,606</u>	<u>296,000</u>	<u>296,000</u>	<u>380,101</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
299,328	299,328	299,328	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	64,289
-	-	-	2,000	10,164	11,365
<u>299,328</u>	<u>299,328</u>	<u>299,328</u>	<u>2,000</u>	<u>10,164</u>	<u>75,654</u>
(2,000)	-	(1,722)	294,000	285,836	304,447
-	-	-	-	-	-
-	-	-	-	-	-
(2,000)	-	(1,722)	294,000	285,836	304,447
402,021	402,021	402,021	848,753	848,753	848,753
<u>\$ 400,021</u>	<u>\$ 402,021</u>	<u>\$ 400,299</u>	<u>\$ 1,142,753</u>	<u>\$ 1,134,589</u>	<u>\$ 1,153,200</u>

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

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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, 2004, and have issued our report thereon dated September 24, 2004. 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness 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 and should not be used by anyone other than these specified parties.


CROPPER ACCOUNTANCY CORPORATION

September 24, 2004

