

CITY OF DAVIS, CALIFORNIA
Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

Table of Contents

INTRODUCTORY SECTION

Table of Contents i

Letter of Transmittal v

Principal Officials xv

Organizational Chart xvi

Location Map xvii

GFOA Certificate of Achievement for Excellence in Financial Reporting..... xviii

FINANCIAL SECTION

Independent Auditor's Report on Basic Financial Statements 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets..... 20

Statement of Activities 21

Fund Financial Statements:

Major Governmental Funds:

Balance Sheet..... 24

Reconciliation of the Governmental Funds - Fund Balance with
the Statement of Net Assets 25

Statement of Revenues, Expenditures, and Changes in Fund Balance 26

Reconciliation of the Net Change in Fund Balances Total Governmental
Funds with the Statement of Activities 27

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:

General Fund..... 29

CITY OF DAVIS, CALIFORNIA
Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

Table of Contents

FINANCIAL SECTION (Continued):

Child Care Grant.....	30
Redevelopment Agency Fund	31
Major Proprietary Funds:	
Statement of Net Assets	34
Statement of Revenue, Expenses and Changes in Net Assets	35
Statement of Cash Flows	37
Fiduciary Funds:	
Statement of Fiduciary Net Assets	41
Notes to Financial Statements	43
Supplemental Information:	
Non-Major Governmental Funds	
Combining Balance Sheets.....	77
Combining Statements of Revenues, Expenditures and Changes in Fund Balances	83
Combining Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	89
Internal Service Funds	
Combining Statement of Net Assets	103
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets.....	104
Combining Statements of Cash Flows.....	106
Fiduciary Funds	
Statement of Changes in Assets and Liabilities	109
Budgeted Major Governmental Funds Other than the General Fund and Special Revenue Funds	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: Development Deferred Improvement Fund	114

CITY OF DAVIS, CALIFORNIA
Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

Table of Contents

STATISTICAL SECTION

General Revenues by Source - Last Ten Fiscal Years.....	118
General Expenditures by Function - Last Ten Fiscal Years.....	119
Property Tax Levies and Collections - Last Ten Fiscal Years.....	120
Redevelopment Agency Property Tax Increment Levies and Collections - Last Ten Fiscal Years.....	121
Special Assessment Billings and Collections- Last Ten Fiscal Years.....	122
Assessed Value of Property - Last Ten Fiscal Years.....	123
Property Tax Rates - All Direct and Overlapping Governments - Last Ten Fiscal Years.....	124
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years.....	125
Computation of Direct and Overlapping Debt.....	126
Computation of Legal Debt Margin.....	127
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures - Last Ten Fiscal Years.....	128
Demographic Statistics - Last Ten Fiscal Years.....	129
Property Values, Construction and Bank Deposits - Last Ten Fiscal Years.....	130
Principal Taxpayers.....	131
Miscellaneous Statistics.....	132

FINANCE DEPARTMENT

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Accounts Payable & Payroll – 530/757-5615 – FAX: 530/758-0204
Utilities, Business Licenses & Citations: 530/757-5651 – TDD 530/757-5666



December 23, 2004

Honorable Mayor and City Council
City of Davis
Davis, California

The Comprehensive Annual Financial Report (CAFR) of the city of Davis for the Fiscal Year ended June 30, 2004 is hereby submitted. This report was prepared by the Finance Department and responsibility for both the accuracy of the presented data and the completeness and fairness of its presentation, including all disclosures, rests with the city. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the city as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the city's financial affairs have been included.

This CAFR is organized in three sections: introductory, financial, and statistical. The Introductory section includes this transmittal letter, a list of the principal officials of the city of Davis, an organization chart of the city government and a community profile designed to acquaint the reader with the city. The Financial section includes management discussion and analysis, the city's basic financial statements, required supplemental information and the combining financial statements for non-major funds, as well as the independent auditor's report on these financial statements. The Statistical section includes selected financial information on the city government and economic and demographic information on the community, generally presented in a multi-year comparative format. The section is intended to give the reader a broader perspective on the city's financial affairs than is provided in the other sections of the report.

The city is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. The city's Single Audit for Fiscal Year 2003-2004 will be completed shortly and a separate Single Audit Report will be prepared. As soon as it has been completed a copy of that Report may be obtained by contacting the city Finance Department.

This report includes all funds of the city of Davis. The city provides services to its citizens in the areas of public safety; community planning and development; water, waste water and sanitation utilities; transportation, recreation, cultural and social assistance. In addition, the City Council of the city of Davis has financial accountability and responsibility for the following legally separate entities: Redevelopment Agency of the City of Davis, City of Davis Public Facilities Financing



Authority and Community Facilities District 1991-2 (Mace Ranch). Financial information on these entities has, therefore, been included in this report.

Included as a part of this letter are several attachments which provide important information regarding the operations, economic environment and financial position of the City. The attachments are:

Attachment A	Governmental Structure, Local Economic Condition and Outlook
Attachment B	Highlights and Accomplishments
Attachment C	Financial Information
Attachment D	Other Information

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire Finance Department staff. Each member of the Department has our appreciation for the contributions made in the preparation of this report.

Respectfully submitted,



Paul Navazio
Finance Director

ATTACHMENT A

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Davis is a general law city and employs the Council Manager form of government. The City Council is comprised of five council members. One of these serves as the Mayor and another as the Mayor Pro tem. Council members are elected for a four-year term on a citywide basis (called "at large"). The member elected with the greatest number of votes serves as Mayor Pro tem for the first two years of the term and Mayor for the last two years of the term. The City Council acts as the legislative and policy-making body. Council appoints the City Manager and awards the contract for City Attorney services. The City Manager is the chief administrator and is responsible for implementing the policies and priorities of the City Council.

The City of Davis is a university and residential community internationally known for its commitment to implementing progressive and innovative programs. Located just 13 miles west of the state capital in Sacramento, the center of State government operations, and home to the University of California, Davis, the city has an economy that has traditionally mirrored employment trends in these two institutions.

UC Davis represents, by far, the largest employer in the Davis area with 18,500 academic, staff and student employees on the campus. The university has approximately 29,000 students enrolled; however, University officials expect a significant surge in student demand in the next several years and preliminary projections foresee 31,000 students enrolled by the year 2010. A number of building and infrastructure projects have been undertaken on the campus to prepare for this growth. Joint efforts between university and city officials in land use and infrastructure planning have received greater emphasis to ensure that the campus and the community can accommodate the expanding student population.

UC Davis has been estimated to contribute \$2.5 billion to the regional economy. Besides its impact as an academic institution, the university is an acknowledged international leader in agricultural, biological, biotechnological and environmental science and has increased its efforts at strengthening ties with industry. Mutually beneficial university-private relationships are encouraged and UC Davis is becoming an increasingly valuable "drawing card" for economic development efforts in the community and the region.

The entire Sacramento region enjoyed the economic boom of the late 1990s. However, the slowing national, state, and regional economies create cause for significant concern. Despite such concern, the Sacramento region is expected to remain one of the fastest growing areas in California. Sacramento has seen higher percentage gains in population, employment, income, and retail sales than any other region in the State over the last several years. The region has emerged as a center for high-tech manufacturing and research & development firms. Back-office operations for large San Francisco Bay area firms have also begun moving into the Sacramento region with its lower cost land and relative earthquake safety as advantages. While the duration

and depth of the current economic downturn is unknown, the Sacramento region will likely fare better than other major metropolitan areas of the state.

Closer to home, the prospect of significant State budget problems is one of the City's primary concerns at this time. Cities and counties throughout the state remain unsure about the funding for the "VLF backfill". State general fund money has, for the past few years, kept local agencies whole in the face of the state's reduction of vehicle license fees. This backfill is worth more than \$2 million to the City's General Fund, and would necessitate significant City service reductions if it is lost to the State.

Although development activity in the City began the anticipated decline in 2001-2002, the city of Davis issued permits for about 144,000 square feet of new commercial and industrial construction during 2003-2004, down about 26,000 square feet from the prior year. Highlights of this development activity include new office and industrial buildings in Mace Ranch and the northwest triangle, and several new meeting rooms for local churches. These developments will contribute incremental property tax, sales tax, and business license tax revenues to the City's General Fund in the coming years.

Residential development has begun its expected decline. Over 400 new single family units were built in each of the three years ending in fiscal year 1999-2000. In fiscal year 2000-2001 that number dropped to 264, then in 2001-02 to 119, in 2002-03 to 66, and in 2003-04 to 72, not from lack of demand, but rather supply constraints. As of November 2004, approximately 97 single-family lots remain in currently approved subdivisions. The City's recently adopted General Plan update decreased the amount of single family residential development from the prior plan. Development capacity for limited additional multi-family development remains within the plan, and discussions are underway with the University about ways to accommodate projected growth in student population.

ATTACHMENT B

HIGHLIGHTS AND ACCOMPLISHMENTS

Drainage Pump Station Upgrades

The City completed some major replacements and upgrades to the drainage pump station located at H Street and Covell Blvd in March. Approximately 1,500 acres of central Davis drain to the H Street drainage pump station.

Park rehabilitation

Fifteen regulation size tennis courts and one in-line skating court were rehabilitated by crack filling, leveling birdbaths, coloring and striping. This project was complete in August 2003.

Arroyo Park

Prefabricated restrooms were a part of the original design of Arroyo Park, Phase II; however, budget dictated pulling these from the construction scope at that time. City Council approved the use of \$54,000 of Proposition 12 monies to these restrooms, which were installed in March.

Light Standards and pole replacements

Unsafe light standards and poles on the Howard Reese bikepath were replaced from SR 113 to Lake Blvd.

Bike Path Upgrade

The existing bike path (formerly Old Highway 40) was upgraded on both sides of County Road 32A from County Road 105 to the Webster Interchange. This project will provide improved bicycle facilities in this corridor by overlaying the remainder of the bike path, by providing additional trees, shrubs and irrigation and by replacing the 4' wide AC bike lanes.

City Hall Parking Lot

The parking lot at City hall was expanded to provide additional employee and visitor parking. Stalls were also added to accommodate the city's GEM cars.

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ATTACHMENT C

FINANCIAL INFORMATION

The city's accounting records are organized and operated on the basis of funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts and fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Management of the city is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the city maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. All operating, special revenue, debt service and capital improvement activities of the city are included in the annual appropriated budget. The legal level of budgetary control (that is, the level at which actual expenditures may not legally exceed the appropriated amount) is at the fund level. The city also maintains an encumbrance accounting system as one technique in accomplishing budgetary control. Open encumbrances at June 30, 2004 are reported as reservations of fund balance in the city's governmental funds. Management considers such encumbrances as a use of budgetary authority and they are reflected as equivalent to an expenditure in the accompanying budget and actual schedules. In conformance with generally accepted accounting principles, encumbrances are otherwise not included in the accompanying operating statements.

We believe that the statements and schedules included in the Financial Section of this report demonstrate that the city is meeting its responsibility for sound financial management.

CASH MANAGEMENT

The city pools all cash funds not held by fiscal agents in order to maximize investment opportunities and increase flexibility. Investment earnings are credited back to all funds contributing to the pool monthly, based on the fund's cash balance as a percentage of the pool. Investment responsibility is located organizationally within the Finance Department, but internal control is rigorously maintained to provide accountability and to protect the city's cash assets. Investments are conservatively managed with the three primary objectives of safety of principal, liquidity to meet disbursement requirements, and investment yield pursued in that order.

During the 2003-04 Fiscal Year, a portion of the city's pooled cash was invested in the Local Agency Investment Fund, an investment pool for local agencies operated by the State of California Treasurer's Office. Investments were also placed in federally sponsored agency notes where opportunities presented themselves to enhance investment yield while maintaining safety and liquidity. Total investment earnings for all funds held in the city treasury totaled \$2,029,511, a return of 2.512%. Our return exceeds the average effective yield of the Local Agency Investment Fund of 1.562%

At the June 30, 2004 close of the city's fiscal year, \$91,925,744 was accounted for in the city's treasury with investments valued based on fair value (rather than the actual amount invested). During Fiscal Year 1997-98, the city adopted the requirements of Governmental Accounting Standards Board Statement 31, which calls for the recognition in the city's accounts of the unrealized net market value gain or loss on investments held by the city and its fiscal agents.

RISK MANAGEMENT

The Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA) JPA handles the city's risk management. The deductible for liability is \$5,000 and for workers comp is \$1,000. This limits the city's risk to an insignificant amount.

ATTACHMENT D

OTHER INFORMATION

INDEPENDENT AUDIT

The city's financial statements were audited by the independent accounting firm of Maze & Associates Accountancy Corporation. Their unqualified opinion is presented at the front of the financial section. We wish to express our appreciation to the staff of Maze & Associates for their assistance during the audit process.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the city of Davis for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the sixth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report, which implements GASB Statement 34, continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA and CSMFO to determine its eligibility for another certificate.

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PRINCIPAL OFFICIALS

CITY OF DAVIS

JUNE 30, 2004

CITY COUNCIL

Mayor	Ruth Uy Asmundson
Mayor Pro-Tem	Sue Greenwald
Councilmember	Ted Puntillo
Councilmember	Stephen Souza
Councilmember	Don Saylor

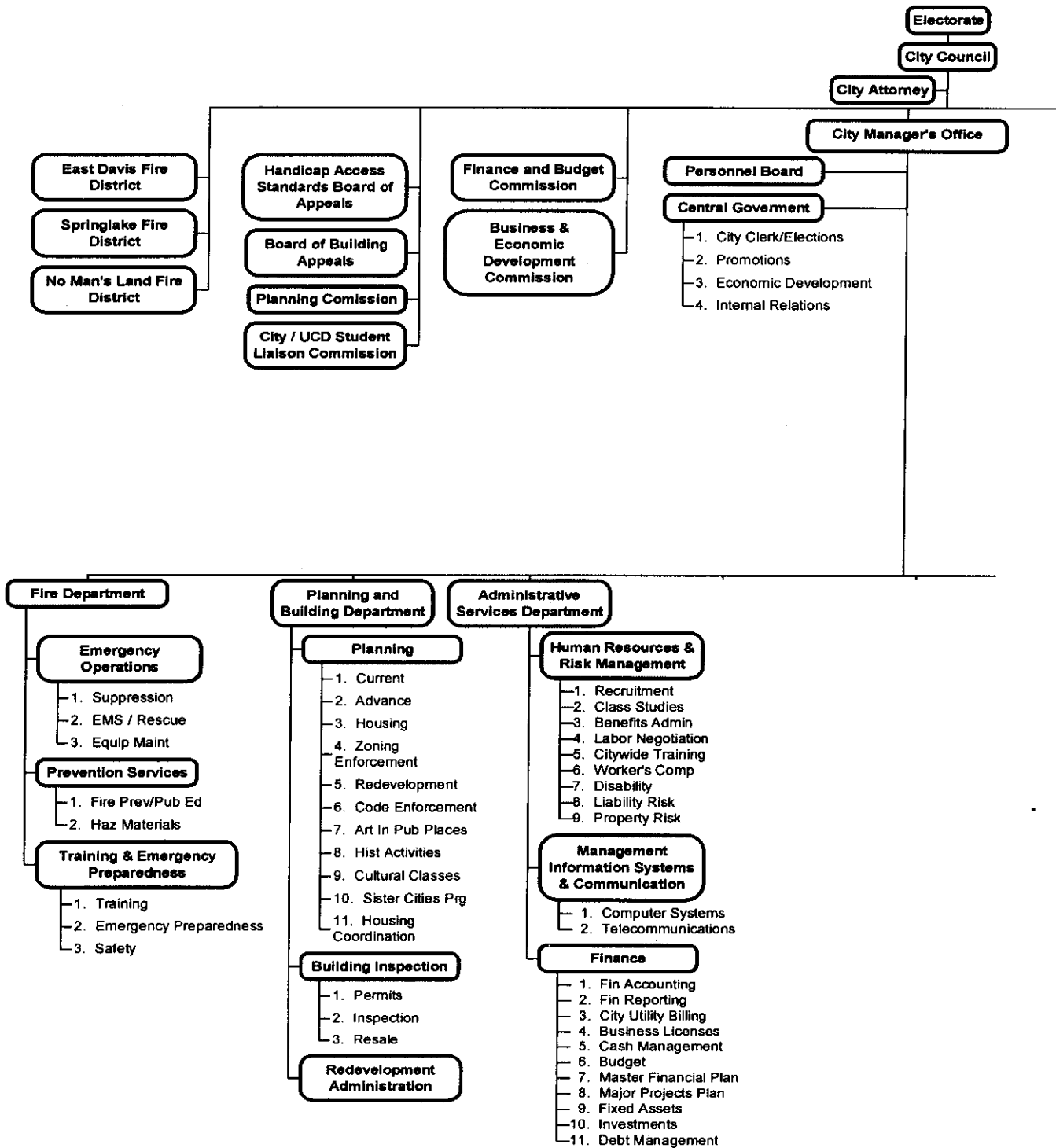
ADMINISTRATIVE OFFICIALS

City Manager	James Antonen
City Attorney	Harriet Steiner
City Clerk	Bette Racki
Finance Director	Paul Navazio
Chief of Police	Jim Hyde
Planning & Building Director	Bill Emlen
Fire Chief	Rose Conroy
Parks & Community Services Director	Donna Silva
Public Works Director	Bob Weir

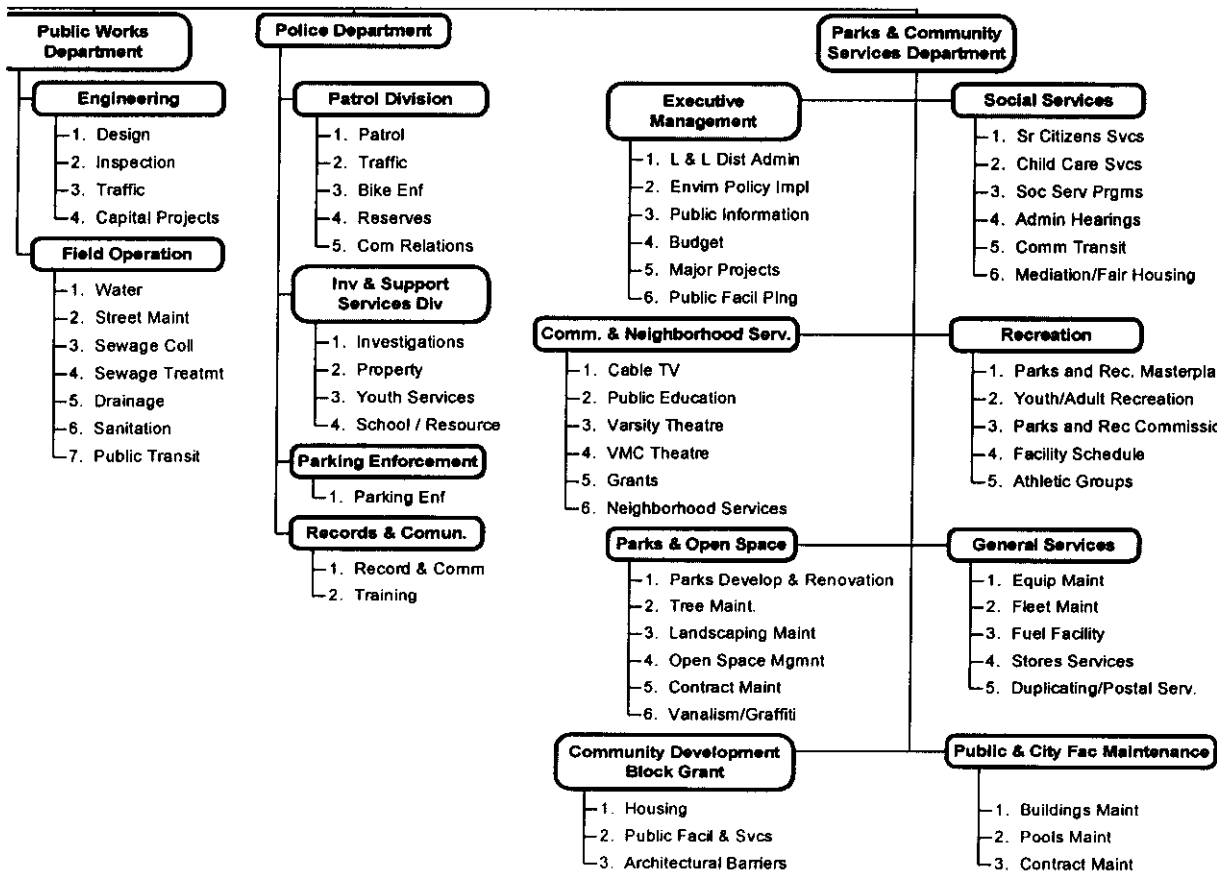
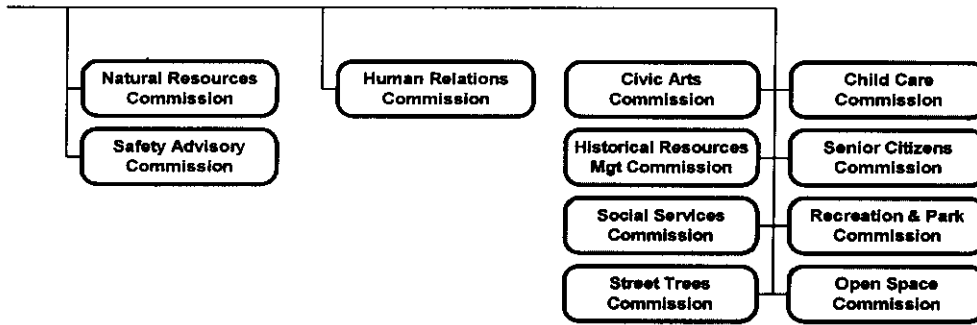
ADMINISTRATIVE STAFF

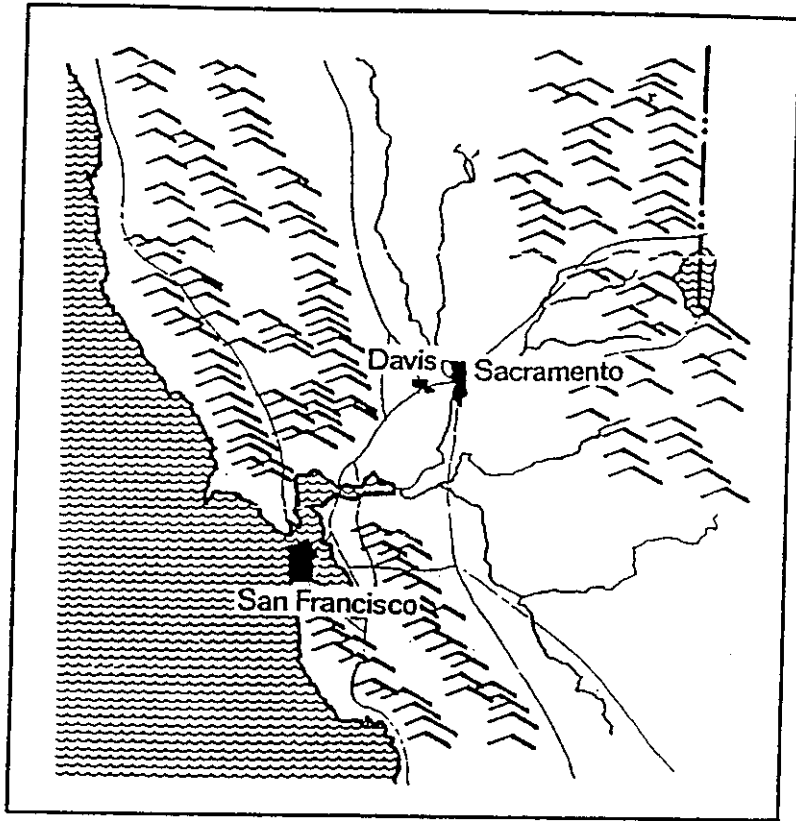
Financial Analyst	Gail Buller
Financial Analyst	Kelly Fletcher
Financial Analyst	Sheila McCrory

City of Davis

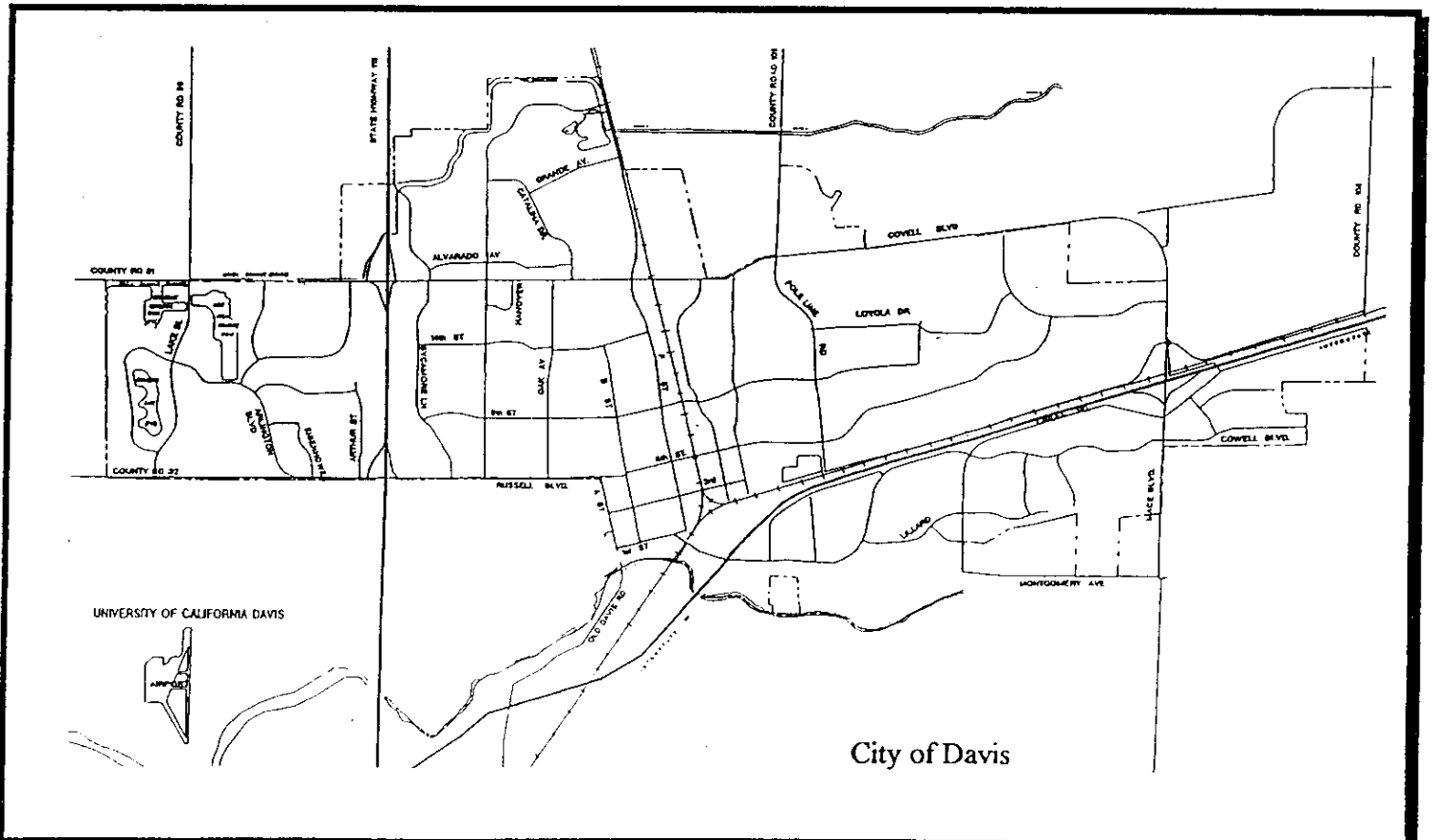


Organizational Chart





Regional Location



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Davis,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director