

**INDEPENDENT AUDITOR'S REPORT  
ON BASIC FINANCIAL STATEMENTS**

To the Honorable City Council of  
the City of Davis, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Davis, California, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

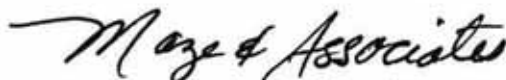
We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Davis, California, as of June 30, 2004 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



November 12, 2004

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**FINANCE DEPARTMENT**

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**MANAGEMENT DISCUSSION AND ANALYSIS**

Fiscal year 2003/04 is the second year the city of Davis is required to issue its financial statements in the format prescribed by the provision of Government Accounting Standards Board Statement 34 (GASB 34), which requires the city to provide this overview of its financial activities for the fiscal year. Please read it in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

**Fiscal Year 2003/04 Financial Highlights**

The City of Davis was affected by the continuing economic slowdown and the State of California's budgetary crisis. In the past 20 years, Davis, like most local governments, lost more control over its revenues to the State. The diversion of local funds has allowed the State to meet its program funding obligations at the expense of important local services. These financial challenges have left the City of Davis in a bind having to search for creative ways to deal with permanent fiscal diversions. Over the years the City has implemented various budget reduction processes which have included layoffs, hiring freezes and flat budgeting.

Financial highlights for the 2003/04 fiscal year include the following:

*Citywide*

- The City's total net assets increased \$1.9 billion in fiscal year 2004. This is due to the addition of street infrastructure during fiscal year 2004. Without the addition of this infrastructure, net assets would have increased by \$7.6 million. At June 30, 2003 the City's net assets totaled \$182.7 million.
- Total City revenues, including program and general revenues were \$85.2 million, which was an increase of \$1.8 million from the prior year's \$83.4 million.
- Total Citywide expenses were \$161.1 million, an increase of \$89.4 million from the prior year's \$71.7 million. This was also due to the addition of the street infrastructure (depreciation expense).
- Net assets in Governmental funds increased \$1.9 billion (without street infrastructure, a decrease of \$78.4 million), while net assets in Business-type Activities increased \$2.5 million.
- Governmental Program Revenues decreased to \$23.3 million from fiscal year 2003's \$26.3 million.



- Governmental Program Expenses increased to \$134.1 million from \$48.200 million in fiscal 2004 (again, due to the addition of street infrastructure).
- Revenues from Business-type Activities increased \$5.1 million in fiscal 2004 from \$24.450 million in fiscal 2003.
- Expenses of Business-type Activities increased \$3.5 million in fiscal 2004 from \$23.510 million in fiscal 2003.

*Fund level*

- Governmental Fund balances increased to \$75.1 million in fiscal 2004 from the prior year's \$70.4 million.
- Governmental Fund revenues decreased \$3.7 million in fiscal 2004 from the prior year's \$59.2 million.
- Governmental Fund expenditures increased to \$53.1 million in fiscal 2004, up \$2.7 million from the prior year's \$50.4 million.
- General Fund balance of \$10.0 million in fiscal 2004 is down \$.2 million from the prior year's \$10.2 million.
- General Fund revenues increased to \$29.3 million, up \$1 million from the prior year's \$28.381 million and expenditures increased \$2.6 million from prior year's \$26.958 million.

**Financial Condition Summary**

The City began the fiscal year 2004 budget process by facing another tough fiscal outlook primarily due to the uncertainty of the State budget. In addition, we had continued to have unprecedented increases in retirement cost, largely due to investment losses by the California Public Employees Retirement System and increased public safety retirement benefits, and increasing insurance costs.

The State budget uncertainty will remain a cloud over local finances as we prepare our 2005/06 budget. Effectively dealing with this will mean continuing to follow our adopted fiscal policies, maintaining a virtually flat budget as well as planning ahead as best we can. Following this course will result in strengthening our fiscal condition and afford us the flexibility needed in effectively navigating the unknown ahead of us for many years to come.

We will continue to face challenges based on our local circumstances as well as from a continuing threat of more State takeaways from cities due to its inability to effectively manage its fiscal affairs in both good and bad times.

## **Overview of the Comprehensive Annual Financial Report**

This Comprehensive Annual Financial Report (CAFR) is organized in six parts:

1. Introductory section, which includes the Transmittal Letter and general information,
2. Management's Discussion and Analysis (this part),
3. The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the notes to these financial statements,
4. Required Supplemental Information,
5. Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6. Statistical Information.

### **The Basic Financial Statements**

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the city's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the city's activities are grouped into Governmental Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the city as a whole.

The Fund Financial Statements report the city's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the city's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the city and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The fiduciary statements provide financial information about the activities of the Special Assessment Districts, for which the city acts solely as agent.

### *The Government-wide Financial Statements*

- **Governmental activities** – All of the city’s basic services are considered to be governmental activities, including general government, planning and building, parks and community services, public safety, public works, and general administrative services. These services are supported by general city revenues such as taxes, and by specific program revenues such as development fees.
- The city’s general activities include the activities of a separate legal entity, the City of Davis Redevelopment Agency, because the city is financially accountable for the Agency.
- **Business-type activities** – All the city’s enterprise activities are reported here, including water, sewer, sanitation, storm sewer and transit. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they use.

City-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the city as a whole.

### *Fund Financial Statements*

The Fund Financial Statements provide detailed information about each of the city’s most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the city for the year, and may change from year to year as a result of changes in the pattern of city’s activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they only measure current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Services Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the city’s Internal Service Funds provide goods and services only to the city’s governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from

other city funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds.

*Fiduciary Statements*

The city is the agent for certain assessment districts, holding amounts collected from property owners which await transfer to these Districts' bond trustees. The city's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the city's other financial statements because the city cannot use these assets to finance its own operations.

**Financial Activities of the City as a Whole**

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities and Business-Type Activities presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

*Governmental Activities*

**Table 1**  
**Governmental Net Assets at June 30, 2004**  
**(in Millions)**

	<u>Governmental Activities</u>	
	2004	2003
Cash and investments	63.078	61.505
Other assets	31.589	24.731
Capital assets	<u>1,970.384</u>	<u>54.754</u>
<b>Total Assets</b>	<b><u>2,065.051</u></b>	<b><u>140.990</u></b>
Long-term debt outstanding	24.481	22.503
Other liabilities	<u>14.962</u>	<u>10.751</u>
<b>Total Liabilities</b>	<b><u>39.443</u></b>	<b><u>33.254</u></b>
Net assets:		
Invested in capital assets, net of debt	1,941.360	27.705
Restricted	31.157	29.878
Unrestricted	<u>53.090</u>	<u>50.153</u>
<b>Total net assets</b>	<b><u>2,025.607</u></b>	<b><u>107.736</u></b>

The City's net assets increased \$1.9 billion in 2004. This increase is the Change in Net Assets reflected in the Statement of Activities shown in Table 2 and is explained below:

- Cash and investments increased \$1.5 million and consists of \$61.9 million available to fund ongoing City operations, the remaining \$1.1 million is legally restricted as to what it can be spent on, such as capital projects funded with bond proceeds and bond reserves.
- Capital assets increased \$1.9 billion due to the addition of street infrastructure and consist of land, buildings, improvements other than buildings, equipment and street infrastructure used by the general government of the City exclusive of its business-type activities.
- Other assets consist primarily of accounts receivables, loans and other receivables.
- Long-term debt increased \$1.9 million due to the refunding of a previous Redevelopment Agency bond and consists of Certificates of Participation and Tax Allocation bonds issued to finance major capital assets of the City or to fund projects which benefit the Redevelopment Agency of the City of Davis.
- Other liabilities consist primarily of accounts and claims payable as well as the City's compensated absences liability.
- Net assets invested in capital assets net of related debt increased to \$1.9 billion due to the addition of street infrastructure, and represent the net value of the City's capital assets financed through borrowing.
- Restricted net assets consists of net assets that are legally restricted to be spent on City capital projects, Redevelopment projects, special revenue funded projects and debt service reserves.
- Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Unrestricted net assets increased \$2.9 million to \$53.1 million which are available to finance day-to-day operations and other expenditures approved by City Council.

### **Fiscal Year 2004 Governmental Activities**

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

**Table 2**  
**Changes in Governmental Net Assets**  
**For the Year Ended June 30, 2004**  
**(in Millions)**

	<u>Governmental Activities</u>	
	2004	2003
<b>Expenses</b>		
City council	.132	.131
City attorney	.375	.264
City manager	1.658	1.000
Administrative services	1.408	1.831
Planning & building	2.881	3.875
Parks and community services	18.095	16.445
Public safety – fire	6.601	5.887
Public safety - police	10.709	9.575
Public works	86.016	3.689
Special projects	4.293	3.692
Interest on debt	<u>1.903</u>	<u>1.811</u>
Total expenses	<u>134.071</u>	<u>48.200</u>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services	9.029	7.973
Operating contributions and grants	12.527	14.027
Capital grants and contributions	<u>1.815</u>	<u>4.375</u>
Total program revenues	<u>23.371</u>	<u>26.375</u>
<b>General revenues:</b>		
Taxes	26.942	25.495
Motor vehicle in-lieu	3.510	3.578
Investment income	.852	2.673
Miscellaneous	.927	.849
Transfers, net	<u>.038</u>	<u>.000</u>
Total general revenues	<u>32.269</u>	<u>32.595</u>
Total revenues	<u>55.640</u>	<u>58.970</u>
<b>Changes in net assets</b>	<b><u>(78.431)</u></b>	<b><u>10.770</u></b>

Governmental revenue decreased \$3.3 million mostly due to a decrease in available grants (down \$4.0 million) and the decrease in Investment earnings (down \$1.8 million) which were offset slightly by an increase in property tax revenues (up \$2.0 million). The City's major governmental revenue sources in fiscal 2004 were property taxes (\$13.717 million) 21.1% and operating grants and contributions (\$12.527 million) 22.5%.

Expenses increased \$85.9 million in fiscal 2004 mostly due to the addition of street infrastructure depreciation (\$83.3 million). Police increased \$1.1 million as a result of personnel related issues (additional staff, salary increases, retirement & health insurance increases, etc).

### Governmental Activities

Table 3 presents the net cost of each of the City’s largest programs. Net cost is defined as total program cost less the revenues generated by those specific activities.

**Table 3**  
**Net Governmental Activities**  
**For the Year Ended June 30, 2004**  
**(in Millions)**

	Net (Expense) Revenue From Services		
	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
City council	-.132	-.131	-.001
City attorney	-.374	-.264	-.110
City manager	-1.658	-1.000	-.658
Administrative services	-.397	-1.081	.684
Planning & building	1.187	3.564	2.377
Parks and community services	-8.999	-7.943	-1.056
Public safety – fire	-4.883	-4.360	-.523
Public safety – police	-8.089	-7.016	-1.073
Public works	-82.711	-.208	-82.503
Special projects	-2.740	-1.575	-1.165
Interest on debt	-1.903	-1.812	-.091

- The principal expense for the City’s major programs is payroll and payroll related expenses, as the primary cost in service related operations is personnel costs.
- Charges for services and operating grants and contributions are the primary program revenue source funding general governmental activities.
- Planning and building revenues are primarily generated from planning applications and building inspection and permit fees and development impact fees.
- Police activities primary program revenue sources are violation and services fees and grants.
- Fire activities generated program revenue primarily through fire protection services outside of the City and fire inspection services.
- Public works generates primary program revenues through service fees, such as engineering and plan checking, state and federal grants and developer contributions.

- Parks and community services programs generate program revenues through charges for recreation programs.

### Business-type Activities

**Table 4**  
**Business-Type Net Assets**  
**As of June 30, 2004**  
**(in Millions)**

	<u>Business-Type Activities</u>	
	2004	2003
Cash and investments	19.674	17.567
Other current assets	5.239	6.521
Capital assets	80.222	<u>80.372</u>
<b>Total assets</b>	<b><u>105.135</u></b>	<b><u>104.460</u></b>
Long-term debt outstanding	21.370	22.455
Other liabilities	<u>6.289</u>	<u>7.071</u>
<b>Total liabilities</b>	<b><u>27.659</u></b>	<b><u>29.526</u></b>
Net assets:		
Invested in capital assets, net of related debt	58.702	0.000
Restricted	.106	.106
Unrestricted	<u>18.668</u>	<u>74.828</u>
<b>Total net assets</b>	<b><u>77.476</u></b>	<b><u>74.934</u></b>

The net assets of business-type activities consist primarily of capital assets used in operations. In prior year the City reported net assets in total. In fiscal year 2004, the City has reported net assets in the three standard categories.

**Table 5**  
**Changes in Business-Type Net Assets**  
**For the Year Ended June 30, 2004**  
**(in Millions)**

	<u>Business-Type Activities</u>	
	<u>2004</u>	<u>2003</u>
Net Revenues from Business-type activities:		
Water	.689	.259
Sanitation	-.003	.203
Sewer	1.913	-.837
Storm sewer	-.220	-.063
Public transit	<u>.012</u>	<u>.167</u>
<b>Total Business-type activities</b>	<b><u>2.391</u></b>	<b><u>-.271</u></b>

Water, sanitation, sewer and storm sewer are funded through user service fees. Public transit is funded with a combination of user fees and grants. Operating costs consist primarily of personnel costs and contractual services.

#### **The City's Fund Financial Statements**

Table 6 below summarizes activity and balances at the fund level:

**Table 6**  
**Financial Highlights at Fund Level at June 30**  
**(in millions)**

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Total assets	87.157	81.747	5.410
Total liabilities	12.041	11.251	.790
Total fund balances	75.116	70.496	4.620
Total revenues	55.527	59.216	-3.689
Total expenditures	53.136	50.427	2.709
Total other financing sources (uses)	2.229	0.000	2.229

#### *Governmental Funds*

At June 30, 2004, the city's governmental funds reported combined fund balances of \$75.1 million, which is an increase of \$4.6 million compared with last year. \$29.4 million is legally reserved as to how the funds are to be spent. In addition \$1.4 million has been designated by

City management to fund certain projects. \$44.3 million is available to fund ongoing City operations.

Revenues at the fund level decreased \$3.7 million this year to \$55.5 million. The General Fund accounted for 52.9% and the Redevelopment Agency accounted for \$11.3% of this revenue. The remainder was primarily in the Non-Major funds. Governmental expenditures increased \$2.7 million to \$53.1 million; of which the General Fund generated 55.7% and the Redevelopment Agency expenditures generated 4.3% and the remainder was primarily in non-Major funds.

### *Proprietary Funds*

Enterprise Fund net assets increased \$2.5 million to \$77.5 million at June 30, 2004. Enterprise operating revenues increased \$3.1 million to \$22.1 million this year, while net non-operating revenues increased to \$7.0 million from last year's \$4.9 million.

Enterprise Fund operating expenses increased \$3.5 million to \$26.6 million in fiscal 2004.

### *Analysis of Major Governmental Funds*

#### General Fund

General Fund revenues consisted primarily of property taxes and other taxes, which increased \$1 million to \$17.5 million or 59% of total fund revenue, for the year ended June 30, 2004. The City did not receive as much in Taxes and Licenses and permits as anticipated due to the State "triple-flip" which effects sales tax and motor vehicle in-lieu tax.

General Fund expenditures increased \$2.6 million consisted primarily of parks and community services (27%); police (30%) and fire (19%) for the year ended June 30, 2004. The primary expenditures associated with these services consisted of salaries and benefits.

General Fund shows several expenditure categories significantly under budget, including; Planning & Building, Parks and Community Services and Capital Improvements. Planning and Building and Parks budget variances were the result of salary savings from unfilled positions. These positions have been held open to help alleviate the impact of the State revenue reallocation. The variance for Capital Improvements came mostly from one project which was budgeted \$1.6 million from the General Fund that used other funding instead.

At June 30, 2004 the General Fund Balance comprised \$5.8 million in unreserved, undesignated balances and \$4.2 million reserved or designated fund balances. Only the unreserved portion represents available liquid resources.

### Child Care Grant

Child Care Grant fund revenues consist primarily of grant revenue which increased \$.5 million and totaled \$6.5 million or 97% of total fund revenue, for the year ended June 30, 2004.

Expenditures consisted of parks and community services. The primary expenditures associated with these services consisted of salaries, benefits and provider payments.

At June 30, 2004 the Child Care fund balance comprised \$78,064 in designated or reserved fund balance. The Child Care fund is completely restricted in the use of fund balance.

### Redevelopment Agency

The Redevelopment Agency revenues consist primarily of property taxes, which increased \$.9 million to a total of \$6.2 million or 98% of total fund revenue, for the year ended June 30, 2004.

Expenditures consisted primarily of special projects expenditures, which included property tax pass-through agreement payments in the amount of \$1.9 million.

Transfers into the Redevelopment Agency operating fund consisted primarily of reimbursements from the Redevelopment Capital Projects fund for capital expenditure advances. Transfers out consisted of transfers to the Redevelopment Agency Low/Moderate Housing Fund for the required 20% set-aside and to the Debt Service fund for debt payments.

At June 30, 2004 the Redevelopment Agency fund balance comprised \$1.4 is unreserved, undesignated fund balance and \$117,029 in restricted fund balance. The restricted fund balance is primarily due to a reserve for long-term receivables and encumbrances.

### Development Deferred Improvement

The Development Deferred Improvement revenues decreased \$2.9 million and consist primarily of development impact fees in the amount of \$1.1 million (\$1.9 million decrease) or 87% of total fund revenues, for the year ended June 30, 2004. Development impact fees are wholly dependent on new development and will continue to decrease as the City moves closer to build out.

Primary expenditures for the Development Deferred Improvements fund are for capital projects. Capital projects expenditures which decreased only \$.1 million and comprise \$1 million or 92% of total expenditures.

At June 30, 2004 the Development Deferred Improvements fund balance was comprised of \$19.2 million in unreserved fund balance and \$3.3 million in reserved fund balance. The fund balance in this fund can only be used for capital projects.

## *Proprietary Funds*

### Water

Water fund revenues consist primarily of charges for services to the residents of Davis in the amount of \$6.3 million or 89.6% of total fund revenues. This represents a \$1 million increase in fee revenue.

Primary expenditures are for water production and distribution (\$3.1 million). There is almost no change in the amount of expenditures from the prior year.

### Sanitation

Sanitation fund revenues consist primarily of charges for services to the residents of Davis in the amount of \$7.576 million or 99.6% of total fund revenues. This slight increase in revenues helps to offset the slight increase in expenditures.

Primary expenditures are for waste collection and street sweeping (\$6.7 million). This reflects a slight increase in expenditures (\$.3 million).

### Sewer

Sewer fund revenues consist primarily of charges for services to the residents of Davis in the amount of \$7 million or 99.2% of total fund revenues. Sewer fee increases resulted in an additional \$2 million in revenues.

Primary expenditures are for sewage collection and treatment (\$3 million).

### Storm Sewer

Storm Sewer fund revenues consist primarily of charges for services to the residents of Davis in the amount of \$1.2 million or 96.9% of total fund revenues. This is approximately the same as the prior year.

Primary expenditures are for storm drainage system maintenance (\$.8 million). Expenditures also remain constant over the two year period.

### Public Transit

Public Transit fund revenues consist primarily of operating grants and subventions in the amount of \$6.6 million or 99.6% of total fund revenues. Grants and subventions increased nearly \$3 million due to an additional capital grant for a new Unitrans facility.

Primary expenditures are for the provision of public transportation services (\$6.5 million). This reflects an increase in expenditures of \$3.1 million primarily due to the building of the new Unitrans facility.

### Capital Assets

GASB 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. During fiscal year 2004 street infrastructure was added as well as new park infrastructure. The city intends to complete the infrastructure implementation within the next two fiscal years. At the end of fiscal 2004 the City had \$2.0 billion, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in Table 6 below (further detail can be found in note 5 to the financial statements):

**Table 7**  
**Capital Assets at June 30, 2004**  
**(in Millions)**

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
<b>Governmental activities:</b>			
Land	13.015	13.015	0.000
Construction in progress	17.878	14.618	3.260
Buildings and improvements	40.652	40.563	0.089
Equipment	17.305	17.149	0.156
Infrastructure – Streets	2,544.790	0.000	2,544.790
Infrastructure – Parks	<u>0.122</u>	<u>0.000</u>	<u>0.122</u>
Less accumulated depreciation	<u>663.378</u>	<u>30.591</u>	<u>632.787</u>
<b>Totals</b>	<b><u>1,970.385</u></b>	<b><u>54.754</u></b>	<b><u>1,915.631</u></b>
<b>Business-type activities:</b>			
Land	5.130	5.130	0.000
Construction in progress	11.254	10.585	0.669
Buildings	44.507	42.951	1.556
Pipes and Lines	50.383	50.266	0.117
Equipment	<u>2.247</u>	<u>2.212</u>	<u>0.034</u>
Less accumulated depreciation	<u>33.299</u>	<u>30.773</u>	<u>2.526</u>
<b>Totals</b>	<b><u>80.222</u></b>	<b><u>80.371</u></b>	<b><u>-0.149</u></b>

## Debt Administration

Each of the City's debt issues is discussed in detail in Note 6 to the financial statements. At June 30, 2004 the City's debt comprised:

**Table 8**  
**Outstanding Debt at June 30, 2004**  
**(in Millions)**

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
<b>Governmental activities:</b>	<b>24.481</b>	<b>22.503</b>	<b>1.978</b>
<b>Business-type activities:</b>	<b>21.370</b>	<b>22.455</b>	<b>-1.085</b>

### Special Assessment District Debt

At June 30, 2004, a total of \$40.970 million in special assessment district debt was outstanding, issued by five special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

### Economic Outlook and Major Initiative

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

### Contacting the City's Financial Management

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Division, at 23 Russell Blvd, Davis, CA 95616.

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## CITY OF DAVIS

### STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Davis, and the Public Facilities Financing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term *General Purpose Financial Statements* is no longer used.

CITY OF DAVIS  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 2)	\$61,942,743	\$19,308,738	\$81,251,481
Cash with fiscal agent (Note 2)	1,135,543	365,069	1,500,612
Accrued interest	417,733	121,514	539,247
Receivables			
General accounts	3,260,938	1,499,505	4,760,443
Grants	2,632,901	1,107,979	3,740,880
Utility accounts	324,207	2,010,275	2,334,482
Loans (Note 4)	18,524,661		18,524,661
Mortgages (Note 4)	1,048,945		1,048,945
State Revolving Fund loans (Note 4)		500,000	500,000
Inventory	165,358		165,358
Internal balances (Note 3D)	2,052,038		2,052,038
Capital assets (Note 5)			
Non-depreciable	13,014,661	16,383,795	29,398,456
Depreciable, net of depreciation	1,957,369,930	63,838,278	2,021,208,208
<b>Total Assets</b>	<b>2,061,889,658</b>	<b>105,135,153</b>	<b>2,167,024,811</b>
<b>LIABILITIES</b>			
Payables			
Accounts	3,854,891	1,945,963	5,800,854
Grants	248,760		248,760
Leave benefits (Note 1H)	748,665	242,159	990,824
Interest	392,361		392,361
Deposits	1,347,685	52,851	1,400,536
Claims payable (Note 13)	674,476		674,476
Unearned revenue	2,847,070	1,995,952	4,843,022
Due to Yolo County (Note 8)	323,719		323,719
Leave benefits - due in more than one year (Note 1H)	1,362,952		1,362,952
Internal balances (Note 3D)		2,052,038	2,052,038
Long term debt (Note 6):			
Due in one year	361,137	1,543,970	1,905,107
Due in more than one year	24,120,085	19,825,849	43,945,934
<b>Total Liabilities</b>	<b>36,281,801</b>	<b>27,658,782</b>	<b>63,940,583</b>
<b>NET ASSETS (Note 9)</b>			
Invested in capital assets, net of related debt	1,941,360,614	58,702,409	2,000,063,023
Restricted for:			
Capital projects	31,004,599		31,004,599
Debt service	153,000	106,216	259,216
<b>Total Restricted Net Assets</b>	<b>31,157,599</b>	<b>106,216</b>	<b>31,263,815</b>
Unrestricted	53,089,644	18,667,746	71,757,390
<b>Total Net Assets</b>	<b>\$2,025,607,857</b>	<b>\$77,476,371</b>	<b>\$2,103,084,228</b>

See accompanying notes to financial statements

CITY OF DAVIS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Development Impact Fees and Permits	Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>							
City council	\$131,539				(\$131,539)		(\$131,539)
City attorney	374,657				(374,657)		(374,657)
City manager	1,657,979	\$10			(1,657,969)		(1,657,969)
Administrative services	1,407,775	1,010,869			(396,906)		(396,906)
Planning and building	2,881,783	2,456,030	\$23,000	\$1,589,884	1,187,131		1,187,131
Parks and community services	18,094,869	2,113,853	6,979,342	2,261	(8,999,413)		(8,999,413)
Public safety - fire	6,601,179	698,400	1,019,151		(4,883,628)		(4,883,628)
Public safety - police	10,708,711	2,307,492	312,433		(8,088,786)		(8,088,786)
Public works	86,016,114	442,050	2,639,348	223,240	(82,711,476)		(82,711,476)
Special projects	4,293,411		1,553,811		(2,739,600)		(2,739,600)
<b>Debt service</b>							
Interest on long term debt	1,831,226				(1,831,226)		(1,831,226)
Interest on special assessment	72,127				(72,127)		(72,127)
<b>Total Governmental Activities</b>	<b>134,071,370</b>	<b>9,028,704</b>	<b>12,527,085</b>	<b>1,815,385</b>	<b>(110,700,196)</b>		<b>(110,700,196)</b>
<b>Business-type Activities:</b>							
Water	6,272,414	6,308,856	652,844			\$689,286	689,286
Sanitation	7,565,779	7,544,575	17,852			(3,352)	(3,352)
Sewer	5,135,805	7,048,496				1,912,691	1,912,691
Storm sewer	1,454,896	1,234,991				(219,905)	(219,905)
Public transit	6,609,123	16,090	6,605,383			12,350	12,350
<b>Total Business-type Activities</b>	<b>27,038,017</b>	<b>22,153,008</b>	<b>7,276,079</b>			<b>2,391,070</b>	<b>2,391,070</b>
<b>Total</b>	<b>\$161,109,387</b>	<b>\$31,181,712</b>	<b>\$19,803,164</b>	<b>\$1,815,385</b>	<b>(110,700,196)</b>	<b>2,391,070</b>	<b>(108,309,126)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes					13,717,077		13,717,077
Sales taxes					5,434,627		5,434,627
Municipal Services					1,853,167		1,853,167
Business License					1,075,340		1,075,340
Park Maintenance					1,292,315		1,292,315
Construction					852,777		852,777
Open Space Protection					615,616		615,616
Franchise					849,649		849,649
Transient Occupancy					981,074		981,074
Transfer					270,800		270,800
Other taxes							
Motor vehicle in lieu					3,509,788		3,509,788
Investment earnings					852,878	116,518	969,396
Miscellaneous					927,013	71,981	998,994
Transfers, net					37,680	(37,680)	
<b>Total general revenues</b>					<b>32,269,801</b>	<b>150,819</b>	<b>32,420,620</b>
<b>Change in Net Assets</b>					<b>(78,430,395)</b>	<b>2,541,889</b>	<b>(75,888,506)</b>
<b>Beginning Net Assets</b>					<b>107,736,802</b>	<b>74,934,482</b>	<b>182,671,284</b>
<b>GASB Statement No. 34 Implementation Adjustment (Note 5B)</b>					<b>1,996,301,450</b>		<b>1,996,301,450</b>
<b>Ending Net Assets</b>					<b>\$2,025,607,857</b>	<b>\$77,476,371</b>	<b>\$2,103,084,228</b>

See accompanying notes to financial statements

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