

City of Petaluma

Petaluma, California

Comprehensive Annual Financial Report

For the year ended June 30, 2004

Prepared By:

The City of Petaluma Finance Department

Joseph D. Netter, Interim Finance Director
Cinde Rubaloff, Accounting Manager

City of Petaluma
Comprehensive Annual Financial Report
For the year ended June 30, 2004

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January 21, 2004

To the Honorable Mayor, Members of the City Council and Citizens of the City of Petaluma:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Petaluma for the fiscal year ended June 30, 2004. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby submit the comprehensive annual financial report (CAFR) of the City of Petaluma, California for the fiscal year ended June 30, 2004.

For the fiscal year ended June 30, 2004, the City of Petaluma continues to comply with the pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement No. 34. Statement 34 established a new financial reporting model for state and local governments incorporating government-wide financial statements, in addition to the customary fund statement presentation. Reconciliations of the fund financial statements to the Statement of Net Assets and Statement of Activities are provided in the financial section of this report.

This is the second fiscal year the new reporting model has been presented which provides financial report users a narrative introduction, overview, and analysis, to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A, and should be read in conjunction with it. The City of Petaluma's MD&A can be found in the financial section immediately following the reports of the independent auditors.

This report consists of management's representations concerning the finances of the City of Petaluma. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Petaluma has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Petaluma's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Petaluma's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Petaluma's financial statements have been audited by Caporicci & Larsen, Certified Public Accountants, an international public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Petaluma, for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Petaluma's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Petaluma was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

CITY OF PETALUMA PROFILE

The City of Petaluma, founded in 1852 and chartered in 1858, is located in southern Sonoma County, California, approximately 40 miles north of downtown San Francisco. Petaluma consists of 13.8 square miles and includes residential communities, commercial retail areas and several industrial/office complexes that are home to the Telecom industry. It is also home to 43 parks, 2 community centers, 3 recreational facilities and 40 ball fields.

The City operates under the Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of an elected Mayor and six members Council. The governing council is responsible for the City's ordinances, operating resolutions, adoption of the annual budget, appointing commissions and committees and hiring the City Manager, the City Clerk and the City Attorney. The City Manager is responsible for implementing the policies, ordinances and directives of the City Council, for overseeing the day-to-day operations of the City and for appointing the

Directors of the City departments. The Finance Director also serves as the Treasurer for the City. The Council is elected on a nonpartisan basis. The Mayor and Council members are elected to four-year staggered terms.

The City provides a full range of services including public safety, building safety regulation and inspection; community planning; infrastructure and public facility capital improvement construction; street and park maintenance; street lighting; recreational activities and cultural programs. The City also provides water and sewer services to its citizens. The full-time fire department also provides emergency medical services through an ambulance service that users are billed for. Educational services are provided by three school districts and a branch of the Santa Rosa Junior College is located in the City. The County provides library services while the City provides the building.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is best understood when considered from the broader perspective of the specific environment within which the City of Petaluma operates.

LOCAL ECONOMY. The micro economy of Petaluma is dependent on the macro economies of both the State of California and the Nation. Additionally, while much of the state is enjoying a rebound from the most recent recession, the San Francisco Bay Area is lagging behind, due to its heavy dependency on the “high technology” market. Even though there are recent signs of recovery, the initial investment of capital buildings and infrastructure during the “boom” years will not reach efficiency for many years at the current slow growth pace.

Sonoma County has experienced recessionary conditions for several years. Employment has taken a turn downward during that time with major lay-offs in the high-tech manufacturing industries. Wineries and vineyards also contributed to the weakness due to expanded global supply and downward pressure on prices. The City was significantly affected by the downturn in the “high-tech” environment. Sonoma County and Petaluma are home to numerous “telecom” industries, which were hit hard by the downturn in the economy. Local economic relief is becoming evident in the vineyards, with price stability that was preceded by several years of decline. Some stability is reflected in the tourism industry. The summer of 2004 provided some improvement in travel, as short-distance travel from nearby major metropolitan areas picked up.

For 2005, better news is ahead. Sonoma County business confidence continues to rise for the sixth consecutive quarter, hitting 6.19 on a 10-point scale (with 10 = excellent). Executives are predicting a further improvement to 6.48 by summer of 2005.

The strength of up-start telecom firms is reliant on business investment. Investment is improving nationwide, but little of it is being directed toward the telecom industry. Thus the turnaround in the telecom industry will lag other tech centers that focus more on consumer products and computing components.

Low interest rates have generated sufficient demand to offset any downward pressure in sales prices, due to weak income growth. However, prices are expected to remain flat during the next eighteen months, as the interest rates rise from historic lows.

Signs are emerging in the County that would warrant a cautious optimism for slow economic recovery. According to recent reports, Sonoma County is expected to experience:

- Improved employment outlook for the next six months. The majority of executives surveyed (57%) in the Sonoma County's Economic Development Board Winter 2004 Confidence Report believe the unemployment rate will decline and more executives plan to increase employment (28%) vs. decrease (16%).
- Sonoma County's unemployment rate has stayed below the California average because of a nonexpanding labor force. During the 4th quarter of 2004, the jobless rate has been falling, albeit slowly. Sonoma County's unemployment rate for December 2004 was 3.6% compared the state of California average of 6.2%. Petaluma's unemployment rate at the same period was 2.9%.
- Profit outlooks have improved, with 50% of respondents in the survey expecting higher profits for the next quarter.
- Industry Confidence in Sonoma County from Fall 2003 to Winter 2003 was as follows: (Index change by Industry)
 - Agriculture +1.2
 - Technology +1.7
 - Professional/Financial +0.3
 - Retail/Distribution +0.3
 - Manufacturing +3.4
 - Real Estate 0.0
 - Other +0.75
- Recoveries are noted in health services, hospitality, real estate and construction industries. Health care is on the rise due to the aging population and increased availability of medical facilities in the County.
- The hospitality industry has been depressed since the tragic 9-11 incident but continues to build confidence with greater consumer discretionary income being spent on travel plans.

Petaluma is attacking the downturn in the telecom industry by vigorously pursuing retail growth. Based on a "sales tax leakage" study, over \$2 million in sales tax revenue is lost annually by residents of the City shopping elsewhere. The City is aggressive in economic development activity. Recently a major department store development (Kohl's) was completed on the north side of the city. With this anchor store, it is projected several other regional and national retail stores will locate in the surrounding development. Additionally, expansion to the Factory Outlet Mall is under discussion along with possible expansion of the Petaluma Auto mall with additional auto dealerships. Finally, the City approved a \$75 million development agreement to build a 12-screen theatre downtown, as well as develop additional retail and residential space in the area. This project is currently under

construction and is scheduled to open in spring of 2005. Additional retail/residential developments are planned for the south side of the City along with a major development under consideration at the Kenilworth Jr. High School site.

While the City remains heavily reliant on sales tax revenues from the sale of new and used vehicles (34% of total sales tax), a renewed emphasis on diversification of this resource is taking place. With the increase in the tourism industry, the City should realize additional transient occupancy taxes that will provide funds for the General Fund. Finally, while housing prices are stabilizing in the County, Petaluma's housing values continue to rise, due to the high demand and low supply, which exists in the City.

While the City's micro economy is improving, the possibility of losing a major source of General Fund revenue remains. Proposition 1A was approved by the voters in November 2004 which protects local government revenues unless extreme emergencies exist.

However, included in the legislation was the State Vehicle License Fee (VLF) Swap, which reduced VLF fees and is replaced with additional property tax. The net result is expected to be a 33% reduction in net revenues to the City. Since vehicle license tax represents 9.7 percent of the General Fund budget, this loss will be significant. In addition, the state instituted the "triple flip" formula, which takes City sales tax and replaces with property tax. Unfortunately, property tax is generally paid twice per year where sales taxes are paid monthly. This will impact cash flow issues and loss of interest income. Because of these revenues challenges and unknowns, management is considering a bridge loan program to finance VLF losses until repaid by the state in 2006.

MAJOR INITIATIVES FOR THE YEAR

The City has completed several projects in fiscal year 2004, and has several major projects scheduled to start in fiscal year 2005. Additionally, the City has approved the Central Petaluma Specific Plan, which provides the blueprint for the revitalization of the downtown area. In fiscal year 2004, the City completed the following projects:

- The Computer Aided Dispatch/Records Management project (CAD/RMS) was implemented in the Police Department. This project links all law enforcement agencies in Sonoma County with each other and provides for the rapid sharing of information.
- The complete financial systems were converted to Pentamation municipal accounting systems which included general ledger, payroll, revenue management, business license, animal license, accounts payable and project management. Utility Billing will be implemented in FY 04-05.
- Petaluma River Access Plan was designed and construction started on Water Street on the underground utilities and infrastructure. In addition, expanded pedestrian paths are being added to access the turning basin at Washington Street.
- Keller Street Garage completion with a new security guard program and higher level of maintenance with participation of the Downtown merchants.

- Completion of the Petaluma Central Business District Streetscape master plan including Washington Street to “B” Street and from Petaluma Boulevard to Howard Street. The construction project was awarded for \$2.2 million dollars and is currently underway.
- Completed the recycled water pipeline from the City’s treatment plant to Rooster Run Golf Course. This provides treated wastewater for irrigation of the City’s golf course.
- Unreinforced Masonry Program was initiated that reimbursed property owners in the downtown area to upgrade their buildings to new earthquake standards. Approximately \$100,000 was reimbursed in FY 03-04.
- The Theatre District project was approved that included an Owner Participation Agreement (OPA) and Development Agreement (DA). This project is currently under construction which includes a 12 screen movie theatre, a 530-space parking structure, a mixed-use retail/residential Theatre Square, an office building on the Petaluma River and a mixed use residential project on 1st street.
- Petaluma Railroad Depot – lease executed with Northwest Pacific Railroad, Northcoast Rail Authority and other agencies for a long-term lease (25 years) of the 8200 square foot building. The City currently renovated the exterior and Interior of the facility. The facility will be used for City and other agency events/offices.
- Water Street Improvements – Final undergrounding utility and landscape design was completed and the project was awarded. Construction is currently underway which will include replacement of the storm drain, sewer lines, water lines, electrical utilities, and lighting conduits.
- Caulfield Extension – An application was submitted to the California Public Utilities Commission (CPUC) to trade the rail crossing at Hopper for a new rail crossing at Caulfield. This trade would make Lakeville Street safer and allow for the southern crossing of the Petaluma River as provided in the Central Petaluma Specific Plan.
- Wayfinding Signage – A task force was created to develop and recommend a signage program that would assist tourist and residents to find major interest spots in the downtown and other areas of the city. The recommendation has been completed and the project will be bid in the summer of 2005.
- Petaluma River Flood Management Project continues to be a priority. In FY 03-04 the City was successful in receiving an additional Federal appropriation of \$7.3 million dollars.
- The Petaluma Community Development Commission (PCDC) and the City of Petaluma issued \$23.63 million dollars of Tax Allocation Bonds (TAB’s) for redevelopment projects in the downtown and surrounding areas.
- The City completed an Economic Sustainable Retail Strategy and Leakage Study. The study provided focus and recommendation to the City of Petaluma on strategies for economic development taking into consideration a regional approach.
- Brownfields Grant - The City was successful in receiving a \$200,000 Brownfield grant to assist in identifying toxic petrochemical sites throughout the City.
- The 2003-04 Housing Element Progress Report was completed and submitted to HCD.

- Downtown River Apartments is currently under construction with occupancy scheduled for March 2005.
- The major arterials of Petaluma's streets and roads systems are being reconstructed or resurfaced. This is a high priority for the City Council with over \$10 million dollars expended in FY 03-04 alone. This program will continue in FY 04-05.

Capital projects planned for fiscal year 2005 include:

DESIGN AND DEVELOPMENT OF THE KENILWORTH J.H. SITE

- Work with the Petaluma Schools and potential developers to redevelop the site for retail and commercial. Relocate swim center and Skate Park to allow for access.

STREET RECONSTRUCTION

- Continue reconstruction of the major streets in the City to increase the overall quality of City streets and reduce maintenance costs.

RAILROAD DEPOT RENOVATION

- Continue the renovations of the existing historic railroad depot and railroad offices will revitalize a major section of the City's downtown. The renovation will provide offices and community meeting rooms while revitalizing a prominent gateway to the City's downtown.

RIVER ACCESS PROJECT

- Complete the construction of the Petaluma River Access Enhancement plan will provide pedestrian and bike paths along the Petaluma River in the downtown area. This pathway will eventually extend north from downtown to connect to the existing pathways in other parts of the City.

DOWNTOWN IMPROVEMENTS

- Complete the downtown improvement project that will result in improved streets, street lighting and pedestrian appurtenants in the central core of downtown.

WATER TREATMENT PLANT

- Complete design of the new wastewater treatment plant in FY 2005. Acquisition of the site is expected in FY 2004-05 while the project is still on track for completion in FY 2007.

BOND FINANCING PROJECTS

- Consider the Redevelopment Agency issuing additional new debt to continue the redevelopment of the downtown core of the city.
- Consider a new assessment district in the downtown to augment with private dollars the improvements in the downtown area.

COMMUNITY FACILITIES PROJECTS

- Library Renovations
- Relocation of Fire Station #1
- Fire Station #2 and #3 remodeling

PUBLIC TRANSPORTATION PROJECTS

- D Street Bridge improvements
- Washington Street Bike trails
- Cross-town connector design and engineering
- Citywide Bridge rehabilitation project
- East Washington Street rehabilitation

PARKS AND RECREATION PROJECTS

- Finish design and construction of Gatti Park
- Petaluma Senior Center Project
- Shollenberger Park Improvements
- Boys and Girls Club Pool Project
- Relocate the Swim Center and Skate Park

OTHER ACTIVITIES

- The new 20 year General Plan will be completed to replace the existing plan. This has been a four-year process that will provide the blueprint for the development of the City for the future.
- The City will update the existing vehicle and equipment replacement plan to better identify equipment requirements and identify methods to finance the required acquisitions.

FINANCIAL INFORMATION

ANNUAL BUDGET. The City of Petaluma operates on a fiscal year basis, beginning July 1st and ending June 30th. The budget is prepared under the supervision of the City Manager and transmitted to the City Council for deliberation and adoption in June, prior to the beginning of the fiscal year.

In accordance with the City's Charter, the budget is required to be submitted to the City Council by the first Monday in May. Budget hearings are held in May and June. The budget is approved by resolution, and the appropriations are set by ordinance. Upon adoption by the City Council, the City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The City's budgetary procedures are further discussed in the Notes to the Basic Financial Statements, which are located in the financial section of this report.

CASH MANAGEMENT, POLICIES AND PRACTICES. The City adopts an annual Investment Policy intended to provide specific criteria for the prudent investment of City funds. This Policy is in conformance with all Federal, State and local laws governing the investment of City monies. Cash temporarily idle during the year was invested in various securities, as permitted in the City's Investment Policy and state laws governing the deposit of public funds. The City's 2004 Investment Policy was adopted by the City Council in January 2004.

The City ended the year with cash and investments of \$94.5 million of which \$53.7 million is directly managed by the City Treasurer. Fiscal agents at the direction of the City Treasurer manage Bond proceeds of \$40.8 million. Total accrued earnings were \$1,416,346. The estimated average interest rate as of June 30, 2004 was 1.70% compared to 1.29% for U.S. Treasury 91 day yields, and 0.84% at June 30, 2003.

DEBT ADMINISTRATION. As of June 30, 2004, the City of Petaluma and its component units have a number of debt issues outstanding. In fiscal year 2004 the City issued additional debt as follows: \$23.63 Million dollars for the Petaluma Community Development Commission in the form of Tax Allocation Bonds (Series 2003A). In addition, a Certificate of Participation (COP) refunding issue was completed in the amount of \$6.295 Million, which refunded an earlier issue plus supported additional fund for an airport expansion project. The City has no outstanding tax-supported general obligation debt. The total outstanding debt is shown in detail in the Notes to the Basic Financial Statements presented within the financial section of this report.

RISK MANAGEMENT. The City uses a combination of insured and self-insured programs to finance its property and casualty risk. The City is self-insured for workers' compensation (up to \$275,000), automotive (up to \$25,000), and general liability risks (up to \$500,000). Resources accumulate in the City's Risk Management Fund and the Workers' Compensation Fund to meet potential losses. Excess liability and workers' compensation coverage is provided through a risk-sharing pool, the California Joint Powers Risk Management Authority (CJPRMA). Additional risk management information is presented in the Notes to the Basic Financial Statements.

OTHER. Additional information concerning the finances of the City is contained in the Notes to the Basic Financial Statements. The City has refrained from duplicating information contained in the Management Discussion and Analysis (MD&A) or in the notes.

AWARDS AND ACKNOWLEDGEMENTS

AWARDS. The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City for the June 30, 2003 CAFR. This was the ninth year in a row that the City received an award from the GFOA. In 2002 the City did receive the California Society of Municipal Finance Officers (CSMFO) award – Certificate of Achievement for Excellence in Financial Reporting for fiscal year ended June 30, 2002. Management decided not to submit for the California award, as timing did not permit because of a computer conversion priority project.

For the GFOA 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. We believe that our current CAFR, which implements GASB Statement No. 34, continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its' eligibility for a certificate.

ACKNOWLEDGEMENTS. This report could not have been prepared without the effort of Cinde Rubaloff, Accounting Manager who spent untold hours preparing the financial statements, notes, statistical information and other details to comply with all the necessary requirements and pronouncements. I would like to express my appreciation to all members of the department that assisted and contributed to the preparation of this report, particularly the team of Chris Jones and Cindy Juandy. I would also like to thank the Mayor, City Council and the City Manager for their confidence and support for maintaining the highest standards of professionalism in the management of the City of Petaluma's finances.

Respectfully submitted,



Michael A. Bierman
City Manager



Joseph D. Netter
Interim Finance Director/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Petaluma,
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. Zielke

President

Jeffrey R. Emer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

City of Petaluma

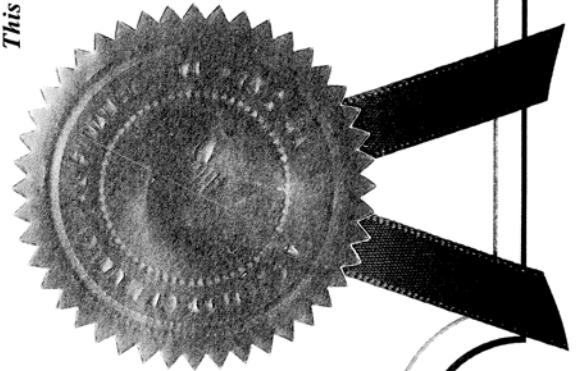
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

March 1, 2004

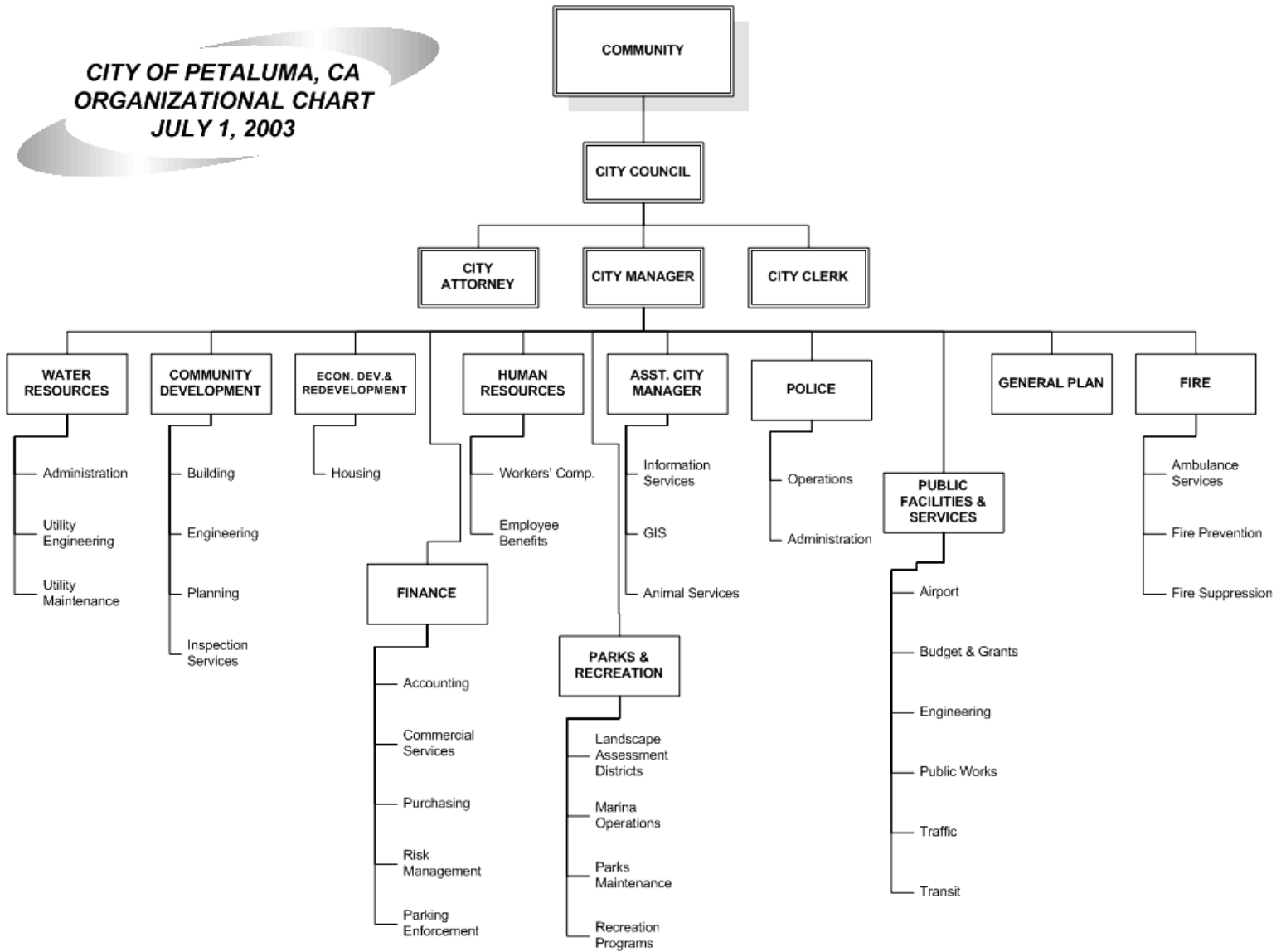
Bret M. Chumlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



**CITY OF PETALUMA, CA
ORGANIZATIONAL CHART
JULY 1, 2003**



CITY OF PETALUMA OFFICIALS



DAVID GLASS
Mayor



MIKE O'BRIEN
Vice-Mayor



KEITH CANAVERO
Councilmember



MICHAEL HARRIS
Councilmember



MICHAEL HEALY
Councilmember



BRYANT MOYNIHAN
Councilmember



PAMELA TORLIATT
Councilmember

CITY MANAGER
Michael A. Bierman

INTERIM FINANCE DIRECTOR/TREASURER
Joseph D. Netter

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Petaluma
Petaluma, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Petaluma, California (City), 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents are 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.

Oakland

180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County

3184-D Airway Avenue
Costa Mesa, California 92626

Sacramento

777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego

4858 Mercury, Suite 105
San Diego, California 92111

To the Honorable Mayor and Members of the City Council
of the City of Petaluma
Petaluma, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

Capricci & Carson

Oakland, California
December 8, 2004

CITY OF PETALUMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

As management of the City of Petaluma, California (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 ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the City's basic financial statements, which follow this section.

The Comprehensive Annual Financial Report (CAFR) is presented in four sections:

- An *Introductory Section* which includes the Transmittal Letter and general information;
- The *Financial Section* which includes:
 - Auditor's Report,
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Required Supplementary Information; and
 - Combined Financial Statements and Schedules
- *Statistical information*; and
- *Compliance Information*

FINANCIAL HIGHLIGHTS

- The net assets of the City exceeded its liabilities at June 30, 2004 by \$219.883 million (*net assets*). Of this amount, \$22.6 million (*unrestricted net worth*) may be used to meet the government's ongoing obligations to citizens and creditors, but is subject to designation for specific City programs.
- The City's total net assets increased by \$15.43 million to \$219.883 million during the fiscal year ended June 30, 2004. Net assets for fiscal year 2003 were restated. This was an increase of 7.8 percent. Of this total, \$139.24 million were Governmental net assets and \$80.645 million were Business-type net assets.
- Revenues for the City's Governmental Activities increased to \$57.47 million or 9.7 percent over prior fiscal year. Expenditures increased to \$51.57 million or 15.4 percent over prior fiscal year.
- Revenues for the City's Business-type Activities increased to \$30.31 million or 21.8 percent over prior fiscal year, while expenses increased to \$20.78 million or 6.2 percent over prior fiscal year (as restated).
- The City's General Fund reported a deficit of (\$0.175 million) for the year ending June 30, 2004, decreasing the general fund balance to \$6.143 million representing a decrease of 2.78 percent over the prior fiscal year.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$.758 million or 2.37 percent of total General Fund Expenditures.
- The resources available for appropriation were \$0.559 million less than budgeted for the General Fund (1.4 percent). The expenditures for the fund were \$1.2 million less than budgeted (3.6 percent).

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The financial section of this report consists of five parts – the Independent Auditor’s Report, management’s discussion and analysis (this portion), the basic financial statements, required supplementary information, and other supplemental information.

This discussion and analysis section is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business. It provides both long-term and short-term information about the City’s overall financial status.

The *statement of net assets* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

These two statements report the City’s net assets and changes in them. These statements divide the City into two kinds of activities:

- *Governmental activities* – Most of the City’s basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, sales taxes, franchise fees and intergovernmental revenues finance a significant portion of the cost of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City’s water and waste water (sewer) systems, the airport, and ambulance services are the major activities.

The government-wide financial statements include the City itself (known as the *primary government*) but also two legally separate entities, the *City of Petaluma Public Financing Corporation*, and the *Petaluma Public Financing Authority*. The City is financially accountable for these entities and financial information for these blended component units is reported within the financial information presented for the primary government itself. Financial information for another *blended component unit*, the *City of Petaluma Community Development Commission (PCDC)*, is also included with the activities of the primary government.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements focus on individual parts of the City government and 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 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 combined in a single column on each fund statement. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

GOVERNMENTAL FUNDS. Most of the City's basic services are reported in governmental funds, which focus on how resources flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities*. In the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains various individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet, and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the *General Fund*, *Low & Moderate Income Housing Fund*, *Housing In-Lieu Fund*, *Traffic Mitigation Impact Fee Fund*, *Petaluma Community Development Commission (PCDC) – Central Business District (CBD) Capital Project Fund*, and the *PCDC – Petaluma Community Development (PCD) Capital Project Fund*, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its major funds. The basic financial statements include budgetary comparison statements for the General Fund and those funds referred to in the previous paragraph to demonstrate compliance with the annual budget. Budgetary comparison statements have been provided for all of the funds in the combining section of this report.

PROPRIETARY FUNDS. Offer short and long-term financial information about the activities the City operates like businesses. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, wastewater, airport, ambulance, transportation and marina activities. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions including public liability, workers' compensation, vehicle and equipment replacement, information technology, employee benefits and general services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Airport, and Marina, which are considered to be major funds of the City. Data from other enterprise funds is combined into a single aggregated presentation. The internal service funds, none of which can be considered Major Funds because their revenues are derived from other City Funds are presented in a single aggregated column in the proprietary fund financial statements. Individual fund data for the Non-major enterprise and internal service funds are provided in the Supplemental section of this document.

FIDUCIARY FUNDS. *Fiduciary funds* provide information about the financial relationships and accounts for resources in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The basic fiduciary fund financial statements can be found immediately following the basic proprietary fund financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the basic fiduciary fund financial statements.

SUPPLEMENTAL INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required *supplementary information* that follows the notes to the basic financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds, enterprise funds and internal service funds are presented for all nonmajor Special Revenue Funds, nonmajor Capital Projects Funds, all nonmajor Debt Service Funds, all nonmajor Enterprise Funds and all Internal Service Funds. These combining and individual fund statements and schedules can be found immediately following the required supplementary information.

This report also contains *statistical information* that may be useful to readers of this report. This information can be found in the last section of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

In accordance with GASB Statement No. 34, the city is not required to restate financial information from prior periods for the purpose of providing comparative information for this analysis. In future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

The largest portion of the City's net assets (50.0 percent) reflects its investment in capital assets (e.g., land, building, improvements other than buildings, equipment, infrastructure, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets (as restated) of the City increased 7.5 percent to \$219.88 million, of which \$109.8 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$87.4 million is restricted to specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining is unrestricted and/or unreserved. It is this part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Summary of Net Assets			
As of June 30, 2004			
(in thousands)			
	Governmental Activities	Business-type Activities	Total Primary Government
Assets:			
Capital assets	\$ 96,174	\$ 91,333	\$ 187,507
Current and other assets	101,758	21,678	123,436
Total assets	197,932	113,011	310,943
Liabilities:			
Long-term liabilities	51,845	27,898	79,743
Other Liabilities	6,850	4,466	11,316
Total liabilities	58,695	32,364	91,059
Net Assets:			
Invested in capital assets, net of related debt	47,066	62,769	109,835
Restricted	77,164	10,283	87,447
Unrestricted	15,008	7,593	22,601
Total net assets	\$ 139,238	\$ 80,645	\$ 219,883

The net assets of governmental activities increased by 6.0 percent (\$139.24 million from \$131.30 million in FY 2003, as restated). The net assets of our business-type activities increased by 10.2 percent (\$80.65 million from to \$73.14 million, as restated) in 2004. The major portion of the increase (\$6.9 million) was the results of the Wastewater Utility Fund. This increase cannot be used to make up for the operations associated with our governmental activities. The City restricts the use of these net assets to finance the continuing operations of the wastewater operations.

The summary of changes in net assets is presented below. It provides summary information that provides how the net assets increased and/or decreased for the citywide operations, with a breakdown between governmental activities and business-type activities.

Summary of Changes in Net Assets					
For the Year Ended June 30, 2004					
(In thousands)					
	Governmental Activities	Business-type Activities	Total Primary Government	Total Primary Government June 30, 2003	Percentage Change
Revenues:					
Program Revenues					
Charges for service	\$ 7,915	\$ 26,556	\$ 34,471	\$ 28,459	21.13%
Operating grants and contributions	7,658	4,446	12,104	4,384	176.09%
Capital grants and contributions	469	-	469	6,684	-92.98%
Total program revenue	16,042	31,002	47,044	39,527	19.02%
General Revenues:					
Taxes:					
Property	5,306	-	5,306	5,182	2.39%
Redevelopment Increment	11,909	-	11,909	11,088	7.40%
Sales	10,030	-	10,030	10,265	-2.29%
Other	6,147	-	6,147	9,711	-36.70%
Transient occupancy	-	-	-	-	
Franchise	1,814	-	1,814	-	
Property transfer	1,407	-	1,407	-	
Business license	-	-	-	-	
Motor vehicle in-lieu	2,558	-	2,558	-	
Other	47	-	47	-	
Investment income	1,273	247	1,520	1,511	0.60%
Intergovernmental	-	-	-	-	
Transfers	941	(941)	-	-	
Total General Revenues	41,432	(694)	40,738	37,757	7.89%
Total Revenues	57,474	30,308	87,782	77,284	13.58%
Expenses:					
Governmental Activities					
General government	3,592	-	3,592	9,693	-62.94%
Community development	15,568	-	15,568	6,593	136.13%
Police	12,369	-	12,369	12,030	2.82%
Fire	5,738	-	5,738	6,529	-12.12%
Parks and recreation	4,446	-	4,446	4,206	5.71%
Public works	4,987	-	4,987	4,241	17.59%
Interest on long-term debt	2,837	-	2,837	1,390	104.10%
Business-type Activities					
Airport	-	1,624	1,624	1,156	40.48%
Ambulance	-	1,965	1,965	1,185	65.82%
Marina	-	543	543	594	-8.59%
Public Transportation	-	1,340	1,340	1,138	17.75%
Waste Water	-	7,525	7,525	7,057	6.63%
Water Utility	-	9,814	9,814	8,444	16.22%
Total Expenses	49,537	22,811	72,348	64,256	12.59%
Excess of Revenues over Expenses	7,937	7,497	15,434	13,028	18.47%
Increase in Net Assets					
Net Assets 6/30/2003	131,301	73,148	204,449		
Net Assets 6/30/2004	139,238	80,645	219,883		
Change in Net Assets	\$ 7,937	\$ 7,497	\$ 15,434		

The City's total Primary Government Revenues increased by 13.58 percent to \$87.78 million over prior fiscal year 2003. The primary reasons for the increase were in the areas of charges for services (21.12%), operating grants/contributions (176.1%), property taxes (2.4%), and redevelopment increment (7.4%). The total Primary Government Expenses increased by 12.6 percent to \$72.3 million. The primary reason for this increase was due to increased costs in Community Development (136%), Police (2.8%), Parks and Recreation (5.7%), Public Works (17.5%), Interest on Long Term Debt (104.1%).

For the Business-type activities, the major increases over prior fiscal year 2003 were as follows: Airport (40%), Ambulance (65.8%), Public Transportation (17.7%), Wastewater (6.6%) and Water Utility (16.2%).

Following is a brief review of various factors that impacted city revenues and expenditures for the fiscal year ending on June 30, 2004:

- The largest general revenue (governmental activities), sales tax, accounted for 24.2 percent of total general revenues in the General Fund.
- Redevelopment Increment increased by 7.4% over prior year which accounted for 28.7 percent of total Governmental Activity Revenues.

- Program revenues for capital grants and contributions decreased in the governmental activities due to the absence of the non-recurring grant of \$3 million from the Army Corps of Engineers, for reimbursement of expenses associated with the flood control project. This money was received in FY 2003.
- Overall expenditures (governmental activities) increased by \$4.8 million in fiscal year 2004. This was primarily due to an increase in the enterprise fund operations and the increase in Community Development Department. For the General Government, the City reclassified the redevelopment operations to the Community Development Department resulting in a decrease in General Government and an increase in Community Development.
- Interest expense on long term debt increased by \$1.4 million due to the addition of new Petaluma Community Development project debt.
- Unallocated capital outlay increase of \$1.12 million was for major street reconstruction.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The City uses fund accounting to segregate accounts for specific activities or objectives, including demonstrating finance-related legal compliance.

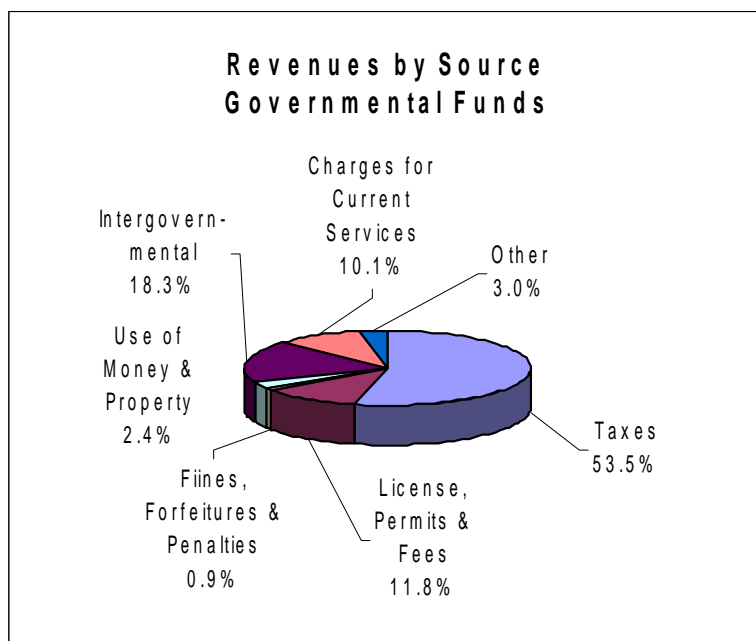
GOVERNMENTAL FUNDS. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources that are available to provide services and capital project construction. In particular, unreserved fund balance may serve as a useful measure of a government's net spendable resources.

As of the end of the current fiscal year, the City's governmental funds reported total combined ending fund balances of \$79.03 million, an increase of \$12.3 million in comparison with the prior year. Approximately 13.5 percent of this total amount constitutes unreserved/undesignated fund balance, which is available for spending at the government's discretion. The remainder of the fund balance, \$68.3 million is reserved/designated to indicate that it is not available for new spending, because it has already been committed for various purposes as shown below.

		Governmental Funds	
		For the Year Ended June 30, 2004	
		(In Thousands)	
Reserved for:			
	Encumbrances	\$	11,149
	Notes receivables		22,524
	Land held for resale		402
	Long-term advances		10,688
	Debt service		23,173
	Inventories		13
	Deposits and prepaids		395
	Total Reserved		<u>68,344</u>
	Designated for Specific Projects		-
	Unreserved Fund Balances		<u>10,685</u>
	Total Fund Balances	\$	<u>79,029</u>

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source						
Governmental Funds						
(in millions of dollars)						
Revenue by Source	FY 2003		FY 2004		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Taxes	\$ 30.81	56.3%	\$ 32.06	53.5%	\$ 1.25	4.1%
License, Permits & Fees	3.78	6.9%	7.07	11.8%	3.29	87.0%
Fines, Forfeitures & Penalties	0.58	1.1%	0.53	0.9%	(0.05)	-8.6%
Use of Money & Property	2.56	4.7%	1.43	2.4%	(1.13)	-44.1%
Intergovernmental	11.45	20.9%	10.95	18.3%	(0.50)	-4.4%
Charges for Current Services	5.22	9.5%	6.05	10.1%	0.83	15.9%
Other	0.32	0.6%	1.80	3.0%	1.48	462.5%
Totals	<u>\$ 54.72</u>	<u>100.0%</u>	<u>\$ 59.89</u>	<u>100.0%</u>	<u>\$ 5.17</u>	<u>9.4%</u>

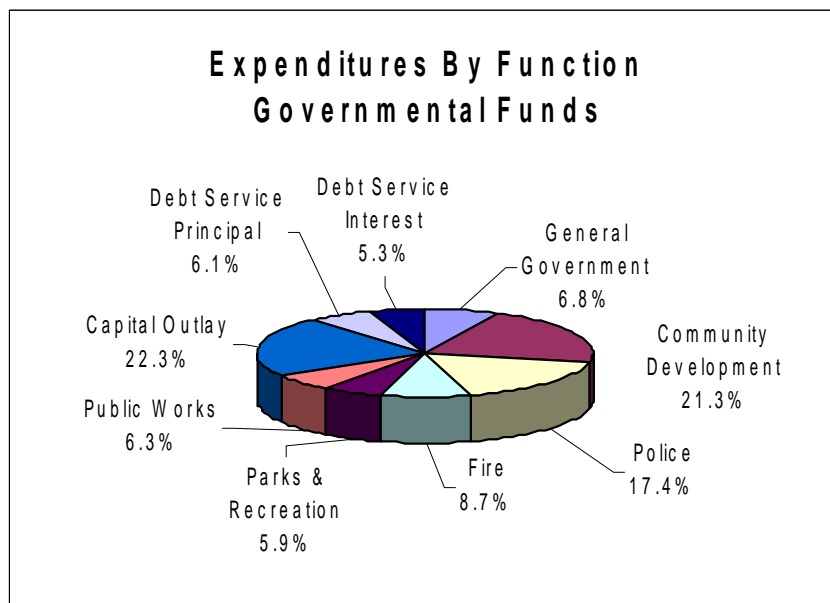


The following provides an explanation of revenues by source that changed significantly from prior years.

- Taxes increased by \$1.25 million from \$30.81 million to \$32.06 million during the year (4.0% increase). This increase is primarily due to property tax increase, 3.4%; redevelopment tax increment increase, 7.4%; and low to moderate income housing revenue increase, 7.5%.
- Use of money and property (interest income) declined by 44% mainly due to reporting rules under GASB 31 whereby unrealized losses on investments are recognized in FY 2004.
- Intergovernmental revenue decreased due to the following:
 - \$0.8 million decrease in State motor vehicle fees due to the State exactions
 - County grants increased by \$89,000
 - Public Safety Augmentation Fund increase by \$40,000

The following table presents expenditures by function compared to prior year amounts.

Expenditures Classified by Source						
Governmental Funds						
(in millions of dollars)						
Expenditures by Function	FY 2003		FY 2004		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Current:						
General Government	\$ 9.35	17.5%	\$ 4.80	6.8%	\$ (4.55)	-48.7%
Community Development	7.05	13.2%	15.03	21.3%	7.98	113.2%
Police	11.85	22.2%	12.23	17.4%	0.38	3.2%
Fire	5.69	10.7%	6.16	8.7%	0.47	8.3%
Parks & Recreation	3.78	7.1%	4.15	5.9%	0.37	9.8%
Public Works	3.79	7.1%	4.41	6.3%	0.62	16.4%
Capital Outlay	8.26	15.5%	15.68	22.3%	7.42	89.8%
Debt Service:						
Principal	1.66	3.1%	4.31	6.1%	2.65	159.6%
Interest	1.86	3.5%	3.70	5.3%	1.84	98.9%
Totals	\$ 53.29	100.0%	\$ 70.47	100.0%	\$ 17.18	32.2%



The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- General Government – decrease by \$4.55 million
 - Petaluma Community Development Commission program expenses were classified as Community Development rather than as General Government as in the prior fiscal year - decrease \$4.9 million
 - General Fund operating departments increased to \$4.7 million, 9.8 percent, over FY 2003
 - Non-major governmental funds increased to \$0.102 million, 55.2 percent over FY 2003
- Community Development – increased by \$7.9 million
 - In FY 2004, Petaluma Community Development Commission program expenses were classified in Community Development – increase \$4.9 million
 - Low to Moderate Income Housing programs decreased by \$1.2 million
 - Home/Begin Federal Home program increased by \$4.1 million
 - Direct Community Development expenses increased by \$0.1 million
- Police – increased by \$0.38 million due to salary and retirement cost increases.
- Fire – increased by \$0.47 million due to staffing and retirement increases
- Parks & Recreation – increased by \$0.38 million due to cost increases at the Community Center aquatics programs, youth programs, senior programs and other.

- Public Works – increased by \$0.62 million due to an increase in engineering services, increased maintenance costs on buildings and equipment, and increased personnel costs.
- Capital Outlay – increased by \$7.42 million mainly due to the major streets and roads reconstruction projects completed in FY 2004.
- Debt Service (Principal and Interest) – increased by \$1.81 million to account for greater debt service payments on existing and new debt initiated in FY 2004.

GENERAL FUND FINANCIAL HIGHLIGHTS

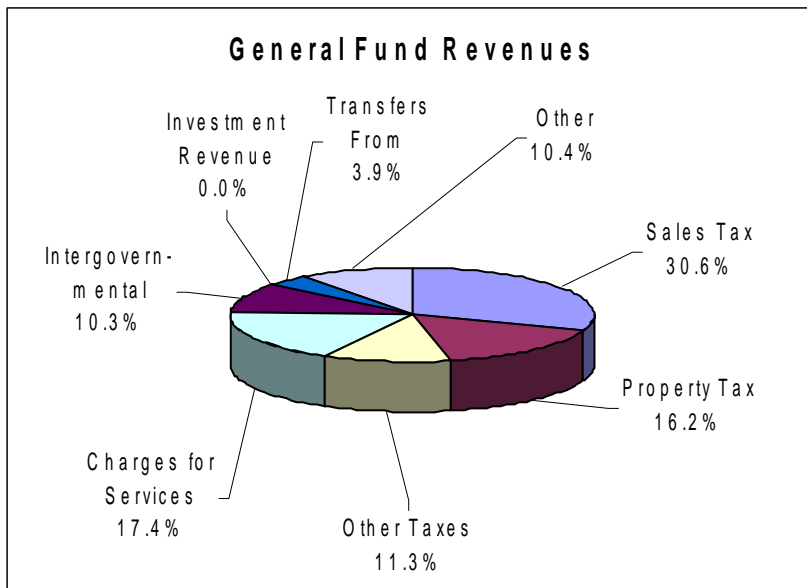
The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$.76 million while the total fund balance was \$6.14 million. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund-balance represents 2.5 percent of the total General Fund expenditures. When the \$3.7 million that is reserved for long term advances is added to this figure, the percentage increases to 14.3 percent of the total General Fund expenditures. Overall General Fund reserved fund balance increased by 4.6 percent (\$5.375 million from \$3.675 million during FY 2004). The General Fund unreserved fund balance decreased by 69 percent (\$.768 million from \$2.528 million). Overall, the General Fund fund balance decreased by 3.26 percent ending the year with \$6.143 million.

For the fiscal year ended June 30, 2004, the cash and investments balance in the General Fund was \$1.058 million, a decrease of \$2.43 million from the prior fiscal year. Overall assets decreased to \$8.292 million from \$8.431 million in fiscal year 2003.

General Fund						
Statement of Revenues, Expenditures and Changes in Fund Balance						
For the Year Ended June 30, 2004 Compared to Year Ended June 30, 2003						
(In Thousands)						
	FY 2003	% of Total	FY 2004	% of Total	Increase/(Decrease) Amount	Percentage
Revenues:						
Taxes:						
Sales	\$ 10,265	30.9%	\$ 10,030	30.6%	\$ (235)	-2.3%
Property	5,134	15.4%	5,306	16.2%	172	3.4%
Other Taxes	3,313	10.0%	3,691	11.3%	378	11.4%
Total Taxes	18,712		19,027		315	1.7%
Charges for Services	4,897	14.7%	5,709	17.4%	812	16.6%
Intergovernmental	4,300	12.9%	3,383	10.3%	(917)	-21.3%
Investment Revenue	494	1.5%	(38)	-0.1%	(532)	-107.7%
Transfers From	2,254	6.8%	1,277	3.9%	(977)	-43.3%
Other	2,576	7.8%	3,394	10.4%	818	31.8%
Total Revenue	33,233	100.0%	32,752	100.0%	(481)	-1.4%
Expenditures:						
General Government	4,304	13.1%	4,725	14.3%	421	9.8%
Public Safety	17,541	53.2%	18,003	54.7%	462	2.6%
Public Works	3,379	10.3%	3,059	9.3%	(320)	-9.5%
Community Development	2,038	6.2%	2,218	6.7%	180	8.8%
Parks and Recreation	3,470	10.5%	3,750	11.4%	280	8.1%
Transfers To	1,583	4.8%	1,017	3.1%	(566)	-35.8%
Capital Outlay	630	1.9%	156	0.5%	(474)	-75.2%
Total Expenditures	32,945	100.0%	32,928	100.0%	(17)	-0.1%
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	288		(176)			
Net Increase in Fund Balance	\$ 288		\$ (176)			

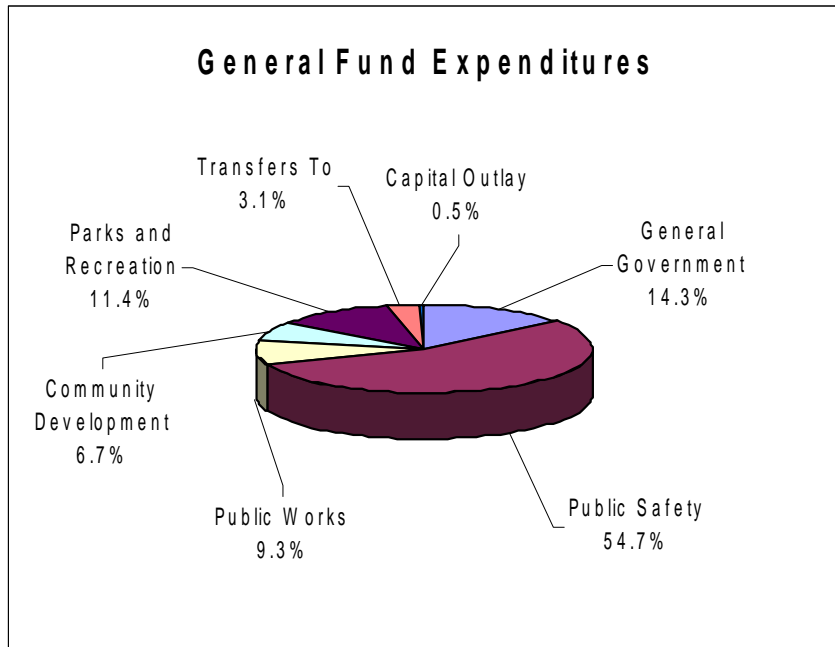
Overall, the general fund revenues (including transfers in) decreased slightly to \$32.75 million from \$33.23 million, which represents a 1.4 percent decrease. Individual components of these changes are summarized as follows:

- Property taxes increased to \$5.306 million (3.4 percent) reflecting the continued strong real estate market in the City. This was also evident in the increase of property transfer taxes to \$1.407 million, which represented a 32.5 percent increase over the prior year.
- Sales taxes decreased to \$10.03 million, (-2.3 percent) reflecting a slight decrease in retail sales, especially in auto sales.
- Licenses and permits increased to \$2.52 million, (36.3 percent) reflecting the increase in service charges that were implemented in fiscal year 2003 and carried throughout fiscal year 2004.
- Intergovernmental revenues decreased to \$3.83 million, (-21.3 percent). The decline was the result of the decrease in the vehicle in-lieu payments that the State suspended in late fiscal 2003.
- Charges for services also increased to \$5.71 million (16.6 percent) due to the increase in service charges that were implemented in fiscal 2003 and carried forward throughout fiscal year 2004.
- In the other taxes section, Business License taxes decreased \$0.065 million (-9.2%); while Franchise Fees for Refuse and PG&E decreased \$0.85 million (-.82%).



Changes in general fund expenditure, by function, occurred, as follows during the year ended June 30, 2004.

- General government expenditures increased by \$421,000 (9.8 percent) to \$4.725 million. The main increase was capital costs for the new computer system “Pentamation” in the Finance Department increase of \$490,000 over prior fiscal year. In addition, the City Clerk Department increased by \$48,000 for election costs increase over prior fiscal year.
- Community development expenditures increased by \$180,000 (8.8 percent) to \$2.2 million due to increased staffing levels and cost of living increases.
- Public safety expenditures increased by \$462,000 (2.6 percent) to \$18.0 million due to the full implementation of the enhanced retirement system, which increased retirement costs by 10.3 percent.
- Parks and recreation expenditures increased by \$280,000 (8.1 percent) to \$3.750 million due to increased staffing levels and cost of living increases.
- Public works expenditures decreased by \$320,000, (9.5 percent), to \$3.1 million as a result of vacancies in that department and a decrease in department capital expenditures.



GENERAL FUND BUDGETARY HIGHLIGHTS

The table below displays the General Fund's original budget, final budget and actual results for fiscal year 2004 revenue, expenditures and transfers. While revenues were slightly below projections, expenditures came in well under budget. See the [Economic Factors and Future Budget Outlook](#) section for a discussion on projections for fiscal year 2005.

Differences between the original and final revenue budget did not change. There were various uncertainties in FY 04 including the unknowns about the State and its decision on reduction of the State Motor Vehicle fees. Management decided to let the original budget stand for its General Fund.

Differences between the original and final expenditures budget amounted to a decrease of \$140,150. This was represented by an increase of \$200,000 in the Community Development Department for additional staffing and a decrease of \$340,150 in Transfers Out to other funds. Transfers out were reduced at mid year to eliminate a reserve account considered for establishment for retirement benefits.

General Fund 2003-04 Budgetary Comparison (in millions)

	Original Budget	Final Budget	Actual Amount	Favorable (Unfavorable) with Final Budget
Revenues	\$ 33.312	\$ 33.312	\$ 32.752	\$ (0.560)
Expenditures	\$ 33.066	\$ 33.266	\$ 31.756	\$ 1.510
Other Financing Uses				
Transfers Out	\$ -	\$ 0.593	\$ 1.017	\$ (0.424)
Capital Outlay	\$ 0.283	\$ 0.283	\$ 0.156	\$ 0.127
Net Change in Fund Balance	\$ (0.037)	\$ (0.830)	\$ (0.177)	\$ 0.653

General Fund actual revenues did not meet final budget projections by \$.56 million in fiscal year 2004.

- Tax revenues exceeded budget by \$0.43 million. The major overages included property tax \$0.16 million, sales taxes \$0.60 million and real property transfer tax \$0.24 million. There were decreases in business license tax and other categories.

- Licenses, permits and fees were over final budget projections by \$0.73 million. The major factors in this category were: building permit fees up \$0.50 million, plan checking fees were up \$0.38 million, while fire inspection fees were down by \$0.03 million.
- Use of money and property was down over final budget projections by \$0.49 million. Actual investment income in the General Fund reported a negative of \$0.038 million. These negative differences over projections are a result of GASB 31 reporting rules whereby unrealized losses on investments are booked at fiscal year end, even though the investments have not been actually sold.
- Intergovernmental revenues were under final budget projections by \$0.49 million. The major reason was the loss of State motor vehicle fee revenues in the amount of \$0.56 million over final budget projections. There were slight variances in other intergovernmental categories.
- Charges for services were down \$1.0 million over final budget projections. The major reason for this decline over projections was due to the over estimate of capital projects administrative overhead charges applied to General Fund revenues. The City has a policy of charging 5% administrative overhead charge on major capital projects to offset City administration on these capital projects. Major project costs were down over final budget estimates resulting in this General Fund revenue variance.

Expenditures were less than projected by \$1.51 million. Of the \$1.51 million, \$1.4 million in appropriations were carried over to fiscal year 2004, leaving a net variance of \$.11 million in expenditures (after carry overs). The majority of the difference included personnel costs, contractual services and contingencies.

FINANCIAL ANALYSIS OF THE OTHER MAJOR GOVERNMENTAL FUNDS

The other major funds within the governmental fund category were as follows:

- Low/Moderate Income Housing Fund (Special Revenue)
- Home/Begin Fund (Special Revenue)
- PCDC – Central Business District Project Fund (Capital Project)
- PCDC – Petaluma Community District Project Fund (Capital Project)
- PCDC – Petaluma Community District Debt Service Fund

The *Low/Moderate Income Housing Fund* utilizes the 20 percent set aside from redevelopment property tax increment to fund affordable housing in the City. The reserved fund balance increased by \$1.88 million to \$10.28 million during FY 2004. This represented an increase of 18.7 percent. All of these funds are reserved for future low-income housing projects. Several new projects were added in FY 2004 or are currently under construction.

The *Home/Begin Special Revenue Fund* accounts for federal grants/loans received under the Housing and Community Development Act of 1974. The money is used for specific programs, which provide housing for residents with low and moderate income levels. The reserve fund balance increased by \$97,554 to \$516,689. This represents a 23.3 percent increase. Notes receivable due the City over the life of the Federal loan amounts to \$6.5 million.

The *PCDC – Central Business District Project Fund* is the activity fund for this project area. This redevelopment project area is located in the downtown area of the City and will be the major focus of redevelopment activities in the next few years. The project area receives funding from property tax increments. Tax increments represent property tax receipts that exceed what were received in the base year or when the project area was formed. The total fund balance is “negative” due to loans from the other project area to fund projects. At year-end, the total fund deficit was \$8,947,654. This was considerably higher than at the end of fiscal 2003 when the fund deficit was \$2,540,528. The reserved fund balance increased from \$529,900 to \$6,430,414 in fiscal 2004. This reservation was entirely for outstanding encumbrances, which were higher due to increased capital project activity in this fund.

The *PCDC – Community Development Project Fund* represents approximately one-third of the entire area of the City. This project area was very active in the 1990's with the development of the auto mall. This mall now accounts for over 30% of all sales tax that is generated in the City. Other major developments in this

project area were the Marina Business Center, the Redwood Business Center and the Sheraton Hotel. The total fund balance is \$15,166,090 of which \$10,208,107 is reserved and the remainder \$4,957,983 is designated for specific projects. The overall fund balance decreased by \$5,698,752 in fiscal 2004 when compared to fiscal 2003. The reserved fund balance increased to \$10.2 million from \$2.8 million, a 264 percent increase. Of this amount, \$6.8 million is reserved for long term advances on a major downtown redevelopment project. The unreserved fund balance decreased to \$4.95 million from \$16.4 million, a 69.7 percent decline over FY 2003. This decrease is accounted for by completed projects in the redevelopment area boundaries.

FINANCIAL ANALYSIS OF THE MAJOR ENTERPRISE FUNDS

The *Airport Fund's* operating activities amounted to a loss of \$0.58 million in fiscal year 2004. This represents an additional loss of \$0.41 million compared with FY 2003. The net operating loss is due to interest costs associated with debt service payments on a refunding and expanded bond issue. Depreciation and amortization accounts for \$0.47 million in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

The *Ambulance Fund* accounts for activities related to providing ambulance services. The net loss for this operation in FY 2004 was \$0.17 million as compared to a loss of \$0.14 million for FY 2003. This represents an additional decline of 21.4 percent over FY 2003.

The *Marina Fund's* net loss was \$0.05 million in fiscal 2004, compared to a loss of \$0.37 million in fiscal 2003. This fund continues to operate in a negative position due to the existing debt service load that it carries. Although the City is not making debt service payments we continue to recognize the interest portion of the debt. The interest and any penalties are capitalized and added to the principal amount. It is anticipated that this debt will be addressed in fiscal 2005.

The *Waste Water Fund's* net income was \$6.97 million in fiscal 2004, compared to \$3.57 million in FY 2003. This represented an increase of \$3.4 million, or 95 percent. Operating expenses decreased by 5.4 percent to \$7.34 million over FY 2003. This was the result of operating and cost of service decreasing by \$0.55 million.

The *Water Utility Fund's* operating activities amounted to a gain of \$0.69 million in fiscal 2004, compared to a loss of \$0.59 million in fiscal 2003. This represented an increase of 216 percent. Operating revenues increased by 14.4 percent to \$10.4 million. This was result of water rate increases that were implemented in July 2003. Operating expenses increased by 6.9 percent to \$9.74 million largely due to increased staffing levels and increased cost of contract water supply.

The *Public Transportation Fund* accounts for the operation of the City transit services. The operation had a net gain of \$0.10 million for FY 2004. This was an increase of 234 percent, or \$0.70 million compared to FY 2003. Operating revenues (fare box) declined to \$0.159 million from \$0.170 million, a decrease of 6.5 percent. However, Intergovernmental revenues increased to \$1.28 million from \$1.08 million compared to the prior fiscal year 2003. This represents an 18.5 percent increase over FY 2003. Total operating expenses increased to \$1.34 million from \$1.23 million, an increase of 8.9 percent. Most of the increase was due to personnel and fuel cost increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004 was \$187.5 million (net of accumulated depreciation). This investment in capital assets includes: infrastructure, land, buildings, improvements other than buildings, construction in progress, vehicles and equipment. The total increase in the City's investment in capital assets for the current period (FY 04) was \$101.2 million. This represents a 117 percent increase over FY 2003.

Major capital asset events during the current fiscal year 2004 include the following:

- Major historic downtown infrastructure improvements.
- Historic downtown Theatre District addition.
- Historic Railroad Depot improvements.
- New water recycling facility constructed.
- Major streets and roads improvement program.

For governmental-wide financial statement presentation, all depreciable capital assets are depreciated from the acquisition date over their useful lives. Governmental fund financial statements record capital assets purchases as expenditures.

Capital assets for the governmental and business-type activities are presented in the following table to illustrate changes from prior fiscal year 2003.

Capital Assets							
(Net of Depreciation, in Millions)							
	Governmental		Business-type		Totals		Increase
	Activities		Activities				(Decrease)
	2003	2004	2003	2004	2003	2004	% Change
Land	\$ 24.3	\$ 24.3	\$ 6.0	\$ 10.0	\$ 30.3	\$ 34.3	13.2%
Construction in Progress	5.7	13.5	10.3	18.1	16.0	31.6	97.5%
Buildings and improvements	10.6	10.7	11.2	10.7	21.8	21.4	-1.8%
Equipment	2.9	3.4	1.7	2.1	4.6	5.5	19.6%
Infrastructure	41.9	44.3	51.6	50.4	93.5	94.7	1.3%
Totals	\$ 85.4	\$ 96.2	\$ 80.8	\$ 91.3	\$ 166.2	\$ 187.5	12.8%

Among the significant additions to the capital assets included in fiscal year 2004 were:

- Land
 - The City purchased 261 acres for the Petaluma River Marsh project – sewer plant land \$4.0 million
- Construction in Progress
 - \$7.8 million increase in General Government which included the following projects:
 - Downtown Improvements
 - Theatre District infrastructure
 - Railroad Depot improvements
 - Washington/McDowell intersection improvements
 - \$7.8 million increase in Business-Type activities which included the following projects:
 - construction of new water recycling facility
 - construction of recycled water pipeline
- Building and Improvements
 - Net building and improvements decreased by 1.8% or \$0.4 million. This is a result of depreciation exceeding additions
- Equipment
 - Net equipment additions increased by 19.6% or \$0.9 million. This increase was due to Pentamation accounting software, \$0.51 million, purchase of six transit buses, \$0.51 million, and police patrol vehicles, \$0.55 million, less retirements and depreciation of \$0.66 million.
- Infrastructure
 - Infrastructure improvements gross amount increased by \$5.0 million. This was mainly due to street and road reconstruction. The new (net) additions were \$1.2 million with increased depreciation on our street systems of \$3.8 million.

The City's fiscal year 2005 capital project budget includes additions of \$64.4 million. Of this amount, \$10 million is projected for the new wastewater treatment plant and \$7.2 million is for water utility capital projects. Additional information about the City's capital assets can be found in Note 6 in the Notes to the Basic Financial Statements.

Debt Administration

Debt considered a liability of governmental activities increased by \$19.3 million in FY 2004.

- A new 2003A Tax Allocation Bond was issued for the Redevelopment Agency in the amount of \$23.6 million.
- The 1993 Certificates of Participation with a balance of \$3.77 million were defeased.
- Compensated absences decreased by \$0.6 million

Below is a chart for governmental activities debt.

Governmental Activities Long-Term Debt			
For the Year Ended June 30, 2004 Compared to June 30, 2003			
	Balance	Balance	Increase
	July 1, 2003	June 30, 2004	(Decrease)
			From FY 2003
2004A Tax Allocation Bonds	\$ 17,515,000	\$ 17,390,000	\$ (125,000)
2000B Tax Allocation Bonds	880,000	785,000	(95,000)
2001A Tax Allocation Bonds	3,505,000	3,245,000	(260,000)
2003A Tax Allocation Bonds	-	23,630,000	23,630,000
Unamortized Bonds Issuance Discount			
for 2003A Tax Allocation Bonds	-	(13,743)	(13,743)
Assessment District 19 TAB	719,921	710,000	(9,921)
1993 Certificates of Participation	3,772,000	-	(3,772,000)
Compensated Absences	3,421,175	2,825,467	(595,708)
Accrued Claims	5,024,599	5,559,000	534,401
Total	<u>\$ 34,837,695</u>	<u>\$ 54,130,724</u>	<u>\$ 19,293,029</u>

Debt considered a liability of business-type activities decreased by \$3.4 million in FY 2004.

- The 1993 Certificates of Participation with balances of \$2.48 million were defeased with the issuance of the new 2003 COP.
- The new 2003 Certificate of Participation was issued in the amount of \$6.295 million. Of this amount, \$3.25 million is earmarked for Petaluma Municipal Airport improvements.
- The 2000 Wastewater Revenue Bonds were reduced by \$0.31 million.

Below is a chart for business-type activities debt:

Business-Type Activities Long-Term Debt			
For the Year Ended June 30, 2004 Compared to June 30, 2003			
	Balance	Balance	Increase
	July 1, 2003	June 30, 2004	(Decrease)
			From FY 2003
1993 Certificates of Participation	\$ 2,483,000	\$ -	\$ (2,483,000)
2003 Certificates of Participation	-	6,295,000	6,295,000
Unamortized Bonds Issuance Premium	-	80,237	80,237
for 2003 Certificates of Participation			
2000 Wastewater Revenue Bonds	8,030,000	7,720,000	(310,000)
Unamortized Bonds Issuance Discount	(74,866)	(70,418)	4,448
for 2000 Wastewater Revenue Bonds			
2001B Water Revenue Bonds	9,655,000	9,440,000	(215,000)
Unamortized Bonds Issuance Discount	(17,487)	(16,613)	874
for 2001B Water Revenue Bonds			
California Dept of Boating & Waterways	4,247,138	4,455,491	208,353
California Dept of Transportation	735,026	659,148	(75,878)
Compensated Absences	564,171	414,896	(149,275)
Total	<u>\$ 25,621,982</u>	<u>\$ 28,977,741</u>	<u>\$ 3,355,759</u>

Additional information about the City's long term obligations for both Governmental Activities and Business-Type Activities can be found in Note 7 in the Notes to the Basic Financial Statements.

As stated in the Statistical Section of the CAFR, the combined direct debt ratio to assessed valuation is zero percent for the General Fund compared to the allowable, legal debt margin of 15 percent. The legal debt margin for the City is \$815.4 million. In 2003, Moody's insured rating for the City was Aaa.

ECONOMIC FACTORS AND FUTURE BUDGET OUTLOOK

The City of Petaluma's economy is clearly linked to national, state and regional economies. Sonoma County has experienced recessionary conditions for several years. Employment has taken a turn downward during that time with major lay-offs in the high-tech manufacturing industries. Wineries and vineyards also contributed to the weakness due to expanded global supply and downward pressure on prices.

For 2004, better news is ahead. Sonoma County business confidence continues to rise for the fifth consecutive quarter, hitting 6.7 on a 10 point scale (with 10 = excellent). Overall, Sonoma County businesses report that the current economic conditions in Sonoma County are strong. The future of Sonoma County businesses looks promising. It is estimated that business confidence will increase by 3% to 6.9 by winter of 2005.

The economy is continuing to improve with estimates of increased salary and wages as well as an increase in business profits. Interest rates will continue to rise in 2004 with a constant to slight increase in the stock market. It is also believed that the national unemployment rate will decline. The housing market remains strong with increased appreciation along with healthy household balance sheets indicated by low and stable rate of personal bankruptcy filings.

Despite recent concerns, rising gas prices have not affected most businesses in Sonoma County. 98% of local executives reported no loss in business due to rising gas prices. In general, Sonoma County businesses appear resilient to the economic effects of higher gas prices. It is also important to note that property values in Sonoma County remain strong. Sonoma County is an extremely desirable place to live with little housing stock currently on the market.

Recoveries are noted in health services, hospitality, real estate and construction industries. Health care is on the rise due to the aging population and increased availability of medical facilities in the County. The hospitality industry has been depressed since the tragic 9-11 incident but continues to build confidence with greater consumer discretionary income being spent on travel plans. Real estate and construction industries have shown reasonable gains due to the lower mortgage interest rates and increased housing starts in the County.

Employment growth has seen a major upturn in the past twelve months. It is estimated that an additional 1.3 million jobs will be created in the next seven months nationally. Sonoma County will see a modest job growth with increases across a broad spectrum of industries starting with manufacturing, professional business services, construction, health care, hospitality and food services. Even the technology and wine making industries are seeing stronger demands on 2004 and 2005.

Retail sales in Petaluma decreased in FY 2004 over FY 2003 results. Total estimated sales tax received in FY 2004 was \$10.03 million or 9.7% lower than FY 2003. This was due to lower sales in the transportation section or auto sales category. Other areas of revenue increases included property taxes (3.4%), charges for current services (16.6%), license and permits (36.3%) and intergovernmental declined by 21.3% due to the reduction in the State motor vehicle fees.

The uncertainties in this forecast are the ever increasing State budget deficit. The financial impacts on the City of Petaluma resulted in reduction of the State motor vehicle in-lieu fees of over \$700,000, in addition to over \$1 million reduction of tax increment revenues into the City's redevelopment agency. The inability of the State to deal with its ongoing policy of providing service levels that do not have sufficient resources to pay for them will only cause continual problems on State and local levels in California.

The State budget deficit, which is estimated to be over \$20 billion, was partially “balanced” through issuance of deficit bonds. In addition, the State instituted the “triple flip” formula – trading certain sales tax, property tax and other revenues to support the deficit bonds.

In November, 2004, Proposition 1A was passed which protects local government revenues from State exactions when there is an extreme emergency. However, part of the negotiations in supporting Proposition 1A was the State motor vehicle fee swap. This formula replaces State motor vehicle fees with property tax revenues. Also, as part of the financial assistance to the State, the backfill (loss of MLV) fees for last year were retained by the State with a promise to be repaid in August of 2006. For the City of Petaluma, this receivable amount is \$951,083.

The City is currently considering a bond issue to sell its receivable at a 90% discount to receive the funds eighteen months early. For the State, Governor Schwarzenegger has proposed major cost reductions and some revenue enhancements. However, city governments are currently not impacted by the Governor’s proposals. State budget deliberations are continuing in the State legislature.

In January, Petaluma is focusing on economic development with major improvements in its downtown area. Currently, a \$100 million Theatre District project will be completed this summer that will increase business activity, tourism and spending that will result in increased sales tax dollars. The other major focus is on regional shopping center activity. Several sites are proceeding through the planning process that will boost Petaluma’s inventory of shopping outlets. In addition, expansion of Petaluma’s auto mall is under consideration by joining with several adjacent sites and adding new auto dealerships.

For the City’s enterprise operations, annual reviews are held to consider appropriate rate increases to give greater assurance of maintaining healthy enterprise operations. Overall, the economic future of Petaluma is bright.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

The CAFR 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 Department, at 11 English Street, Petaluma, California 94952. This report will also be provided on the City’s website at: www.ci.petaluma.ca.us under the Finance Department’s page. Questions concerning any of the information contained in the CAFR should be addressed to the Finance Director, City of Petaluma, 11 English Street, Petaluma, CA 94952 or at finance@ci.petaluma.ca.us.

BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of Petaluma
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 39,035,609	\$ 9,353,127	\$ 48,388,736
Restricted cash and investments	29,917,264	10,282,773	40,200,037
Receivables:			
Accounts receivable, net	552,252	3,019,015	3,571,267
Interest receivable	1,772,128	98,432	1,870,560
Intergovernmental	3,818,066	290,568	4,108,634
Short-term internal balances	1,084,724	(1,084,724)	-
Internal services balances	(60,439)	60,439	-
Inventories	23,469	221,229	244,698
Deposits and prepaid items	1,084,662	4,451	1,089,113
Total current assets	<u>77,227,735</u>	<u>22,245,310</u>	<u>99,473,045</u>
Noncurrent assets:			
Long-term internal balances	1,274,685	(1,274,685)	-
Non-current receivables	20,574	-	20,574
Notes receivable	22,523,843	-	22,523,843
Land held for resale	402,053	-	402,053
Deferred charges	309,257	707,048	1,016,305
Capital assets:			
Non-depreciable	37,775,986	28,128,052	65,904,038
Depreciable, net	58,398,302	63,204,503	121,602,805
Total capital assets	<u>96,174,288</u>	<u>91,332,555</u>	<u>187,506,843</u>
Total noncurrent assets	<u>120,704,700</u>	<u>90,764,918</u>	<u>211,469,618</u>
Total assets	<u>197,932,435</u>	<u>113,010,228</u>	<u>310,942,663</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	2,675,771	2,558,280	5,234,051
Wages payable	970,595	96,053	1,066,648
Interest payable	393,692	503,069	896,761
Unearned revenue	7,788	-	7,788
Refundable deposits	516,147	229,774	745,921
Claims payable - due within one year	1,375,000	-	1,375,000
Compensated absences - due within one year	348,056	44,422	392,478
Long-term debt - due within one year	562,526	1,034,547	1,597,073
Total current liabilities	<u>6,849,575</u>	<u>4,466,145</u>	<u>11,315,720</u>
Noncurrent liabilities:			
Claims payable - due in more than one year	4,184,000	-	4,184,000
Compensated absences - due in more than one year	2,477,411	370,474	2,847,885
Long-term debt - due in more than one year	45,183,731	27,528,298	72,712,029
Total noncurrent liabilities	<u>51,845,142</u>	<u>27,898,772</u>	<u>79,743,914</u>
Total liabilities	<u>58,694,717</u>	<u>32,364,917</u>	<u>91,059,634</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>47,065,517</u>	<u>62,769,710</u>	<u>109,835,227</u>
Restricted for:			
Special projects	33,072,502	-	33,072,502
Debt service	23,088,068	10,282,748	33,370,816
Capital projects	21,003,950	-	21,003,950
Total restricted	<u>77,164,520</u>	<u>10,282,748</u>	<u>87,447,268</u>
Unrestricted	<u>15,007,681</u>	<u>7,592,853</u>	<u>22,600,534</u>
Total net assets	<u>\$ 139,237,718</u>	<u>\$ 80,645,311</u>	<u>\$ 219,883,029</u>

See accompanying Notes to Basic Financial Statements.

City of Petaluma
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2004

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	\$ 6,016,478	\$ (2,424,700)	\$ 1,330,855	\$ 94,398	\$ -
Community development	15,567,621	-	3,343,931	5,220,195	-
Police	12,368,011	1,216	619,937	1,153,776	-
Fire	5,734,813	3,037	525,101	-	-
Parks and recreation	4,071,402	374,720	1,166,680	-	-
Public works	4,976,881	9,911	929,151	1,189,418	469,012
Interest on long-term debt	2,836,883	-	-	-	-
Total governmental activities	51,572,088	(2,035,816)	7,915,655	7,657,787	469,012
Business-type activities:					
Airport	1,552,780	71,436	984,202	48,052	-
Ambulance	1,439,576	525,000	1,763,361	-	-
Marina	528,973	13,968	228,078	-	-
Public transportation	1,239,931	100,150	158,719	1,275,584	-
Waste water utility	6,769,148	755,900	13,444,505	3,122,611	-
Water utility	9,244,794	569,362	9,976,729	-	-
Total business-type activities	20,775,202	2,035,816	26,555,594	4,446,247	-
Total primary government	\$ 72,347,290	\$ -	\$ 34,471,249	\$ 12,104,034	\$ 469,012

General Revenues and Transfers:

Taxes:

Property taxes
 Redevelopment tax increment
 Sales taxes
 Franchise tax
 Property transfer tax
 Other taxes

Total taxes

Motor vehicle in-lieu
 Unrestricted investment earnings
 Miscellaneous revenue

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year, as restated

Net assets - end of year

Net (Expense) Revenue and Changes in Net Assets			
Total	Governmental Activities	Business-Type Activities	Total
\$ 1,425,253	\$ (2,166,525)	\$ -	\$ (2,166,525)
8,564,126	(7,003,495)	-	(7,003,495)
1,773,713	(10,595,514)	-	(10,595,514)
525,101	(5,212,749)	-	(5,212,749)
1,166,680	(3,279,442)	-	(3,279,442)
2,587,581	(2,399,211)	-	(2,399,211)
-	(2,836,883)	-	(2,836,883)
<u>16,042,454</u>	<u>(33,493,818)</u>	<u>-</u>	<u>(33,493,818)</u>
1,032,254	-	(591,962)	(591,962)
1,763,361	-	(201,215)	(201,215)
228,078	-	(314,863)	(314,863)
1,434,303	-	94,222	94,222
16,567,116	-	9,042,068	9,042,068
9,976,729	-	162,573	162,573
<u>31,001,841</u>	<u>-</u>	<u>8,190,823</u>	<u>8,190,823</u>
<u>\$ 47,044,295</u>	<u>(33,493,818)</u>	<u>8,190,823</u>	<u>(25,302,995)</u>
	5,306,079	-	5,306,079
	11,908,633	-	11,908,633
	10,030,124	-	10,030,124
	1,813,523	-	1,813,523
	1,407,014	-	1,407,014
	6,146,504	-	6,146,504
	<u>36,611,877</u>	<u>-</u>	<u>36,611,877</u>
	2,557,723	-	2,557,723
	1,273,166	246,515	1,519,681
	46,875	-	46,875
	<u>940,835</u>	<u>(940,835)</u>	<u>-</u>
	<u>41,430,476</u>	<u>(694,320)</u>	<u>40,736,156</u>
	7,936,658	7,496,503	15,433,161
	<u>131,301,060</u>	<u>73,148,808</u>	<u>204,449,868</u>
	<u>\$ 139,237,718</u>	<u>\$ 80,645,311</u>	<u>\$ 219,883,029</u>



FUND FINANCIAL STATEMENTS



Governmental Fund Financial Statements

General Fund - The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Home/Begin Special Revenue Fund - The Home/Begin Special Revenue Fund is used to account for federal grants received under the Housing and Community Development Act of 1974. The money is used for specific programs, which provide housing to people with low and moderate income.

Redevelopment-Low/Mod Income Housing Special Revenue Fund - This fund accounts for the redevelopment agency's 20% set-aside, as required by law, of tax increment. The activity of this funds consists of supporting development of affordable housing in the community.

Redevelopment-PCD Debt Service Fund - This fund accounts for the accumulation of resources, and the payment of principal and interest of the Redevelopment Agency's PCD project area's long-term debt. The debt of PCD consists of the 2000A, 2001A and the 2003A Tax Allocation Bonds, and the Auto Plaza DDA-AD 19.

Redevelopment-CBD Capital Project Fund - This funds accounts for the administration and capital projects undertaken in the Central Business District project area of the Agency.

Redevelopment-PCD Capital Project Fund - This funds accounts for the administration and capital improvement projects undertaken in the Petaluma Community Development project area of the Redevelopment Agency.

Other Governmental Funds is the aggregate of all the non-major governmental funds.

City of Petaluma
Balance Sheet
Governmental Funds
June 30, 2004

	Major Funds			
	General Fund	Home/Begin Special Revenue	Redevelopment Low/ Mod Income Housing Special Revenue	Redevelopment PCD Debt Service
ASSETS				
Cash and investments	\$ 1,048,273	\$ 502,544	\$ 1,864,164	\$ 22,880,821
Restricted cash and investments	-	-	-	115,965
Receivables:				
Accounts receivable, net	383,541	-	-	-
Interest receivable	72,336	499,330	788,256	-
Intergovernmental receivable	2,795,550	9,553	20,341	-
Due from other funds	3,784,724	-	-	-
Inventories	13,440	-	-	-
Deposits and prepaid items	124,240	-	-	-
Advances to other funds	-	-	-	-
Non-current receivables	20,574	-	-	-
Notes receivable	49,375	6,015,742	10,029,629	-
Land held for resale	-	-	-	-
Total assets	8,292,053	7,027,169	12,702,390	22,996,786
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	597,493	1,905	12,112	30
Wages payable	912,823	-	1,757	-
Deferred revenue	175,841	6,508,575	771,126	-
Refundable deposits	463,224	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	2,149,381	6,510,480	784,995	30
Fund Balances:				
Reserved for:				
Encumbrances	1,413,097	-	252,290	-
Notes receivable	49,378	6,015,742	10,029,629	-
Land held for resale	-	-	-	-
Long-term advances and due to other funds	3,784,724	-	-	-
Debt service	-	-	-	22,996,756
Inventories	13,440	-	-	-
Deposits and prepaids	124,240	-	-	-
Total reserved	5,384,879	6,015,742	10,281,919	22,996,756
Unreserved, reported in:				
General fund	757,793	-	-	-
Special revenue funds	-	(5,499,053)	1,635,476	-
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
Total unreserved, undesignated	757,793	(5,499,053)	1,635,476	-
Total fund balances	6,142,672	516,689	11,917,395	22,996,756
Total liabilities and fund balances	\$ 8,292,053	\$ 7,027,169	\$ 12,702,390	\$ 22,996,786

See accompanying Notes to Basic Financial Statements.

Major Funds			
Redevelopment CBD Capital Project	Redevelopment PCD Capital Project	Non-Major Governmental Funds	Total Governmental Funds
\$ 53,058	\$ (22,501,916) 29,702,164	\$ 26,726,577 99,135	\$ 30,573,521 29,917,264
-	-	168,711	552,252
1,175	151,039	197,823	1,709,959
8,535	72,168	911,919	3,818,066
-	-	125,000	3,909,724
-	-	-	13,440
-	-	270,640	394,880
-	6,778,685	-	6,778,685
-	-	-	20,574
-	1,096,706	5,332,391	22,523,843
-	402,053	-	402,053
<u>62,768</u>	<u>15,700,899</u>	<u>33,832,196</u>	<u>100,614,261</u>
796,913	96,486	1,056,474	2,561,413
9,509	11,724	6,226	942,039
-	376,599	1,403,474	9,235,615
-	50,000	2,923	516,147
2,700,000	-	125,000	2,825,000
5,504,000	-	-	5,504,000
<u>9,010,422</u>	<u>534,809</u>	<u>2,594,097</u>	<u>21,584,214</u>
6,430,414	1,930,663	1,123,222	11,149,686
-	1,096,706	5,332,391	22,523,846
-	402,053	-	402,053
-	6,778,685	125,000	10,688,409
-	-	175,747	23,172,503
-	-	-	13,440
-	-	270,640	394,880
<u>6,430,414</u>	<u>10,208,107</u>	<u>7,027,000</u>	<u>68,344,817</u>
-	-	-	757,793
-	-	18,187,147	14,323,570
-	-	-	-
(15,378,068)	4,957,983	4,993,631	(5,426,454)
-	-	1,030,321	1,030,321
<u>(15,378,068)</u>	<u>4,957,983</u>	<u>24,211,099</u>	<u>10,685,230</u>
<u>(8,947,654)</u>	<u>15,166,090</u>	<u>31,238,099</u>	<u>79,030,047</u>
<u>\$ 62,768</u>	<u>\$ 15,700,899</u>	<u>\$ 33,832,196</u>	<u>\$ 100,614,261</u>



City of Petaluma
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2004

Total Fund Balances - Total Governmental Funds \$ 79,030,047

Amounts reported for Governmental Activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

Non-depreciable	37,775,986	
Depreciable, net	57,811,000	
Total capital assets		95,586,986

Revenues which are deferred on the Governmental Funds Balance Sheet because they are not currently available are reported as revenue in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets. 9,227,827

Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the Internal Service Funds were included in governmental activities in the Government-Wide Statement of Net Assets. 3,934,316

Bond issuance costs are an expenditure in the governmental funds but are capitalized and amortized over the life of the bonds in the Government-Wide Financial Statements. 309,257

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability on the Governmental Funds Balance Sheet. (393,692)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences - due within one year	(331,909)	
Compensated absences - due in more than one year	(2,378,857)	
Long-term liabilities - due within one year	(562,526)	
Long-term liabilities - due in more than one year	(45,183,731)	
Total long-term liabilities		(48,457,023)

Net Assets of Governmental Activities \$ 139,237,718

City of Petaluma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2004

	Major Funds			
	General Fund	Home/Begin Special Revenue	Redevelopment Low/Mod Income Housing Special Revenue	Redevelopment PCD Debt Service
REVENUES:				
Taxes	\$ 19,027,341	\$ -	\$ 2,276,239	\$ -
Licenses, permits and fees	2,515,482	-	-	-
Fines, forfeitures and penalties	464,499	-	-	-
Use of money and property	(38,135)	65,598	48,470	167,564
Intergovernmental	3,383,091	4,133,658	60,803	-
Charges for current services	5,708,610	-	18,165	-
Other	414,253	-	12,200	-
Total revenues	31,475,141	4,199,256	2,415,877	167,564
EXPENDITURES:				
Current:				
General government	4,725,455	-	-	-
Community development	2,218,047	4,101,702	534,835	-
Police	11,862,431	-	-	-
Fire	6,141,216	-	-	-
Parks and recreation	3,749,843	-	-	-
Public works	3,058,814	-	-	-
Capital outlay	155,521	-	-	-
Debt service:				
Principal	-	-	-	449,000
Interest	-	-	-	3,422,755
Total expenditures	31,911,327	4,101,702	534,835	3,871,755
REVENUES OVER (UNDER) EXPENDITURES	(436,186)	97,554	1,881,042	(3,704,191)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of bonds	-	-	-	23,615,783
Transfers in	1,277,350	-	-	3,031,500
Transfers out	(1,016,581)	-	-	-
Total other financing sources (uses)	260,769	-	-	26,647,283
Net change in fund balances	(175,417)	97,554	1,881,042	22,943,092
FUND BALANCES:				
Beginning of year, as restated	6,318,089	419,135	10,036,353	53,664
End of year	\$ 6,142,672	\$ 516,689	\$ 11,917,395	\$ 22,996,756

See accompanying Notes to Basic Financial Statements.

Major Funds			
Redevelopment CBD Capital Project	Redevelopment PCD Capital Project	Non-Major Governmental Funds	Total Governmental Funds
\$ 573,869	\$ 9,058,525	\$ 1,124,888	\$ 32,060,862
-	-	4,558,748	7,074,230
-	-	67,260	531,759
1,213	222,188	959,840	1,426,738
-	284,848	3,093,277	10,955,677
19,484	-	306,512	6,052,771
2,433	1,581	1,369,766	1,800,233
596,999	9,567,142	11,480,291	59,902,270
-	-	69,105	4,794,560
-	5,025,135	3,159,008	15,038,727
-	-	363,031	12,225,462
-	-	22,556	6,163,772
-	-	400,006	4,149,849
-	-	1,355,464	4,414,278
7,145,125	357,259	8,017,521	15,675,426
-	-	3,867,000	4,316,000
-	-	278,185	3,700,940
7,145,125	5,382,394	17,531,876	70,479,014
(6,548,126)	4,184,748	(6,051,585)	(10,576,744)
-	-	-	23,615,783
15,013,300	1,642,000	26,267,712	47,231,862
(14,872,300)	(11,525,500)	(20,541,481)	(47,955,862)
141,000	(9,883,500)	5,726,231	22,891,783
(6,407,126)	(5,698,752)	(325,354)	12,315,039
(2,540,528)	20,864,842	31,563,453	66,715,008
\$ (8,947,654)	\$ 15,166,090	\$ 31,238,099	\$ 79,030,047

City of Petaluma

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 12,315,039
Amounts reported for governmental activities in the Statement of Activities were different because:	
Governmental Funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	15,675,426
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in Governmental Funds.	(2,565,891)
Loss on the disposal of capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, it is not reported as revenues in Governmental Funds.	(1,210,562)
Revenue which are deferred on the Governmental Funds Balance Sheet because they are not currently available are reported as revenue in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets	289,301
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of certain activities of the internal service funds is reported with governmental activities.	2,342,594
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The amount represents the change in accrued interest from prior year.	555,274
Bonds issuance cost are expenditures on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond issuance cost are capitalized and amortized over the life of the bonds.	
Current year amortization of bond issuance costs	(10,664)
Amount recognized as expenditure on the Governmental Funds Financial Statements	319,921
Bond discount is recognized as expenditure on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond discount is capitalized and amortized over the life of the bonds. This amount represent the current year amortization	(474)
Compensated Absences were reported on the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the Governmental Funds.	651,748
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	
Bond proceeds	(23,615,783)
Long-term debt repayments	4,316,000
Change in Net Assets of Governmental Activities	<u>\$ 9,061,929</u>

See accompanying Notes to Basic Financial Statements.

Proprietary Fund Financial Statements

Airport Fund - This fund accounts for the daily operation and maintenance of the Petaluma Airport, including capital improvements.

Ambulance Fund - The fund is used to account for the activities related to providing ambulance transportation services for the City.

Marina Fund - This fund accounts for the daily operation and maintenance of the Petaluma Marina, structural and equipment improvements, and planning and implementing promotional campaigns.

Public Transportation Fund - The fund is used to account for the operation of City's transit services.

Waste Water Utility Fund - This fund is part of the Department of Water Resources and Conservation, which provides comprehensive and integrated management of Petaluma's water resources, including collection and treatment of wastewater.

Water Utility Fund - This fund is part of the Department of Water Resources and Conservation, which provides comprehensive and integrated management of Petaluma's water resources, including reliable delivery of high quality water.

Internal Service Funds - These funds are used to provide goods and services by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

City of Petaluma
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
ASSETS				
Current assets:				
Cash and investments	\$ -	\$ 422,492	\$ 224,294	\$ -
Restricted cash and investment	3,892,178	-	-	-
Receivables:				
Accounts receivable, net	49,989	327,630	22,574	-
Interest receivable	-	3,836	1,664	-
Intergovernmental receivable	2,291	-	-	288,277
Inventories	45,254	-	1,848	19,168
Deposits and prepaids	-	575	-	-
Total current assets	3,989,712	754,533	250,380	307,445
Non-current assets:				
Deferred charges	300,609	-	-	-
Capital assets:				
Nondepreciable	4,584,280	-	-	1,411,292
Depreciable	9,666,889	559,189	4,804,813	1,512,136
Less accumulated depreciation	(6,751,241)	(306,756)	(1,892,146)	(840,374)
Total capital assets	7,499,928	252,433	2,912,667	2,083,054
Total non-current assets	7,800,537	252,433	2,912,667	2,083,054
Total assets	11,790,249	1,006,966	3,163,047	2,390,499
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	30,291	18,334	6,913	114,411
Wages payable	649	18,106	41	4,204
Interest payable	167,098	-	198,132	-
Refundable deposits	101,165	-	31,645	-
Due to other funds	70,477	-	-	1,014,247
Advances from other funds	-	-	1,274,685	-
Claims payable - due within one year	-	-	-	-
Compensated absences - due within one year	-	-	-	-
Long-term debt - due within one year	84,894	-	409,975	-
Total current liabilities	454,574	36,440	1,921,391	1,132,862
Non-current liabilities:				
	(3,826,981)			
Claims payable - due in more than one year	-	-	-	-
Compensated absences - due in more than one year	-	77,934	-	37,118
Long-term debt - due in more than one year	6,949,491	-	4,045,516	-
Total non-current liabilities	6,949,491	77,934	4,045,516	37,118
Total liabilities	7,404,065	114,374	5,966,907	1,169,980
NET ASSETS				
Invested in capital assets, net of related debt	465,543	252,433	(1,542,824)	2,083,054
Restricted for debt service	3,892,178	-	-	-
Unrestricted	28,463	640,159	(1,261,036)	(862,535)
Total net assets	\$ 4,386,184	\$ 892,592	\$ (2,803,860)	\$ 1,220,519

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Equipment replacement (BA) fund is completely allocated to the business type activities

Net assets of business-type activities

See accompanying Notes to Basic Financial Statements.

Major Funds			Governmental
Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ 4,808,045	\$ 3,151,951	\$ 8,606,782	\$ 9,208,433
25	6,390,570	10,282,773	-
1,616,556	1,002,266	3,019,015	-
42,137	45,083	92,720	67,881
-	-	290,568	-
-	154,959	221,229	10,029
-	3,876	4,451	689,782
<u>6,466,763</u>	<u>10,748,705</u>	<u>22,517,538</u>	<u>9,976,125</u>
123,635	282,804	707,048	-
19,656,289	2,476,191	28,128,052	-
56,171,614	48,750,684	121,465,325	1,514,918
<u>(26,325,882)</u>	<u>(22,602,756)</u>	<u>(58,719,155)</u>	<u>(469,283)</u>
<u>49,502,021</u>	<u>28,624,119</u>	<u>90,874,222</u>	<u>1,045,635</u>
<u>49,625,656</u>	<u>28,906,923</u>	<u>91,581,270</u>	<u>1,045,635</u>
<u>56,092,419</u>	<u>39,655,628</u>	<u>114,098,808</u>	<u>11,021,760</u>
1,531,606	817,200	2,518,755	153,883
18,433	54,620	96,053	28,556
64,880	72,959	503,069	-
22,314	74,650	229,774	-
-	-	1,084,724	-
-	-	1,274,685	-
-	-	-	1,375,000
17,667	26,755	44,422	16,147
<u>320,552</u>	<u>219,126</u>	<u>1,034,547</u>	<u>-</u>
<u>1,975,452</u>	<u>1,265,310</u>	<u>6,786,029</u>	<u>1,573,586</u>
-	-	-	4,184,000
86,854	168,568	370,474	98,554
<u>7,329,030</u>	<u>9,204,261</u>	<u>27,528,298</u>	<u>-</u>
<u>7,415,884</u>	<u>9,372,829</u>	<u>27,898,772</u>	<u>4,282,554</u>
<u>9,391,336</u>	<u>10,638,139</u>	<u>34,684,801</u>	<u>5,856,140</u>
41,852,439	19,200,732	62,311,377	1,045,635
-	6,390,570	10,282,748	-
<u>4,848,644</u>	<u>3,426,187</u>	<u>6,819,882</u>	<u>4,119,985</u>
<u>\$ 46,701,083</u>	<u>\$ 29,017,489</u>	<u>\$ 79,414,007</u>	<u>\$ 5,165,620</u>
		60,439	
		<u>1,170,865</u>	
		<u>\$ 80,645,311</u>	

City of Petaluma
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2004

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
OPERATING REVENUES:				
Charges for sales	\$ 433,877	\$ -	\$ 9,931	\$ -
Charges for services	550,325	1,763,361	218,147	158,719
Connection fees	-	-	-	-
Total operating revenues	984,202	1,763,361	228,078	158,719
OPERATING EXPENSES:				
Cost of sales	317,992	-	5,637	-
Cost of services	100,271	1,251,110	38,973	1,140,867
Claims	-	-	-	-
General and administrative	410,250	647,787	153,185	161,754
Depreciation and amortization	525,232	52,058	140,287	33,505
Total operating expenses	1,353,745	1,950,955	338,082	1,336,126
Operating income (loss)	(369,543)	(187,594)	(110,004)	(1,177,407)
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	48,052	-	-	1,275,584
Investment earnings and rent	34,171	18,516	7,755	2,479
Interest expense	(295,439)	-	(221,331)	-
Total nonoperating revenues (expenses)	(213,216)	18,516	(213,576)	1,278,063
Income (loss) before operating transfers	(582,759)	(169,078)	(323,580)	100,656
OPERATING TRANSFERS				
Transfers in	-	-	273,000	-
Transfers out	-	-	-	-
Total transfers	-	-	273,000	-
Change in net assets	(582,759)	(169,078)	(50,580)	100,656
NET ASSETS:				
Beginning of year	4,968,943	1,061,670	(2,753,280)	1,119,863
Prior period adjustment	-	-	-	-
Beginning of year as restated	4,968,943	1,061,670	(2,753,280)	1,119,863
End of year	\$ 4,386,184	\$ 892,592	\$ (2,803,860)	\$ 1,220,519

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities. Equipment replacement (BA) fund is completely allocated to the business type activities

Change in net assets of business-type activities

Major Funds			Governmental
Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ -	\$ 9,395,635	\$ 9,839,443	\$ -
12,037,906	224,567	14,953,025	5,122,366
1,406,599	776,515	2,183,114	-
<u>13,444,505</u>	<u>10,396,717</u>	<u>26,975,582</u>	<u>5,122,366</u>
-	4,677,916	5,001,545	-
3,355,419	2,061,725	7,948,365	2,371,537
-	-	-	1,788,132
2,631,237	1,792,600	5,796,813	193,065
1,349,801	1,211,611	3,312,494	150,103
<u>7,336,457</u>	<u>9,743,852</u>	<u>22,059,217</u>	<u>4,502,837</u>
6,108,048	652,865	4,916,365	619,529
3,122,611	-	4,446,247	-
114,167	62,516	239,604	118,114
<u>(242,392)</u>	<u>(465,600)</u>	<u>(1,224,762)</u>	<u>-</u>
<u>2,994,386</u>	<u>(403,084)</u>	<u>3,461,089</u>	<u>118,114</u>
9,102,434	249,781	8,377,454	737,643
7,509,000	9,267,000	17,049,000	2,150,000
<u>(9,645,000)</u>	<u>(8,830,000)</u>	<u>(18,475,000)</u>	<u>-</u>
<u>(2,136,000)</u>	<u>437,000</u>	<u>(1,426,000)</u>	<u>2,150,000</u>
6,966,434	686,781	6,951,454	2,887,643
39,372,928	28,330,708		2,277,977
361,721	-		-
<u>39,734,649</u>	<u>28,330,708</u>		<u>2,277,977</u>
<u>\$ 46,701,083</u>	<u>\$ 29,017,489</u>		<u>\$ 5,165,620</u>
		125,057	
		419,992	
		<u>\$ 7,496,503</u>	

City of Petaluma
Combining Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2004

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 1,000,443	\$ 1,563,335	\$ 212,761	\$ 148,203
Cash payments to suppliers for goods and services	(402,365)	(1,252,286)	(39,235)	(1,326,913)
Cash payments to employees for services	(410,101)	(653,231)	(153,344)	(154,306)
Claims paid	-	-	-	-
Net cash provided (used) by operating activities	187,977	(342,182)	20,182	(1,333,016)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Due to other funds	70,477	-	(27,000)	1,014,247
Transfers in	-	-	273,000	-
Transfers out	-	-	-	-
Net cash provided (used) by noncapital financing activities	70,477	-	246,000	1,014,247
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Intergovernmental capital receipts	51,801	-	-	1,192,032
Acquisition or disposal of capital assets, net	(243,219)	-	-	(966,090)
Proceeds of long term debt	6,295,000	-	-	-
Payments of long term debt	(2,468,019)	-	-	-
Deferred charges	(244,330)	-	-	-
Interest expense	(184,009)	-	(52,809)	-
Net cash provided (used) by capital and related financing activities	3,207,224	-	(52,809)	225,942
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest from investments	34,561	14,680	6,091	2,479
Net cash provided (used) by investing activities	34,561	14,680	6,091	2,479
Net increase (decrease) in cash and cash equivalents	3,500,239	(327,502)	219,464	(90,348)
CASH AND CASH EQUIVALENTS:				
Beginning of year	391,939	749,994	4,830	90,348
End of year	\$ 3,892,178	\$ 422,492	\$ 224,294	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (369,543)	\$ (187,594)	\$ (110,004)	\$ (1,177,407)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	525,232	52,058	140,287	33,505
Changes in:				
Accounts receivable	31,943	(199,451)	(23,008)	90
Inventories	(15,702)	-	1,691	(10,606)
Deposits and prepaids	-	(575)	6,000	-
Accounts payable and accrued liabilities	8,822	(1,176)	510	(186,046)
Wage payable	149	5,767	(159)	4,204
Refundable deposits	7,076	-	4,865	-
Claims payable	-	-	-	-
Accrued compensated absences	-	(11,211)	-	3,244
Total adjustments	557,520	(154,588)	130,186	(155,609)
Net cash provided (used) by operating activities	\$ 187,977	\$ (342,182)	\$ 20,182	\$ (1,333,016)

See accompanying Notes to Basic Financial Statements.

Major Funds			Governmental Activities
Waste Water Utility Fund	Water Utility Fund	Total	Internal Service Funds
\$ 12,725,675	\$ 9,919,351	\$ 25,569,768	\$ 5,031,708
(3,209,616)	(7,172,239)	(13,402,654)	(4,406,840)
(2,647,654)	(1,874,206)	(5,892,842)	(149,716)
-	-	-	534,401
<u>6,868,405</u>	<u>872,906</u>	<u>6,274,272</u>	<u>1,009,553</u>
-	-	1,057,724	-
7,509,000	9,267,000	17,049,000	2,150,000
(9,645,000)	(8,830,000)	(18,475,000)	-
<u>(2,136,000)</u>	<u>437,000</u>	<u>(368,276)</u>	<u>2,150,000</u>
3,122,611	-	4,366,444	-
(10,377,761)	(1,727,962)	(13,315,032)	(398,359)
-	-	6,295,000	-
(310,000)	(215,000)	(2,993,019)	-
8,958	26,060	(209,312)	-
(206,064)	(428,271)	(871,153)	-
<u>(7,762,256)</u>	<u>(2,345,173)</u>	<u>(6,727,072)</u>	<u>(398,359)</u>
72,030	28,687	158,528	50,236
<u>72,030</u>	<u>28,687</u>	<u>158,528</u>	<u>50,236</u>
(2,957,821)	(1,006,580)	(662,548)	2,811,430
<u>7,765,891</u>	<u>10,549,101</u>	<u>19,552,103</u>	<u>6,397,003</u>
<u>\$ 4,808,070</u>	<u>\$ 9,542,521</u>	<u>\$ 18,889,555</u>	<u>\$ 9,208,433</u>
\$ 6,108,048	\$ 652,865	\$ 4,916,365	\$ 619,529
1,349,801	1,211,611	3,312,494	150,103
(718,830)	(501,710)	(1,410,966)	-
-	13,039	(11,578)	5,652
-	11,305	16,730	(96,310)
123,489	(444,648)	(499,049)	(247,171)
18,433	24,852	53,246	(12,691)
22,314	12,050	46,305	-
-	-	-	534,401
(34,850)	(106,458)	(149,275)	56,040
<u>760,357</u>	<u>220,041</u>	<u>1,357,907</u>	<u>390,024</u>
<u>\$ 6,868,405</u>	<u>\$ 872,906</u>	<u>\$ 6,274,272</u>	<u>\$ 1,009,553</u>



Fiduciary Fund Financial Statements

Private Purpose Trust Funds:

Thomas Lee Charity Trust Fund - This fund is a private purpose trust fund in which trust earnings are available for one-time aid to Petaluma citizens in need.

Child Care Trust Fund - This fund is a private purpose trust fund in which the fund's earnings are available for childcare vouchers for eligible Petaluma working families with childcare costs.

Agency Fund:

The General Agency Fund - This fund accounts for resources received from, held for, and due to, non-related parties.

The Public Community Access Fund - This fund is used to account for funds received from the local television cable company, and used by the not-for profit organization, which provides public television to City residents.

Assessment Districts Funds - The fund accounts for funds held by the City, collected from parcel assessments, and used to pay special assessment debt, pursuant to the provisions of the Improvements Bond Act of 1915.

City of Petaluma
Statement of Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2004

	Private Purpose Trusts Funds	Agency Fund
ASSETS		
Cash and investments	\$ 167,578	\$ 3,654,040
Accounts receivable	1,297	19,375
Intergovernmental receivable	-	38,716
Restricted cash and investments	-	1,486,863
Total assets	168,875	\$ 5,198,994
LIABILITIES		
Accounts payable	140	\$ -
Accrued liabilities	-	5,198,994
Total liabilities	140	\$ 5,198,994
NET ASSETS		
Held in trust	\$ 168,735	

See accompanying Notes to Basic Financial Statements.

City of Petaluma
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2004

	Private- Purpose Trusts
ADDITIONS:	
Investment in earnings	\$ 5,455
Total additions	<u>5,455</u>
DEDUCTIONS:	
Program costs	
Administrative costs	2,629
Total deductions	<u>2,629</u>
CHANGES IN NET ASSETS	2,826
NET ASSETS:	
Beginning of year	165,909
End of year	<u>\$ 168,735</u>

See accompanying Notes to Basic Financial Statements.



City of Petaluma
Notes to Basic Financial Statements
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Petaluma, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City was incorporated as a general law City by the state legislature on April 12, 1858. The City currently operates under a Council-Manager form of government established under a charter election in 1947. The City provides the following services as authorized by its charter: police and fire protection, ambulance service, transit service, parks and recreation, public works, community development, and general administrative services. In addition, the City owns and operates a water and sewer system, a municipal airport, and a marina.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the combined basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units. The following entities are reported as blended component units:

Petaluma Community Development Commission

The Petaluma Community Development Commission (PCDC) was established by the City Council under the State of California Health and Safety Code, Section 34100, et seq. on September 27, 1976, to perform redevelopment activities for the City. Although PCDC is a separate legal entity from the City, it is reported as if it were part of the primary government because the City Council is the governing board, and it is financially accountable to the City. Separate basic financial statements are issued by PCDC to comply with the redevelopment agency guidelines as established by the State of California. A copy may be obtained upon request from the City of Petaluma. PCDC is comprised of two project areas, Central Business District (CBD) and Petaluma Community Development project area (PCD).

City of Petaluma Public Financing Corporation

The City of Petaluma Public Financing Corporation (PPFC) was established in November of 1990 and is a not-for-profit benefit corporation, created under the laws of the State of California. Although PPFC is a separate legal entity from the City, it is reported as if it were part of the primary government, because its sole purpose is to be a financing entity for the City. PPFC does not issue separate basic financial statements.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

Petaluma Public Financing Authority

The Petaluma Public Financing Authority (PPFA) was established in May of 1996 as a joint powers authority between the City and PCDC. Its purpose was to issue revenue bonds, which provided funds for a consolidated special assessment bond refunding. Although PPFA is a separate legal entity from the City, it is reported as if it were part of the primary government, because its sole purpose is to be a financing entity for the City. PPFA does not issue separate basic financial statements.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables including the corresponding deferred revenues. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Assets, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements, Continued

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989 to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statement and Interpretations issued after November 30, 1989 except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that met the qualifications for major fund reporting.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for that revenues subject to accrual (generally 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, tax payer-assessed tax revenues (sales tax, transient occupancy taxes, franchise taxes, etc.), certain grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund. A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Fiduciary Net Assets. The City's fiduciary funds represent Agency Funds and private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for using the accrual basis of accounting. The private-purpose trust funds are used to account for resources legally held in trust for special purposes. The special purpose trust funds involve measurement of results of operation. Fiduciary fund types are accounted for according to the nature of the fund.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments

The City pools cash resources of its various funds to facilitate cash management. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity, or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

E. Inventories

Inventories in General Fund are recorded at cost, and inventories in Proprietary Funds are recorded at the lower of cost of market. All inventories use the first-in, first-out method and the items are recorded as expenditures/expenses when consumed. The General Fund inventory, which consists primarily of supplies and parts, is offset by a reserved fund balance to indicate that this asset is not available for appropriation.

The Proprietary Fund inventory consists primarily of supplies, meters, and vehicle parts held for further consumption.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end, but not yet received. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. At June 30, 2004, allowance for doubtful accounts (which is netted with accounts receivables in the financial statement presentation) was as follows for the various funds:

Airport Fund	\$ 2,600
Ambulance Fund	130,000
Marina Fund	500
Waste Water Utility Fund	20,500
Water Utility Fund	23,900

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Interfund Transactions

Advances to and advances from other funds/City/Redevelopment Agency represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue.

All other outstanding balance between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

H. Capital Assets and Depreciation

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Governmental-Wide Financial Statement. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The City's policy is to capitalize all property, plant, and equipment with a unit cost of \$5,000 or more, and a useful life of one year or more.

Capital assets in government fund operations are recorded as expenditures in the fund financial statements. They are capitalized for the government-wide financial statements. Infrastructure assets are also reported as capital assets in the government-wide financial statements.

Capital assets used in proprietary fund types are capitalized in the fund in which they are utilized. Interest during construction is capitalized in the proprietary funds.

Depreciation is charged as an expense of operations for all activities on the government-wide financial statements, and as expense of operations in the proprietary funds on the fund financial statements. Depreciation is based on the estimated useful lives of the assets using the straight-line method. The revised estimated useful lives are as follows:

Vehicles and equipment	4-15 years
Building and improvements	10-50 years
Infrastructure	20-50 years

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure in the current Basic Financial Statements.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, Continued

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

- Sidewalks and bridges
- Street system
- Sewer system
- Pipes

Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Estimated historical costs were developed in one of the following methods:

- 1) Use of historical records where available.
- 2) Standard unit costs appropriate for the construction/acquisition date of asset.
- 3) Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date was computed on a straight line, using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the estimated historical cost.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

I. Interest Payable

In the Government-Wide Financial Statements, interest payable for long-term debt is recognized as the liability is incurred in the appropriate activity.

In the Fund Financial Statements, propriety fund types recognize the interest payable when the liability is incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets for Enterprise Fund are capitalized, when material, as a component of the cost of acquiring such assets. Interest in the amount \$205,958 was capitalized during the year ended June 30, 2004.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are grants receivable.

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments and loans receivable.

K. Compensated Absences

The City has compensated absences of regular vacation and sick leave which are accounted for in accordance with generally accepted accounting principles (GAAP). Employees may accumulate earned vacation time. Management employees are limited to the amount, which may be earned, in a three year period. All other employees are limited to the amount, which may be earned, in a two year period.

Employees may accumulate unused sick leave without limits. The unused sick leave vests after five years of service for firefighters, and after ten years of service for all other employees. Vested sick leave is payable upon death or retirement for all employees at 50% of the vested amount, up to a limit of 1,000 hours for fire battalion chiefs, 720 hours for firefighters, 600 hours for police mid-management employees, and 480 hours for all other employees. All employees may elect, in lieu of a cash payment, to have all vested sick leave applied to their years of service under the retirement plan.

Public safety employees are also eligible for vested sick leave to be paid upon a disability retirement at 50% of the vested amount, up to a limit of 1,000 hours for firefighters, and 600 hours for all police officers.

A liability is calculated for all of the cost of compensated absences based on benefits earned by employees in the current period, for which there is a probability of payment at termination. The salary and related payroll costs are those in effect as of June, 30, 2004.

For governmental funds, compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements. For proprietary funds, current and non-current liabilities for compensated absences are recorded as expenses in both the government-wide financial statement and the fund financial statement.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

Long-term debt is not reported in the Fund Financial Statements but is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of the Net Assets.

In the Fund Financial Statements, governmental funds recognized bond premiums and discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. All debt issuance costs are reported as debt service expenditure.

M. Net Assets and Fund Equity

Government-Wide Financial Statements

Invested in Capital Assets, net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Fund Equity - Reservation and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Revenues

Property Taxes

Article XIII of the California Constitution (more commonly known as Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified voters.

Property taxes attached as a lien on the property as of January 1. Secured property taxes are levied on July 1 and are due in two installments by December 10 and April 10. The County of Sonoma bills and collects property taxes on behalf of the City using an alternative method of distribution known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the City each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County. The City reports property tax revenue net of collection fees.

Sales Tax Revenue

The City accrues the State's July and August sales tax payments for the previous fiscal year. These payments consist of actual receipts for the period of May 15 through July 14 and are measurable and available for the fiscal year in which that they are accrued. The City reports sales tax revenue net of collection fees.

Program Revenue

In general, program revenues are derived from the activities of a particular function. Program revenues include charges for services, permits and fees, and restricted operating and capital grants.

Operating and Non-Operating Revenues of Proprietary Funds

Operating revenues of proprietary funds result from providing goods and services. They also include all revenue not related to capital and relating financing, non-capital financing or investing activities.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings.

A. Cash Deposits

The carrying amount of the City's cash deposits were (\$1,416,264) at June 30, 2004. Bank balances before reconciling items were \$913,172. The total bank balance was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below.

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

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures and asset seizure funds segregated in the police trust account. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

Under provisions of the California Government Code, authorized investments for the City include securities of the State or local agencies of the State, securities of the U.S. Treasury and other Federal agencies, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper, money market, mutual funds, guaranteed investment contracts, California Asset Management Program (CAMP) and State of California Local Agency Investment Funds (LAIF).

The City's investments with Local Agency Investment Funds (LAIF) at June 30, 2004, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2004, the City had \$15,100,410 invested in LAIF, which had invested 1.603% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The City valued its investments in LAIF as of June 30, 2004, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 0.998384177.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

Investment in Assessment District Bond - The City purchased a \$1,012,184 improvement bond for the Assessment District 2000-01 in September 2001. This bond was issued to finance a portion of the work of the Washington/McDowell capital improvement project. The bond will be repaid by the property owners through September 2021. Interest is earned at a rate of 6% per annum. The assessment will be collected by the Sonoma Assessor's Office.

California Asset Management Program - CAMP is a separate public agency established under the provisions of the California Joint Exercise of Powers Act. This program provides California public agencies with investment management services, and accounting and arbitrage rebate calculation services of tax-exempt financings.

Cash and Investment with Fiscal Agents - The Cash and Investments with Fiscal Agents in the amount of \$41,686,902 include certain amounts which are held by fiscal agents to be used only for specific capital outlay, payments of certain long-term debt and maintaining required reserves. These funds have been invested only as permitted by specific State statutes governing their investment or applicable City ordinance, resolution, or bond indenture.

C. Credit Risk

In accordance with GASB Statement No. 3, demand deposits are classified as to custodial risk by three categories as follows:

Demand Deposits:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Deposits which are uninsured or uncollateralized.

Investments:

Category 1 - Insured or registered or securities held by the entity or its agent in the entity's name.

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

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS, Continued

C. Credit Risk, Continued

Investments, Continued:

Investments Not Subject to Categorization - Investments in the California Local Agency Investment Fund (LAIF) are not categorized, as GASB Statement No. 3 does not require categorization of investment pools managed by another government. Certain fiscal agent investments are not categorized because the underlying assets are open-ended mutual funds. Guaranteed investment contracts are not categorized because they are direct contractual investments and are not securities. All such investments are not required to be categorized under interpretive guidelines issued by the GASB.

D. Summary of Cash and Investments

The following is a summary of pooled cash and investments, including restricted cash and investments with fiscal agents at June 30, 2004:

	Government-Wide Statement of Net Assets			Fiduciary Funds	
	Governmental	Business-Type	Total	Statement of	Total
	Activities	Activities		Net Assets	
Cash and investments	\$ 39,035,609	\$ 9,353,127	\$ 48,388,736	\$ 3,821,618	\$ 52,210,354
Restricted cash	29,917,264	10,282,773	40,200,037	1,486,863	41,686,900
Total cash and investments	\$ 68,952,873	\$ 19,635,900	\$ 88,588,773	\$ 5,308,481	\$ 93,897,254

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS, Continued

D. Summary of Cash and Investments, Continued

Pooled demand deposits and investments, including restricted assets, were classified by risk category as follows at June 30, 2004:

	<u>Category 1</u>	<u>Category 2</u>	<u>Not Required to be Categorized</u>	<u>Fair Value</u>
Pooled Cash and Investments:				
Cash and Cash Deposits:				
Checking	\$ (1,416,264)	\$ -	\$ -	\$ (1,416,264)
Petty cash	3,298	-	-	3,298
Money market	1,010,258	-	-	1,010,258
Total cash and cash deposits	<u>(402,708)</u>	<u>-</u>	<u>-</u>	<u>(402,708)</u>
Investments:				
Securities of U.S. Government Agencies				
FHLB	9,109,717	-	-	9,109,717
FHLMC	10,497,832	-	-	10,497,832
FNMA	7,772,650	-	-	7,772,650
US Treasury Notes	9,176,430	-	-	9,176,430
Total Securities of U.S. Government Agencies	<u>36,556,629</u>	<u>-</u>	<u>-</u>	<u>36,556,629</u>
Local Agency Investment Fund	-	-	15,100,410	15,100,410
Investments in Assessment Dist. Bond	956,023	-	-	956,023
Total investments	<u>37,109,944</u>	<u>-</u>	<u>15,100,410</u>	<u>52,613,062</u>
Total pooled cash and investments	<u>\$ 36,707,236</u>	<u>\$ -</u>	<u>\$ 15,100,410</u>	<u>\$ 52,210,354</u>
Restricted Cash and Investments				
Cash with Fiscal Agents		<u>\$ 41,686,900</u>		<u>\$ 41,686,900</u>
Total restricted cash and investments		<u>\$ 41,686,900</u>		<u>\$ 41,686,900</u>

The City had no Category 3 cash and investments.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS, Continued

E. Summary of Investments to Maturity

The maturities of investments at June 30, 2004, were as follows:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$ 19,884,487
One to two years	17,638,883
Two to three years	14,231,399
Three to four years	36,623
Four to five years	38,853
Over five years	782,817
Total investments	\$ 52,613,062

F. Fair Value of Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method as follows. The total fair value adjustment resulted in a loss of \$863,160.

3. NOTES RECEIVABLE

As of June 30, 2004, the City had the following receivables:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Housing Loans to					
Not-For-Profit Agencies	\$ 8,885,258	\$ 5,709,692	\$ (2,114)	\$ 2,722,026	\$ 17,314,863
First-Time Home Buyers Loans	4,619,705	597,000	(998,128)	(106,303)	4,112,274
Eligible Construction Cost Loan and Tax increment Loan	889,234	207,472	-	-	1,096,706
Total	\$ 14,394,197	\$ 6,514,164	\$ (1,000,242)	\$ 2,615,723	\$ 22,523,843

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

3. NOTES RECEIVABLE, Continued

As of June 30, 2004, the City had the following loans receivable:

Description	Balance June 30, 2004
First Time Home Buyers Loans	\$ 4,112,274
Housing Loans to Nonprofit Agencies:	
Bucklelew Project	95,601
Capri Creek Assoc LLC	97,500
Casa Grande	150,776
Caulfield Land St. Housing Assoc	182,999
Downtown River Assoc LP	6,996,247
Eden Housing Inc - Washington Creek	320,000
Old Elm Partners	2,504,338
575 Vallejo St. Assoc.	851,184
579 Vallejo St. Assoc.	990,000
Edith St. Apt. Inc	1,217,884
Lieb Sr. Apt. Inc.	1,189,092
Madrone Village Assoc	289,947
Parklane Apt. Corp	177,115
Roundwalk Village Partners	1,863,800
Salishan Apt. Inc	388,380
Total Housing Loans to Nonprofit Agencies	<u>17,314,863</u>
Eligible Construction Cost Loan and Tax Increment Loan:	
Sheraton Marina Hotel OPA	750,000
Sheraton Marina Hotel TOT OPA	346,706
Total Eligible Construction Cost Loan and Tax Increment Loan	<u>1,096,706</u>
Total Notes Receivables	<u>\$ 22,523,843</u>

First-Time Home Buyers Loans

The City offers qualified low and moderate income first time home buyers silent second mortgages on home purchases. Accrued interest and principal are due when the primary loan is refinanced or on sale of the property. The interest rate is the lower of the principal amount plus interest at a rate of 10% per annum, or 28.6% to 33% net of sales price. The total amount outstanding as of June 30, 2004 was \$4,112,274.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

3. NOTES RECEIVABLE, Continued

Housing Loans to Not-for-Agencies

The City has provided various loans to not-for-profit agencies for the construction of units for low-income rental housing projects. The loans are funded using HOME funds, Community Development Block Grant funds, General fund, and Housing funds. The interest rates range from zero to 5.78%. Payment is deferred until a variety of events occur, such as: sale or transfer of property, failure to adhere to low and moderate housing provisions of the promissory note, to the extent of residual receipts, or at the maturity date of the note. The maturity dates range from 32-55 years.

The City and the Petaluma Community Development Commission have loaned funds to not-for-profit agencies to finance construction of low and moderate income housing. The terms range from 13 to 60 years, and the interest rates range from zero to 6.56%. Payment is deferred until a variety of events occur, such as: sale or transfer of property, failure to adhere to low and moderate housing provisions of the promissory note, to the extent of residual receipts, or at the maturity date of the note.

Eligible Construction Cost Loan and Tax Increment Loan

Sheraton Marina Hotel OPA - The Petaluma Community Development Commission provided a construction loan to a private developer for the construction of a hotel at the Marina. The loan is secured by a deed of trust. The loan accrues interest at 3% per annum for the first five years. Repayment is scheduled to begin July 1, 2007, and to continue in equal monthly payments over ten years.

Sheraton Marina Hotel TOT OPA - The Petaluma Community Development Commission is in the process of loaning the same developer two-thirds of the monthly Transient Occupancy Tax generated by the hotel, to a maximum of \$2,000,000. This loan accrues interest at 3% simple interest for the first ten years. Repayment is scheduled to begin July 1, 2012, and to continue in equal monthly payments over fifteen years.

4. DEFERRED REVENUE

A. Government-Wide Financial Statements

Deferred revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2004, deferred revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities
Unearned grant revenues	\$ 7,788
Total	\$ 7,788

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

4. DEFERRED REVENUE, Continued

B. Fund Financial Statements

At June 30, 2004, the following deferred revenues were recorded in the fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

Interest receivable on:

Notes receivable:

575 Vallejo St Associate	\$	279,106
Parklane Apartment Corp		1,812
579 Vallejo St Associate		186,488
Salishan Apartments, Inc.		69,909
Edith St Apartment		99,088
Old Elm Partner, LP.		134,723
Sheraton Marina Hotel (Owners Participation Agreement)		6,108
Sheraton Marina Hotel (TOT Owners Participation Agreement)		62,506
Total interest on Notes receivable		<u>839,740</u>
Unearned grants revenue		47,200
Housing loans		7,905,595
Advances to other funds		324,242
Miscellaneous		<u>118,838</u>
Total deferred revenue	\$	<u><u>9,235,615</u></u>

5. INTERFUND BALANCES AND TRANSACTIONS

A. Due to/from Other Funds

Due to/from other funds for the year ended June 30, 2004 were as follows:

		Due from other funds		
		General Fund	Non-Major Funds	Total
Due to other funds	Governmental funds:			
	Redevelopment - CBD capital project fund	\$ 2,700,000	\$ -	\$ 2,700,000
	Non-Major funds	-	125,000	125,000
	Enterprise funds:			
	Airport	70,477	-	70,477
	Public Transportation	1,014,247	-	1,014,247
	Total	\$ 3,784,724	\$ 125,000	\$ 3,909,724

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

5. INTERFUND BALANCES AND TRANSACTIONS, Continued

B. Advances to/from Other Funds

Advances to/from other funds for the year ended June 30, 2004 were as follows:

		Advances to other funds	
		PCD Capital Project	Total
Advances from other funds	Governmental funds:		
	Redevelopment - CBD Capital Project	\$ 5,504,000	\$ 5,504,000
	Enterprise funds:		
	Marina fund	1,274,685	1,274,685
	Total	\$ 6,778,685	\$ 6,778,685

C. Transfers In/Out

Transfers in/out for the year ended June 30, 2004 were as follows:

	Transfers In											
	Governmental Funds					Enterprise Funds			Internal Service Funds			
	General Fund	Redevelopment CBD Capital Project	Redevelopment PCD Capital Project	Redevelopment PCD Debt Service	Non-Major Governmental Funds	Marina Fund	Waste Water Fund	Water Fund	Risk Management Fund	Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Total
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 616,581	\$ -	\$ -	\$ -	\$ -	\$ 400,000	\$ -	\$ 1,016,581
Redevelopment CBD Capital Project Fund	-	14,733,300	-	-	139,000	-	-	-	-	-	-	14,872,300
Redevelopment PCD Capital Project Fund	-	-	1,642,000	3,031,500	6,606,000	246,000	-	-	-	-	-	11,525,500
Non-Major Governmental Funds	1,277,350	-	-	-	18,237,130	27,000	-	-	1,000,000	-	-	20,541,480
Enterprise Funds:												
Waste Water Fund	-	130,000	-	-	259,000	-	7,509,000	1,372,000	-	132,418	242,582	9,645,000
Water Fund	-	150,000	-	-	410,000	-	-	7,895,000	-	132,417	242,583	8,830,000
Total	\$ 1,277,350	\$ 15,013,300	\$ 1,642,000	\$ 3,031,500	\$ 26,267,711	\$ 273,000	\$ 7,509,000	\$ 9,267,000	\$ 1,000,000	\$ 664,835	\$ 485,165	\$ 66,430,861

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2004 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-Depreciable Assets:			
Land	\$ 24,274,508	\$ 9,996,501	\$ 34,271,009
Construction in progress	13,501,478	18,131,551	31,633,029
	<u>37,775,986</u>	<u>28,128,052</u>	<u>65,904,038</u>
Depreciable Assets:			
Buildings and improvements	17,470,544	16,383,959	33,854,503
Vehicles and Equipment	6,323,618	5,404,463	11,728,081
Infrastructure	87,491,438	100,195,376	187,686,814
	<u>111,285,600</u>	<u>121,983,798</u>	<u>233,269,398</u>
Less accumulated depreciation	<u>(52,887,298)</u>	<u>(58,779,295)</u>	<u>(111,666,593)</u>
Total depreciable assets, net	<u>58,398,302</u>	<u>63,204,503</u>	<u>121,602,805</u>
Total capital assets	<u>\$ 96,174,288</u>	<u>\$ 91,332,555</u>	<u>\$ 187,506,843</u>

The following is a summary of capital assets for governmental activities:

	Balance		Adjusted Balance				Balance
	July 1, 2003	Adjustments	July 1, 2003	Additions	Deletions	Transfer	June 30, 2004
Governmental Activities:							
Capital assets, not being depreciated:							
Land	\$ 24,274,508	\$ -	\$ 24,274,508	\$ -	\$ -	\$ -	\$ 24,274,508
Construction in process	11,881,091	(6,206,776)	5,674,315	12,485,149	-	(4,657,986)	13,501,478
Total capital assets, not being depreciated	<u>36,155,599</u>	<u>(6,206,776)</u>	<u>29,948,823</u>	<u>12,485,149</u>	<u>-</u>	<u>(4,657,986)</u>	<u>37,775,986</u>
Capital assets, being depreciated:							
Buildings and improvements	25,257,613	(8,413,846)	16,843,767	-	-	626,777	17,470,544
Vehicles and equipment	5,754,829	(16,856)	5,737,973	1,119,497	(533,852)	-	6,323,618
Infrastructure	69,804,301	13,682,716	83,487,017	1,124,684	(1,151,472)	4,031,209	87,491,438
Total capital assets, being depreciated	<u>100,816,743</u>	<u>5,252,014</u>	<u>106,068,757</u>	<u>2,244,181</u>	<u>(1,685,324)</u>	<u>4,657,986</u>	<u>111,285,600</u>
Accumulated depreciation:							
Buildings and improvements	(13,635,398)	7,398,548	(6,236,850)	(490,823)	-	-	(6,727,673)
Vehicles and equipment	(2,851,969)	-	(2,851,969)	(500,848)	430,208	-	(2,922,609)
Infrastructure	(34,216,416)	(7,398,548)	(41,614,964)	(1,666,607)	44,555	-	(43,237,016)
Total accumulated depreciation	<u>(50,703,783)</u>	<u>-</u>	<u>(50,703,783)</u>	<u>(2,658,278)</u>	<u>474,763</u>	<u>-</u>	<u>(52,887,298)</u>
Total capital assets, being depreciated, net	<u>50,112,960</u>	<u>5,252,014</u>	<u>55,364,974</u>	<u>(414,097)</u>	<u>(1,210,561)</u>	<u>4,657,986</u>	<u>58,398,302</u>
Total governmental activities	<u>\$ 86,268,559</u>	<u>\$ (954,762)</u>	<u>\$ 85,313,797</u>	<u>\$ 12,071,052</u>	<u>\$ (1,210,561)</u>	<u>\$ -</u>	<u>\$ 96,174,288</u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for business-type activities:

	Balance		Adjusted				Balance
	July 1, 2003	Adjustments	July 1, 2003	Additions	Deletions	Transfers	June 30, 2004
Business-Type Activities:							
Capital assets, not being depreciated:							
Land	\$ 5,981,292	\$ 2	\$ 5,981,294	\$ 4,015,207	\$ -	\$ -	\$ 9,996,501
Construction in process	10,335,446	(2)	10,335,444	8,933,225	-	(1,137,118)	18,131,551
Total capital assets, not being depreciated	16,316,738	-	16,316,738	12,948,432	-	(1,137,118)	28,128,052
Capital assets, being depreciated:							
Buildings and improvements	190,186	16,193,773	16,383,959	-	-	-	16,383,959
Vehicles and equipment	10,544,085	(5,504,186)	5,039,899	822,647	(458,083)	-	5,404,463
Infrastructure	109,742,722	(10,684,464)	99,058,258	-	-	1,137,118	100,195,376
Total capital assets, being depreciated	120,476,993	5,123	120,482,116	822,647	(458,083)	1,137,118	121,983,798
Less accumulated depreciation for:							
Buildings and improvements	(105,697)	(5,081,423)	(5,187,120)	(498,168)	-	-	(5,685,288)
Vehicles and equipment	(4,353,425)	976,174	(3,377,251)	(395,096)	457,796	-	(3,314,551)
Infrastructure	(51,527,774)	4,100,128	(47,427,646)	(2,351,810)	-	-	(49,779,456)
Total accumulated depreciation	(55,986,896)	(5,121)	(55,992,017)	(3,245,074)	457,796	-	(58,779,295)
Total capital assets, being depreciated, net	64,490,097	2	64,490,099	(2,422,427)	(287)	1,137,118	63,204,503
Total business-type activities	\$ 80,806,835	\$ 2	\$ 80,806,837	\$ 10,526,005	\$ (287)	\$ -	\$ 91,332,555

Depreciation expense was charged to various governmental functions as follows:

General government	\$ 211,245
Community development	313,659
Police	290,837
Fire	116,214
Parks and recreation	362,582
Public works	1,363,741
Total depreciation expense - governmental functions	\$ 2,658,278

Depreciation expense was charged to the business-type functions as follows:

Airport	\$ 453,836
Ambulance	52,058
Marina	140,288
Transit	33,505
Waste Water Utility	1,322,991
Water Utility	1,184,676
Equipment replacement (BA) fund	57,720
Total depreciation expense - business-type functions	\$ 3,245,074

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. CAPITAL ASSETS, Continued

B. Funds Financial Statements

The governmental funds financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

7. LONG-TERM DEBT

A. Governmental Activities Long-Term Debt

	Balance			Classification		
	July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts	Amounts
					Due Within One Year	Due in More than One Year
2000A Tax Allocation Bonds	\$ 17,515,000	\$ -	\$ (125,000)	\$ 17,390,000	\$ 125,000	\$ 17,265,000
2000B Tax Allocation Bonds	880,000	-	(95,000)	785,000	100,000	685,000
2001A Tax Allocation Bonds	3,505,000	-	(260,000)	3,245,000	270,000	2,975,000
2003A Tax Allocation Bonds	-	23,630,000	-	23,630,000	-	23,630,000
Unamortized Bonds Issuance Discount for 2003 A Tax Allocation Bonds	-	(14,217)	474	(13,743)	(474)	(13,269)
Auto Plaza DDA - AD 19	719,921	54,079	(64,000)	710,000	68,000	642,000
1993 Certificates of Participation	3,772,000	-	(3,772,000)	-	-	-
Compensated Absences	3,421,175	962,362	(1,558,070)	2,825,467	348,056	2,477,411
Accrued Claims Payable	5,024,599	2,113,556	(1,579,155)	5,559,000	1,375,000	4,184,000
Total	\$ 34,837,695	\$ 26,745,780	\$ (7,452,751)	\$ 54,130,724	\$ 2,285,582	\$ 51,845,142

2000A Tax Allocation Bonds

On June 15, 2000, the Petaluma Community Development Commission issued Tax Allocation Bonds, Series 2000A in the amount of \$18,000,000. The proceeds of the bonds were to finance the flood control project, and to fund new and continuing improvement projects in the Petaluma Community Development Project Area. The Bonds mature annually each May 1 from 2001 to 2030, in amounts ranging from \$115,000 to \$7,635,000 and bear interest at rates ranging from 5.00% to 5.75%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2009, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after May 1, 2008, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$17,390,000 as of June 30, 2004.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2000A Tax Allocation Bonds, Continued

The annual debt service requirements for the 2000A Tax Allocation Bonds outstanding at June 30, 2004, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2005	\$ 125,000	\$ 979,188	\$ 1,104,188
2006	135,000	972,938	1,107,938
2007	135,000	966,188	1,101,188
2008	145,000	959,438	1,104,438
2009	150,000	952,188	1,102,188
2010-2014	840,000	4,643,644	5,483,644
2015-2019	3,555,000	4,141,340	7,696,340
2020-2024	4,670,000	3,022,988	7,692,988
2025-2029	6,180,000	1,662,602	7,842,602
2030	1,455,000	83,662	1,538,662
Total	\$ 17,390,000	\$ 18,384,176	\$ 35,774,176

2000B Tax Allocation Bonds

On October 1, 2000, the Commission issued Tax Allocation Bonds, Series 2000B in the amount of \$965,000. The proceeds of the bonds were used to refund the 1984 Tax Allocation Bonds and to finance off-street parking and the construction of the City's downtown parking garages, located in the Central Business District Project Area. The Bonds mature annually each September 1 from 2002 to 2010, in amounts ranging from \$85,000 to \$130,000 and bear interest at rates ranging from 4.30% to 4.90%. Interest is payable semiannually on March 1 and September 1. The Bonds maturing on or after September 1, 2006, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after September 1, 2005, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$785,000 as of June 30, 2004.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2000B Tax Allocation Bonds, Continued

The annual debt service requirements for the 2000B Tax Allocation Bonds outstanding at June 30, 2004, was as follows:

	For the Year Ending June 30,	Principal	Interest	Total
2005	\$	100,000	\$ 34,590	\$ 134,590
2006		100,000	30,140	130,140
2007		105,000	25,475	130,475
2008		110,000	20,475	130,475
2009		115,000	15,130	130,130
2010-2011		255,000	12,555	267,555
Total	\$	785,000	\$ 138,365	\$ 923,365

2001A Tax Allocation Bonds

On June 4, 2001, the Commission issued Refunding Tax Allocation Bonds, Series 2001A in the amount of \$4,025,000. The proceeds of the bonds were used to finance refund the 1992 Tax Allocation Bonds and to fund the development of the auto plaza located in the Petaluma Community Development Project Area. The Bonds mature annually each May 1 from 2002 to 2014, in amounts ranging from \$250,000 to \$390,000 and bear interest at rates ranging from 3.50% to 4.50%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2010, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2009, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$3,245,000 as of June 30, 2004.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2004, was as follows:

	For the Year Ending June 30,	Principal	Interest	Total
2005	\$	270,000	\$ 130,810	\$ 400,810
2006		275,000	121,360	396,360
2007		290,000	111,460	401,460
2008		305,000	100,730	405,730
2009		315,000	89,140	404,140
2010-2014		1,790,000	240,796	2,030,796
Total	\$	3,245,000	\$ 794,296	\$ 4,039,296

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2003A Tax Allocation Bonds

On October 28, 2003, the Commission issued Tax Allocation Bonds, Series 2003A in the amount of \$23,630,000. The proceeds of the bonds will be used to finance redevelopment projects within the Petaluma Community Development Project area. The Bonds mature annually each May 1 from 2007 to 2033, in amounts ranging from \$430,000 to \$8,215,000 and bear interest at rates ranging from 2.25% to 5.00%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2014, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2013, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$23,630,000 as of June 30, 2004.

The annual debt service requirements outstanding at June 30, 2004 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 1,072,005	\$ 1,072,005
2006	-	1,072,005	1,072,005
2007	430,000	1,072,005	1,502,005
2008	430,000	1,062,330	1,492,330
2009	445,000	1,052,655	1,497,655
2010-2014	2,455,000	5,043,538	7,498,538
2015-2019	2,785,000	4,551,600	7,336,600
2020-2024	3,465,000	3,884,076	7,349,076
2025-2029	4,390,000	2,974,307	7,364,307
2030-2033	9,230,000	1,295,993	10,525,993
Total	\$ 23,630,000	\$ 23,080,514	\$ 46,710,514

The bonds were issued at a discount of \$14,217 which is being amortized over the 30 years life of the bonds resulting in an annual amortization of \$474.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Auto Plaza DDA- AD 19

On February 3, 1992, the Assessment District 19 Bonds were issued in the amount of \$1,080,000. The proceeds of the bonds were to finance public improvements at the Auto Plaza. The Bonds mature annually each September 2 from 1997 to 2010, in amounts ranging from \$45,000 to \$103,000 and bear interest at rates ranging from 5.60% to 7.75%. Interest is payable semiannually on March 2 and September 2. The bonds are payable from and secured by assessment paid by the property owners. The Commission is refunding 50% of the assessments paid by the property owners in relation to these bonds, as part of the Auto Center Disposition and Development Agreement. The outstanding balance was \$710,000 as of June 30, 2004.

The annual debt service requirements on these bonds outstanding at June 30, 2004, were as follows:

	For the Year Ending June 30,	Principal	Interest	Total
2005	\$ 68,000	\$ 50,904	\$ 118,904	
2006	72,000	45,950	117,950	
2007	80,000	40,456	120,456	
2008	84,000	34,407	118,407	
2009	92,000	27,782	119,782	
2010-2011	314,000	37,331	351,331	
Total	\$ 710,000	\$ 236,830	\$ 946,830	

Certificates of Participation (governmental activity) - Original Issue \$9,290,000

The 1993 Consolidated Public Facilities Lease was issued in the amount of \$9,290,000, maturing through 2013 in annually. Interest was payable semi-annually ranging from 2.8% to 7.35%. The payments were being paid from Community Development Impact Fees, from the General Fund. The principal amount of bonds was paid in full during the fiscal year

Compensated Absences

The City's liability for vested and unpaid compensated absences that exceed expendable available financial resources for governmental fund types is reported in the Government-Wide Financial Statements.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt

	Balance			Balance June 30, 2004	Classification	
	July 1, 2003	Additions	Deletions		Amounts	Amounts
					Due Within One Year	Due in More than One Year
1993 Certificate of Participation	\$ 2,483,000	\$ -	\$ (2,483,000)	\$ -	\$ -	
2003 Certificate of Participation	-	6,295,000	-	6,295,000	-	6,295,000
Unamortized Bonds Issuance Premium for 2003 Certificates of Participation		81,875	(1,638)	80,237	3,275	76,962
2000 Waste Water Revenue Bonds	8,030,000	-	(310,000)	7,720,000	325,000	7,395,000
Unamortized Bonds Issuance Discount for 2000 Waste Water Revenue Bonds	(74,866)	-	4,448	(70,418)	(4,448)	(65,970)
2001B Water Revenue Bonds	9,655,000	-	(215,000)	9,440,000	220,000	9,220,000
Unamortized Bonds Issuance Discount for 2001B Water Revenue Bonds	(17,487)	-	874	(16,613)	(874)	(15,739)
California Dept of Boatings and Waterways	4,247,138	208,353	-	4,455,491	409,975	4,045,516
California Dept of Transportation	735,026	-	(75,878)	659,148	81,619	577,529
Compensated Absences	564,171	148,675	(297,950)	414,896	44,422	370,474
Total	\$ 25,621,982	\$ 6,733,903	\$ (3,378,144)	\$ 28,977,741	\$ 1,078,969	\$ 27,898,772

2003 Certificate of Participation - Original Issue \$6,295,000

On December 9, 2003, the City issued 2003 Certificate of Participation in the amount of \$6,295,000. The proceeds of the bonds were used to refund the 1993 Certificates which were issued to finance the purchase and construction of the City's Police Building, Community Facilities Buildings and portions of the Petaluma Municipal Airport. The Bonds mature annually each August 1 from 2005 to 2028, in amounts ranging from \$165,000 to \$435,000 and bear interest at rates ranging from 2.500% to 5.125%. Interest is payable semiannually on February 1 and August 1. The Bonds maturing on or after August 1, 2014, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity dates, on any date on or after August 1, 2013, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from lease payments. The outstanding balance of the bonds was \$6,295,000 as of June 30, 2004.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt, Continued

2003 Certificate of Participation – Original Issue \$6,295,000, Continued

The annual debt service requirements for 1993 Certificate of Participation outstanding at June 30, 2004, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 309,571	\$ 309,571
2006	165,000	273,111	438,111
2007	170,000	268,923	438,923
2008	170,000	264,673	434,673
2009	175,000	260,273	435,273
2010-2014	965,000	1,213,795	2,178,795
2015-2019	1,185,000	1,000,222	2,185,222
2020-2024	1,510,000	691,075	2,201,075
2025-2029	1,955,000	261,247	2,216,247
Total	\$ 6,295,000	\$ 4,542,890	\$ 10,837,890

2000 Waste Water Revenue Bonds – Original Issue \$8,895,000

On May 1, 2000, the City issued Waterwater Revenue Bonds, Series 2000 in the amount of \$8,895,000. The proceeds of the bonds were used to finance improvements to the Waste Water System. The Bonds mature annually each May 1 from 2001 to 2020, in amounts ranging from \$280,000 to \$690,000 and bear interest at rates ranging from 4.25% to 5.50%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2010, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity dates, on any date on or after May 1, 2009, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable solely from a pledge of and lien upon the net revenues received by the City from the ownership and operation of its Waste Water Utility Fund. The outstanding balance of the bonds was \$7,720,000 as of June 30, 2004.

The annual debt service requirements for 2000 Waste Water Revenue Bonds outstanding at June 30, 2004, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2005	\$ 325,000	\$ 389,278	\$ 714,278
2006	340,000	375,058	715,058
2007	355,000	359,928	714,928
2008	375,000	343,954	718,954
2009	390,000	326,704	716,704
2010-2014	2,285,000	1,330,030	3,615,030
2015-2019	2,960,000	679,964	3,639,964
2020-2024	690,000	37,950	727,950
Total	\$ 7,720,000	\$ 3,842,866	\$ 11,562,866

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt, Continued

2001B Water Revenue Bonds – Original Issue \$10,165,000

On August 1, 2001, the City issued Water Revenue Bonds, Series 2001 in the amount of \$10,165,000. The proceeds of the bonds were used to refund the 1990 Certificates of Participation, and to finance improvements to the Water System. The Bonds mature annually each November 1 from 2001 to 2031, in amounts ranging from \$210,000 to \$2,445,000 and bear interest at rates ranging from 3.50% to 5.00%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after November 1, 2012, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity dates, on any date on or after November 1, 2011, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable solely from a pledge of and lien upon the net revenues received by the City from the ownership and operation of its Water Utility Fund. The outstanding balance of the bonds was \$9,440,000 as of June 30, 2004.

The annual debt service requirements for 2001 Water Revenue Bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 220,000	\$ 433,627	\$ 653,627
2006	230,000	425,190	655,190
2007	235,000	416,472	651,472
2008	245,000	407,472	652,472
2009	250,000	398,190	648,190
2010-2014	1,425,000	1,830,978	3,255,978
2015-2019	1,560,000	1,491,329	3,051,329
2020-2024	1,630,000	1,122,197	2,752,197
2025-2029	2,105,000	658,625	2,763,625
2030-2032	1,540,000	118,250	1,658,250
Total	\$ 9,440,000	\$ 7,302,330	\$ 16,742,330

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

7. LONG-TERM DEBT, Continued

B. Business Activities Long-Term Debt, Continued

Notes Payable

On March 11, 1993, the California Department of Boating and Waterways note was issued in the amount of \$3,960,000 to finance construction of the Petaluma Marina. The terms of the loan allow unpaid interest to be added to the outstanding principal. The loan balance was increased by unpaid interest and penalties for the years ended June 30, 1998, and 2000 through 2004. The debt is the responsibility of the Marina Fund.

Year Ending June 30,	Principal	Interest	Total
2005	\$ 211,843	\$ 198,132	\$ 409,975
2006	221,376	188,599	409,975
2007	231,338	178,637	409,975
2008	241,748	168,227	409,975
2009	252,626	157,349	409,975
2010-2014	1,444,238	605,637	2,049,875
2015-2019	1,852,322	250,092	2,102,414
Total	\$ 4,455,491	\$ 1,746,673	\$ 6,202,164

On October 4, 1996, the California Department of Transportation has issued three airport loans. The first was issued in the amount of \$975,000 to finance construction of hangars at the Airport. The second one was issued in the amount of \$50,000 to finance installation of an electronic payment fueling system at the Airport. The third one was issued in the amount of \$40,000 to fund the upgrade of the fueling system at the Airport, as required by new standards. The debt is being paid by the Airport Fund.

The annual debt service requirements at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 81,619	\$ 36,161	\$ 117,780
2006	85,978	31,719	117,697
2007	82,051	27,041	109,092
2008	80,167	22,572	102,739
2009	84,500	18,153	102,653
2010-2014	244,833	25,558	270,391
Total	\$ 659,148	\$ 161,204	\$ 820,352

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

8. NON-CITY OBLIGATION

The following bond issues are not reported in the City's financial statements, because they are special obligations payable solely from and secured by specific revenue sources described in the resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City, the County, the State of California, or any political subdivision thereof, is pledged for payment of these bonds.

Assessment Bonds

The 1915 Act bonds have been issued to finance improvements in various special assessment districts in the City. The bonds are a liability of the property owners, and are secured by liens against the assessed properties. The City acts merely as the fiscal agent for the collection of the assessment to be used for the principal and interest payments from the property owners, disbursements of such monies to the bondholders, and if appropriate, beginning foreclosures. The principal amount of bonds outstanding at June 30, 2004, was \$10,500,000

Defeased Debt

In prior years, the City has defeased various bond issues by creating separate, irrevocable trust funds. New debt was issued, and the proceeds were used to purchase US government securities, which were placed in the trust funds. The investments, and fixed earnings from the investments, are expected to be sufficient to fully service the defeased debt, until the debt is called or matures. For financial reporting purposes, the debt is considered defeased. Consequently, the trusts' assets and liabilities are not included in the City's financial statements.

At June 30, 2004, the amount of the Water revenue defeased debt outstanding, but removed from the long-term liabilities, totaled \$3,795,000

At June 30, 2004, the amount of Redevelopment tax allocation defeased debt outstanding, but removed from the long-term liabilities, totaled \$36,815,000.

At June 30, 2004, the amount of 1993 Certificates of Participation defeased debt outstanding, but removed from the long-term liabilities, totaled \$5,830,000.

Multi-family housing revenue bonds

In 1994, the Commission issued the 1994A Multifamily Housing Revenue Bonds. The proceeds from the bonds were used to finance the purchase of the Park Lane Apartment Project and perform HUD required repairs and rehabilitation. The Bonds are special obligations of the Commission, payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by Park Lane Apartments Corporation, a California not-for-profit public benefit corporation, formed for the principal purpose of owning the project. The owner's address is c/o Burbank Housing Development Corp., 3432-A Mendocino Avenue, Santa Rosa, CA 95403. These bonds are not recorded as liabilities on the Commission's financial statements.

Oakmont project - the Commission has issued \$4,750,000 in Multifamily Housing Revenue Bonds with a variable rate of interest, not to exceed 12%, with the variable rate to be determined by the marketing agent. The bonds will mature April 1, 2026. The proceeds from the bonds were used to make a loan to Oakmont Retirement Investors, LLC for the purpose of financing the acquisition and construction of a 76-unit assisted living care/multi-family rental facility known as Oakmont at Petaluma. In August 1997, the Commission consented to a sale of the project from Oakmont Retirement Investors, LLC to Windchime of Walnut Creek

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

8. NON-CITY OBLIGATION, Continued

Multi-family housing revenue bonds, Continued

Investors, LP, a California limited partnership. The bonds are special obligation of the Commission, payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by Windchime of Walnut Creek, LP. These bonds are not recorded as liabilities on the City's financial statements. On September 15, 2003, the Commission issued Multi-family Housing Revenue Bonds and Taxable Multi-family Housing Revenue Bonds in the amount of \$12,800,000. The proceeds of the bonds will be used to finance the construction and equipping of an 81 unit, multifamily, rental housing development in the City of Petaluma, known as the "Downtown River Apartments". The bonds are special obligation of the Commission payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by the obligator.

9. RISK MANAGEMENT

The City provides coverage up to a maximum of \$500,000 for each general liability claim. The City is a member of a public entity risk pool, which provides liability coverage of up to \$10,000,000 per occurrence, including the City's risk limit. The actuarially determined liability at June 30, 2004 for general liability was \$1,626,000, which includes an estimate for incurred, but not reported claims.

The amounts of coverage for the risk retention, pool participation, purchased insurance and cost reimbursed benefits have not changed from the prior year. The amount of settled claims has not exceeded the maximum coverage in any of the past three years, under risk retention, pool participation, purchased insurance and cost reimbursed plans.

The public entity risk pool (Pool), to which the City belongs, assesses each member an annual contribution to cover claims, operating costs and claim settlement expenses. The Pool has a multi-level risk sharing arrangement for its liability program. Members assume their own losses, up to their retention level. Losses in excess of the retention are paid out of a central pool maintained by the Pool for each of the four levels of coverage. This central pool is funded by all of the members participating in that program layer through contributions. Losses in excess of participation limits are the responsibility of the individual member from which the loss or claim originated.

The City provides coverage up to a maximum of \$275,000 for each workers' compensation claim. The actuarially determined liability as of June 30, 2004 for workers' compensation was \$3,933,000, which includes an estimate for incurred, but not reported claims.

Most funds of the City participate in the retention program, and make payments to the Risk Management Fund and the Workers' Compensation Fund, based on budgetary estimates of the amounts needed to pay prior and current year claims, and to establish a reserve for catastrophic losses.

The accrued claims liability of \$5,559,000, reported in the risk funds as of June 30, 2004 is based upon the requirement of GASB Statement No.10. This statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities for future claims and payments for workers' compensation were based on an actuarial study, which

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

9. RISK MANAGEMENT, Continued

was completed for the year ended June 30, 2004. Liabilities for future claims and payments for general liability were determined by management, based on a review of actual active claims as of June 30, 2004.

The following is a reconciliation of changes in the aggregate liabilities for claims for the years ended June 30, 2004 and 2003:

	2004	2003
Claims liability, beginning	\$ 5,024,599	\$ 5,045,158
Claims incurred	2,113,556	1,279,332
Payment on claims	(1,579,155)	(1,299,891)
Claims liability, ending	\$ 5,559,000	\$ 5,024,599

Employee medical, disability and life insurance benefits are also purchased. The City self-insures for additional employee benefit insurance such as dental, vision and unemployment, on a cost reimbursement basis, up to defined annual maximums. No liability has been accrued for these claims, as they are deemed immaterial.

10. DEFICIT FUND BALANCES AND NET ASSETS

A. Fund Financial Statements

At June 30, 2004, the following funds had deficit fund balances or deficit net assets:

Funds	Deficit
Special Revenue Funds:	
Grants fund	81,500
Capital projects Funds:	
Redevelopment CBD	8,947,654
Enterprise Funds:	
Marina Fund	2,803,860
Internal Services Funds:	
Workers' Compensation Fund	2,254,332

The deficit in the grants fund was caused by a short term timing difference and should be eliminated once this timing difference is resolved.

The City is planning to eliminate the deficit in the Redevelopment CBD fund by long-term advances from redevelopment-PCD project area. The Agency is investigating a fiscal merger between the two project areas.

The City is planning to eliminate the deficit in the Marina Fund by possible restructuring of the Department of Boating and Waterways note payable, since the operation of this fund is unable to meet its debt service.

The City is planning to eliminate the deficit in the Workers' Compensation fund by the receipt of current and future annual intergovernmental charges revenue in excess of annual expenses.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

11. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following funds:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Redevelopment PCD Debt Service	3,034,530	3,871,755	(837,225)
Community, Library and Public Facility Impact Fee Fund	1,757,400	1,762,152	(4,752)
Traffic Mitigation Impact Fee	6,732,100	6,739,678	(7,578)
Grants	-	645,828	(645,828)
Landscape Assessment District	235,100	339,594	(104,494)
Police	94,000	119,053	(25,053)
Transient Occupancy Tax	1,022,100	1,023,032	(932)
Donations	-	69,814	(69,814)
HAZMAT	-	22,556	(22,556)
City Debt Service	3,531,650	4,003,990	(472,340)

12. RETIREMENT PLANS

A. Pension Plan

Plan Description

The City offers retirement benefits to all employees. There are two separate plans:

- California Public Employees Retirement System, which is offered to employees who work in excess of 1,000 hours per year.
- Public Agency Retirement System, which is offered to employees who work less than 1,000 hours per year.

California Public Employees Retirement System

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required by State statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$1,600,641 for the year ended June 30, 2004. The City employer was required to contribute for fiscal year 2003-2004 at an actuarially determined rate of 2.542% and 20.761% of annual covered payroll for miscellaneous and safety employees, respectively.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

12. RETIREMENT PLANS, Continued

A. Pension Plan, Continued

Annual Pension Cost

For 2003-2004, the City's annual pension cost of \$2,094,599 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2001 was 17 years for miscellaneous employees and 15 for safety employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual	Percentage of	
	Pension Cost	APC	Net Pension
	(APC)	Contributed	Obligation
6/30/02	\$ 2,743,000	100%	\$ -
6/30/03	2,944,000	100%	-
6/30/04	2,094,599	100%	-

Public Agency Retirement System

The City of Petaluma contributes to Public Agency Retirement System/ Alternative Retirement System (PARS), a public agency multiple-employer defined contribution pension trust. PARS provides benefits at the time of retirement, total disability or death. PARS acts as a common investment and administrative agent for participating public agencies. Benefit provisions and all other requirements are established by federal statute and city resolutions. Copies of PARS' annual financial report may be obtained from their office: 3961 MacArthur Blvd., Suite 200, Newport Beach, CA 92660.

Contributions

Participants are required to contribute 7% of their annual salary. The City is required to contribute .5% of the annual salary of covered participants. The contribution requirements were established on the Adoption Agreement. For fiscal year ended June 30, 2004, the City contributed \$2,779 and the covered employees contributed \$38,903, the total of which met the requirements of the plan.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

13. POST EMPLOYMENT BENEFITS

Memorandum of Understanding (MOU) between the City and the various labor groups define the post employment benefits. The MOU's are approved by the City Council, as new ones are negotiated. For fiscal year ended June 30, 2004, the expenditure for all post employee benefits was \$98,239. This consisted of \$56,677 for cash payments and \$41,562 in contributions to Public Employees Medical and Hospital Care Act (PEMHCA) on behalf of the employees. There were 70 retirees receiving a monthly contribution to PEMHCA and 51 receiving a monthly cash benefit.

All City Council members who serve eight years, who retire, or are not re-elected, are eligible at age 50 for a monthly medical benefit that is comparable to the benefit of the non-represented employees. At June 30, 2004, there were 5 former Council members receiving this benefit, which ranges from \$100 to \$256 per month.

All retired employees are eligible for a monthly contribution to PEMHCA. At June 30, 2004, retirees who were sworn police department employees receive a minimum of \$60 per month contribution, and all other retirees were eligible for a \$50 per month contribution. The contribution will be increased by \$5 each year until the maximum of \$100 to \$140 per month (depending upon the retiree's labor group and year of retirement) is reached.

Directors who are 50 years of age or older, and retire with at least eight years of service, are eligible to receive between \$100 and \$140 per month, depending on numbers of years of service.

Employees who are 50 years of age or older, and retire with twenty years of service, are eligible to receive between \$100 and \$140 per month, depending upon the retiree's labor group and year of retirement. The cash benefit is reduced by the amount that is contributed to PEMCHA.

Public safety employees are eligible to receive a temporary disability retirement benefit for eighteen month, in the amount of \$156 per month. The cash benefit is reduced by \$50 if the retiree is receiving a contribution to PEMHCA. There were 3 retirees receiving this benefit at June 30, 2004.

14. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan (Plan) created in accordance with California Government Code Section 53212 and Internal Revenue Code of 1986, Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In March, 1997, the City amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The City is the administrator of the Plan but the assets are held by an independent investment manager and, therefore, are not recorded as assets of the City. Each employee directs the investment of the assets in his or her account.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

15. COMMITMENTS AND CONTINGENCIES

The City had year-end commitments at June 30, 2004 totaling \$11,134,000, for construction related contracts awarded, but not completed. The PCDC had year-end commitments, in the amount of \$4,134,000 for construction related contracts, awarded but not completed, as of June 30, 2004.

The City had a commitment for the 2004-2005 contracts for transit services, totaling \$840,300

The City had outstanding professional service contracts at year-end in the amount of \$2,034,000

The City is directly and indirectly involved in various litigations, relating principally to claims arising from construction contracts, personal injury, property damage, alleged civil rights violations, and land use decisions. Liabilities other than from contracts and land use decisions will be covered or settled by the City's risk management program. Liabilities, which are excluded from the risk management program, will be covered from risk management reserves and/or the General Fund contingency reserve.

The City participates in a number of federally assisted grant programs, including those from the US Department of Housing and Urban Development, US Department of Justice, National Highway Traffic Safety Administration, and the Federal Aviation Administration. Receipts from these grant programs are subject to audit to determine if the monies were expended in accordance with appropriate statues, grant terms and regulations. The City believes no significant liabilities will result.

As of June 30, 2004, in the opinion of City Management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

16. PRIOR PERIOD ADJUSTMENTS

During the fiscal year 2004, the City recorded prior period adjustment to record some notes receivable in the amount not previously recorded, recognize revenue incorrectly deferred in prior years, correct internal balances incorrectly recorded on the statement of net assets in prior year, correct some accounting errors and adjust capital assets based on the most recent inventory.

A. Government-Wide Statements

	Net Assets as Previously Reported	Prior period Adjustment	GASB 34 Internal Balances	GASB 34 Deferred Revenue	GASB 34 Capital Assets	Net Assets as Restated
Government-Wide statement:						
Governmental activities	\$ 121,857,806	\$ (313,916)	\$ 2,309,200	\$ 8,402,734	\$ (954,764)	\$ 131,301,060
Business type activities	75,096,406	361,602	(2,309,200)	-	-	73,148,808
Total government-wide statement	\$ 196,954,212	\$ 47,686	\$ -	\$ 8,402,734	\$ (954,764)	\$ 204,449,868

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

16. PRIOR PERIOD ADJUSTMENTS, Continued

B. Governmental Funds Statements

	Fund Balance as Previously Reported	Prior Period Adjustments	Fund Balance as restated
Governmental funds			
General Fund	\$ 6,343,172	\$ (25,083)	\$ 6,318,089
Home/Begin	2,553,197	(2,134,062)	419,135
Redevelopment Low and moderate income housing	7,355,241	2,681,112	10,036,353
Community development block grant	835,880	(836,001)	(121)
Enterprise funds:			
Waste Water Utility fund	39,372,928	361,721	39,734,649

REQUIRED SUPPLEMENTARY INFORMATION

City of Petaluma
Required Supplementary Information
For the year ended June 30, 2004

1. BUDGETARY INFORMATION

Budgetary Policy and Control

The City Council adopts an annual budget, submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the City Council. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse and become a part of the unreserved fund balance which may be appropriated for the next fiscal year. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to make adjustments to the operating budget within funds and between departments. Transfers of operating budgets from appropriated reserve accounts, use of unappropriated fund balances, cancellation of appropriation and all changes in capital improvement project budgets require the approval of the City Council. Supplemental appropriations during the fiscal year were not material.

The annual budget is prepared on a basis consistent with generally accepted accounting principles. It is adopted for all governmental type funds.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is within a department.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded when issued in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental and proprietary fund types. Open encumbrances at year-end are recorded as reservations of fund balance since the commitments will be paid by subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities.

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2004

1. BUDGETARY INFORMATION, Continued

Budgetary comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 6,318,089	\$ 6,318,089	\$ 6,318,089	\$ -
Resources (inflows):				
Taxes	18,573,900	18,573,900	19,027,341	453,441
Licenses, permits and fees	1,783,500	1,783,500	2,515,482	731,982
Fines, forfeitures and penalties	436,300	436,300	464,499	28,199
Use of money and property	451,050	451,050	(38,135)	(489,185)
Intergovernmental	3,879,800	3,879,800	3,383,091	(496,709)
Charges for current services	6,739,100	6,739,100	5,708,610	(1,030,490)
Other	170,950	170,950	414,253	243,303
Transfers from other funds	1,277,350	1,277,350	1,277,350	-
Total resources	33,311,950	33,311,950	32,752,491	(559,459)
Amount available for appropriation	39,630,039	39,630,039	39,070,580	(559,459)
Charges to appropriations (outflows):				
Departmental:				
General government	6,257,100	6,257,100	4,725,455	1,531,645
Community development	1,971,150	2,171,150	2,218,047	(46,897)
Police	11,935,300	11,935,300	11,862,431	72,869
Fire	6,369,800	6,369,800	6,141,216	228,584
Parks and recreation	3,515,500	3,515,500	3,749,843	(234,343)
Public works	3,016,950	3,016,950	3,058,814	(41,864)
Capital outlay	282,500	282,500	155,521	126,979
Transfers to other funds		592,850	1,016,581	(423,731)
Total charges to appropriations	33,348,300	34,141,150	32,927,908	1,213,242
Excess of resources over (under) charges to appropriations	6,281,739	5,488,889	6,142,672	653,783
FUND BALANCES:	\$ 6,281,739	\$ 5,488,889	\$ 6,142,672	\$ 653,783

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2004

1. BUDGETARY INFORMATION, Continued

Budgetary comparison Schedule, Home/Begin Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 419,135	\$ 419,135	\$ 419,135	\$ -
Resources (inflows):				
Use of money and property	66,000	66,000	65,598	(402)
Intergovernmental	4,326,500	4,326,500	4,133,658	(192,842)
Charges for current services	-	-	-	-
Total resources	4,392,500	4,392,500	4,199,256	(193,244)
Amount available for appropriation	4,811,635	4,811,635	4,618,391	(193,244)
Charges to appropriations (outflows):				
Departmental:				
Community development	4,405,500	4,405,500	4,101,702	303,798
Total charges to appropriations	4,405,500	4,405,500	4,101,702	303,798
Excess of resources over (under) charges to appropriations	406,135	406,135	516,689	110,554
FUND BALANCES:	\$ 406,135	\$ 406,135	\$ 516,689	\$ 110,554

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2004

1. BUDGETARY INFORMATION, Continued

Budgetary comparison Schedule, Redevelopment Low-Mod Income Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 10,036,353	\$ 10,036,353	\$ 10,036,353	\$ -
Resources (inflows):				
Taxes	2,226,200	2,226,200	2,276,239	50,039
Use of money and property	-	-	48,470	48,470
Intergovernmental	258,000	258,000	60,803	(197,197)
Charges for current services	-	-	18,165	18,165
Other	21,950	21,950	12,200	(9,750)
Total resources	2,506,150	2,506,150	2,415,877	(90,273)
Amount available for appropriation	12,542,503	12,542,503	12,452,230	(90,273)
Charges to appropriations (outflows):				
Departmental:				
Community development	1,508,950	3,552,850	534,835	3,018,015
Capital outlay	100,000	100,000	-	100,000
Total charges to appropriations	1,608,950	3,652,850	534,835	3,118,015
Excess of resources over (under) charges to appropriations	10,933,553	8,889,653	11,917,395	3,027,742
FUND BALANCES:	\$ 10,933,553	\$ 8,889,653	\$ 11,917,395	\$ 3,027,742

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City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2004

2. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the year ended June 30, 2004 including the past three actuarial valuations is presented below.

	Actuarial Valuation Date*	Actual Asset Value	Entry Age Actuarial Accrued Liability	Underfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
Miscellaneous	06/30/01	\$ 41,450,226	\$ 34,804,578	\$ (6,645,648)	119.1%	\$ 9,496,893	-70.0%
Employees Group	06/30/02	39,848,797	38,687,199	(1,161,598)	103.0%	10,093,716	-11.5%
	06/30/03	40,495,418	44,821,819	4,326,401	90.3%	11,014,623	39.3%
Safety	06/30/01	62,375,131	65,076,963	2,701,832	95.8%	8,289,115	32.6%
Employees Group	06/30/02	59,260,194	69,448,119	10,187,925	85.3%	8,130,050	125.3%
	06/30/03	60,670,405	74,914,612	14,244,207	81.0%	8,593,074	165.8%

* Latest information available.



SUPPLEMENTARY INFORMATION



Non-Major Governmental Funds

Special Revenue Funds:

Community Development Block Grant Fund - This fund accounts for federal grants received under the Housing and Community Development Act of 1974 from the US Department of Housing and Urban Development. Funds are used to develop a viable urban community, by providing adequate housing, a suitable living environment, and expanding economic opportunities, principally for persons with low and moderate income.

Community, Library and Public Facilities Impact Fees Fund - This fund is used to account for fee received from local development projects, which are used for the construction of major public improvements.

Flood Mitigation Impact Fees Fund - The fund accounts for the fees received from local development projects, which are used for the acquisition, expansion and development of storm drainage improvements.

Housing In-Lieu Fund - This fund accounts for the impact fees collected from developers in-lieu of providing affordable housing. The programs of this fund provide housing assistance to low income people in the community

Park Development, Parkland Acquisition, Aquatic Facilities Impact Fee Fund - This fund accounts for the acquisition, development, and enhancement of neighborhood and community parks with fee receipts from new residential development.

Traffic Mitigation Impact Fee Fund - This fund accounts for the impact fees collected from developers to mitigate the effects of the development. Examples of projects supported by these fees include street reconstruction, bridge rehabilitation, and traffic signal upgrades.

Gas Tax Fund - The fund reports receipts and disbursements of funds under Streets and Highways Code Sections 2105, 2106, 2107 and 2107.5 of the State of California. Expenditures in this fund, for administrations, maintenance and construction, must be street related.

Supplemental Law Enforcement Fund - The fund accounts for the receipt of State grant funds, restricted for use in specific law enforcement programs, which are legally required to be segregated.

Landscape Assessment Districts Fund - This fund details revenue and maintenance costs associated with forty-two landscape assessment districts maintained by the City of Petaluma. These districts collect funds from the property owners, and use the funds to maintain common landscape areas within the boundaries of the district.

Police Fund - The fund is used to account for revenue received, related to seized property associated with narcotics arrests.

Street Fund - The fund accounts for revenue received from the solid waste surcharge, imposed as part of the franchise fee on the waste hauler. This revenue, along with transfers from various other City funds, will be expended on street maintenance activities.

Non-Major Governmental Funds

Special Revenue Funds, Continued:

Transient Occupancy Tax Fund - The fund reports the hotel and motel occupancy tax receipts, and the disbursements to local, not-for-profit groups, which sponsor community events, or promote tourism.

Donations Fund - This fund accounts for various donations received by City departments, and related expenditures.

HAZMAT Fund - This fund accounts for the receipt and expenditure of hazardous material fines levied by the Fire Marshall's office.

Debt Service Funds:

City's Debt Service Fund - The fund accounts for the accumulation of resources, and the payment of principal and interest of the City's long-term debt.

Redevelopment CBD Debt Service Fund - This fund account for the accumulation of resources, and the payment of principal and interest of the Redevelopment Agency's long-term debt. At June 30, 2004 the debt of the CBD consisted of 2000B Tax Allocation Bonds.

Capital Project Funds:

Governmental Capital Project funds - These funds account for the collection of resources and the related expenditure on acquisition and construction of major capital improvement projects in the City, other than those accounted for in proprietary funds.

Permanent Funds:

Prince Park Trust Fund - The fund details the activity of an expendable trust created for the ongoing maintenance of Prince Park. The activities included in this fund are receipts of investment earnings, and transfers out to the general fund to cover costs of the park's maintenance.

Wickersham Park Trust Permanent Fund - This fund accounts for resources that are held by the City, which are legally restricted to the extent that only earnings may be used for purposes that support City programs.



City of Petaluma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

	Special Revenue					
	Community Development Block Grant	Community, Library and Public Facilities Impact Fees	Flood Mitigation Impact Fees	Housing In-Lieu	Park development, Parkland Acquisition, Aquatic Facilities Impact Fee	Traffic Mitigation Impact Fee
ASSETS						
Cash and investments	\$ 556	\$ 879,191	\$ 3,769,474	\$ 4,575,843	\$ 942,480	\$ 3,475,363
Restricted cash and investments	-	-	-	-	-	-
Receivables:						
Accounts receivable (net)	-	-	-	-	-	-
Interest receivable	35,953	8,687	36,052	-	12,684	34,025
Intergovernmental receivable	138,259	-	-	417,667	-	-
Due from other funds	-	-	-	125,000	-	-
Deposits and other prepaid items	-	-	-	-	-	270,640
Notes receivable	836,000	-	-	4,496,391	-	-
Total assets	\$ 1,010,768	\$ 887,878	\$ 3,805,526	\$ 9,614,901	\$ 955,164	\$ 3,780,028
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 7,022	\$ -	\$ 1,000	\$ 403,870	\$ -	\$ -
Wage payable	1,171	-	-	-	-	-
Deferred revenue	871,734	-	-	470,858	-	-
Refundable deposits	-	-	-	-	-	-
Due to other funds	125,000	-	-	-	-	-
Total liabilities	1,004,927	-	1,000	874,728	-	-
Fund Balances:						
Reserved for:						
Encumbrances	-	-	19,925	-	-	41,000
Notes receivable	836,000	-	-	4,496,391	-	-
Debt Service	-	-	-	-	-	-
Deposits and prepaids	-	-	-	-	-	270,640
Short-term advances	-	-	-	125,000	-	-
Total reserved	836,000	-	19,925	4,621,391	-	311,640
Unreserved, reported in:						
Special revenue funds	(830,159)	887,878	3,784,601	4,118,782	955,164	3,468,388
Capital project funds	-	-	-	-	-	-
Permanent funds	-	-	-	-	-	-
Total unreserved	(830,159)	887,878	3,784,601	4,118,782	955,164	3,468,388
Total fund balances	5,841	887,878	3,804,526	8,740,173	955,164	3,780,028
Total liabilities and fund balances	\$ 1,010,768	\$ 887,878	\$ 3,805,526	\$ 9,614,901	\$ 955,164	\$ 3,780,028

Special Revenue

Grants	Gas Tax	Supplemental Law Enforcement	Landscape Assessment Districts	Police	Street	Transient Occupancy Tax	Donations	HAZMAT
\$ (100,286)	\$ 473,236	\$ 66,933	\$ 536,744	\$ 17,611	\$ 4,804,199	\$ 145,099	\$ 204,302	\$ 28,437
-	-	-	-	-	-	-	-	-
-	-	-	-	-	16,417	152,294	-	-
491	3,254	628	2,748	318	22,086	1,243	1,382	200
92,118	102,699	-	14,625	16,500	-	-	4,446	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>\$ (7,677)</u>	<u>\$ 579,189</u>	<u>\$ 67,561</u>	<u>\$ 554,117</u>	<u>\$ 34,429</u>	<u>\$ 4,842,702</u>	<u>\$ 298,636</u>	<u>\$ 210,130</u>	<u>\$ 28,637</u>
\$ 26,622	\$ 1,887	\$ -	\$ 22,322	\$ -	\$ 459,167	\$ 8,305	\$ -	\$ -
-	-	-	-	-	5,055	-	-	-
47,201	-	-	-	8,498	-	1,237	3,946	-
-	-	-	-	2,923	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>73,823</u>	<u>1,887</u>	<u>-</u>	<u>22,322</u>	<u>11,421</u>	<u>464,222</u>	<u>9,542</u>	<u>3,946</u>	<u>-</u>
16,671	21,984	-	-	-	179,413	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>16,671</u>	<u>21,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,413</u>	<u>-</u>	<u>-</u>	<u>-</u>
(98,171)	555,318	67,561	531,795	23,008	4,199,067	289,094	206,184	28,637
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>(98,171)</u>	<u>555,318</u>	<u>67,561</u>	<u>531,795</u>	<u>23,008</u>	<u>4,199,067</u>	<u>289,094</u>	<u>206,184</u>	<u>28,637</u>
(81,500)	577,302	67,561	531,795	23,008	4,378,480	289,094	206,184	28,637
<u>\$ (7,677)</u>	<u>\$ 579,189</u>	<u>\$ 67,561</u>	<u>\$ 554,117</u>	<u>\$ 34,429</u>	<u>\$ 4,842,702</u>	<u>\$ 298,636</u>	<u>\$ 210,130</u>	<u>\$ 28,637</u>

(Continued)

City of Petaluma
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2004

	Debt Service		Capital Project	Permanent		Total
	City	Redevelopment CBD	Governmental Capital Project	Prince Park Trust	Wickersham Park Trust	Non-Major Governmental Funds
ASSETS						
Cash and investments	\$ -	\$ 69,678	\$ 5,815,203	\$ 997,205	\$ 25,309	\$ 26,726,577
Restricted cash and investments	-	99,135	-	-	-	99,135
Receivables:						
Accounts receivable (net)	-	-	-	-	-	168,711
Interest receivable	-	6,934	23,331	7,798	9	197,823
Intergovernmental receivable	-	-	125,605	-	-	911,919
Due from other funds	-	-	-	-	-	125,000
Deposits and other prepaid items	-	-	-	-	-	270,640
Notes receivable	-	-	-	-	-	5,332,391
Total assets	\$ -	\$ 175,747	\$ 5,964,139	\$ 1,005,003	\$ 25,318	\$ 33,832,196
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 126,279	\$ -	\$ -	\$ 1,056,474
Wage payable	-	-	-	-	-	6,226
Deferred revenue	-	-	-	-	-	1,403,474
Refundable deposits	-	-	-	-	-	2,923
Due to other funds	-	-	-	-	-	125,000
Total liabilities	-	-	126,279	-	-	2,594,097
Fund balances:						
Reserved:						
Encumbrances	-	-	844,229	-	-	1,123,222
Notes receivable	-	-	-	-	-	5,332,391
Debt Service	-	175,747	-	-	-	175,747
Deposits and prepaids	-	-	-	-	-	270,640
Short-term advances	-	-	-	-	-	125,000
Total reserved	-	175,747	844,229	-	-	7,027,000
Unreserved, reported in:						
Special revenue funds	-	-	-	-	-	18,187,147
Capital project funds	-	-	4,993,631	-	-	4,993,631
Permanent funds	-	-	-	1,005,003	25,318	1,030,321
Total unreserved	-	-	4,993,631	1,005,003	25,318	24,211,099
Total fund balances	-	175,747	5,837,860	1,005,003	25,318	31,238,099
Total liabilities and fund balances	\$ -	\$ 175,747	\$ 5,964,139	\$ 1,005,003	\$ 25,318	\$ 33,832,196

(Concluded)



City of Petaluma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2004

	Special Revenue					
	Community	Community, Library and	Flood	Housing	Park development, Parkland	Traffic
	Development Block Grant	Public Facilities Impact Fees	Mitigation Impact Fees	In-Lieu	Acquisition, Aquatic Facilitie: Impact Fee	Mitigation Impact Fee
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, permits and fees	-	828,613	219,083	415,956	653,228	2,212,967
Fines, forfeitures and penalties	-	-	-	-	-	-
Use of money and property	403	42,493	70,914	662,754	60,368	63,853
Intergovernmental	535,660	-	32,315	-	-	469,012
Charges for current services	-	-	-	-	-	-
Other	-	3,850	-	-	-	2,090
Total revenues	536,063	874,956	322,312	1,078,710	713,596	2,747,922
EXPENDITURES:						
Current:						
General government	-	-	-	-	-	-
Community development	521,464	5,752	-	2,060,662	-	-
Police	-	-	-	-	-	-
Fire	-	-	-	-	-	-
Parks and recreation	-	-	-	-	9,112	-
Public works	-	-	133,458	-	-	8,678
Capital outlay	8,637	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	5,141	-	-
Total expenditures	530,101	5,752	133,458	2,065,803	9,112	8,678
REVENUES OVER (UNDER) EXPENDITURES	5,962	869,204	188,854	(987,093)	704,484	2,739,244
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	204,000	-
Transfers out	-	(1,756,400)	(1,595,000)	-	(1,471,000)	(6,731,100)
Total other financing sources (uses)	-	(1,756,400)	(1,595,000)	-	(1,267,000)	(6,731,100)
Net change in fund balances	5,962	(887,196)	(1,406,146)	(987,093)	(562,516)	(3,991,856)
FUND BALANCES:						
Beginning of year, as restated	(121)	1,775,074	5,210,672	9,727,266	1,517,680	7,771,884
End of year	\$ 5,841	\$ 887,878	\$ 3,804,526	\$ 8,740,173	\$ 955,164	\$ 3,780,028

Special Revenue

Grants	Gas Tax	Supplemental Law Enforcement	Landscape Assessment Districts	Police	Street	Transient Occupancy Tax	Donations	HAZMAT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,417	\$ 1,108,471	\$ -	\$ -
-	-	-	-	-	228,901	-	-	-
-	-	-	-	9,094	-	7,397	-	50,769
1,075	13,395	2,651	10,435	1,898	(2,577)	7,982	3,795	424
563,253	1,184,805	100,000	-	8,003	-	-	-	-
-	-	-	306,512	-	-	-	-	-
-	100	-	282,215	-	764,000	2,447	272,203	-
<u>564,328</u>	<u>1,198,300</u>	<u>102,651</u>	<u>599,162</u>	<u>18,995</u>	<u>1,006,741</u>	<u>1,126,297</u>	<u>275,998</u>	<u>51,193</u>
-	-	-	2,340	-	-	-	59,814	-
-	-	-	-	-	-	523,032	-	-
363,031	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	22,556
-	-	-	337,254	-	-	-	-	-
61,200	29,590	-	-	-	-	-	-	-
150,616	-	-	-	94,053	2,892,253	-	10,000	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>574,847</u>	<u>29,590</u>	<u>-</u>	<u>339,594</u>	<u>94,053</u>	<u>2,892,253</u>	<u>523,032</u>	<u>69,814</u>	<u>22,556</u>
<u>(10,519)</u>	<u>1,168,710</u>	<u>102,651</u>	<u>259,568</u>	<u>(75,058)</u>	<u>(1,885,512)</u>	<u>603,265</u>	<u>206,184</u>	<u>28,637</u>
-	-	-	13,000	-	12,317,750	-	-	-
(70,981)	(1,075,000)	(110,000)	-	(25,000)	(7,177,000)	(500,000)	-	-
(70,981)	(1,075,000)	(110,000)	13,000	(25,000)	5,140,750	(500,000)	-	-
(81,500)	93,710	(7,349)	272,568	(100,058)	3,255,238	103,265	206,184	28,637
	483,592	74,910	259,227	123,066	1,123,242	185,829	-	-
<u>\$ (81,500)</u>	<u>\$ 577,302</u>	<u>\$ 67,561</u>	<u>\$ 531,795</u>	<u>\$ 23,008</u>	<u>\$ 4,378,480</u>	<u>\$ 289,094</u>	<u>\$ 206,184</u>	<u>\$ 28,637</u>

(Continued)

City of Petaluma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2004

	Debt Service		Capital Project	Permanent		Total
	City	Redevelopment CBD	Governmental Capital Project	Prince Park Trust	Wickersham Park Trust	Non-Major Governmental Funds
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,124,888
Licenses, permits and fees	-	-	-	-	-	4,558,748
Fines, forfeitures and penalties	-	-	-	-	-	67,260
Use of money and property	15,031	19,869	(48,067)	32,860	284	959,840
Intergovernmental	-	-	200,229	-	-	3,093,277
Charges for current services	-	-	-	-	-	306,512
Other	-	42,805	56	-	-	1,369,766
Total revenues	15,031	62,674	152,218	32,860	284	11,480,291
EXPENDITURES:						
Current:						
General government	-	-	6,951	-	-	69,105
Community development	-	-	48,098	-	-	3,159,008
Police	-	-	-	-	-	363,031
Fire	-	-	-	-	-	22,556
Parks and recreation	-	-	53,640	-	-	400,006
Public works	-	-	1,122,538	-	-	1,355,464
Capital outlay	-	-	4,861,962	-	-	8,017,521
Debt service:						
Principal	3,772,000	95,000	-	-	-	3,867,000
Interest	231,990	41,054	-	-	-	278,185
Total expenditures	4,003,990	136,054	6,093,189	-	-	17,531,876
REVENUES OVER (UNDER) EXPENDITURES	(3,988,959)	(73,380)	(5,940,971)	32,860	284	(6,051,585)
OTHER FINANCING SOURCES (USES):						
Transfers in	1,815,131	139,000	11,778,831	-	-	26,267,712
Transfers out	-	-	-	(30,000)	-	(20,541,481)
Total other financing sources (uses)	1,815,131	139,000	11,778,831	(30,000)	-	5,726,231
Net change in fund balances	(2,173,828)	65,620	5,837,860	2,860	284	(325,354)
FUND BALANCES:						
Beginning of year	2,173,828	110,127	-	1,002,143	25,034	31,563,453
End of year	\$ -	\$ 175,747	\$ 5,837,860	\$ 1,005,003	\$ 25,318	\$ 31,238,099

(Concluded)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Redevelopment PCD Debt Service Fund - Major Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 53,664	\$ 53,664	\$ 53,664	\$ -
Resources (inflows):				
Use of money and property	18,000	18,000	167,564	149,564
Proceeds from sale of bonds	15,000,000	15,000,000	23,615,783	8,615,783
Transfers from other funds	3,646,550	3,031,500	3,031,500	-
Total resources	18,664,550	18,049,500	26,814,847	8,765,347
Amount available for appropriation	18,718,214	18,103,164	26,868,511	8,765,347
Charges to appropriations (outflows):				
Debt service:				
Principal	449,000	449,000	449,000	-
Interest and fiscal charges	3,200,600	2,585,530	3,422,755	(837,225)
Total charges to appropriations	3,649,600	3,034,530	3,871,755	(837,225)
Excess of resources over (under) charges to appropriations	15,068,614	15,068,634	22,996,756	7,928,122
FUND BALANCES:	\$ 15,068,614	\$ 15,068,634	\$ 22,996,756	\$ 7,928,122

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Redevelopment CBD Capital Project Fund - Major Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ (2,540,528)	\$ (2,540,528)	\$ (2,540,528)	\$ -
Resources (inflows):				
Taxes	543,400	543,400	573,869	30,469
Use of money and property	235,000	235,000	1,213	(233,787)
Charges for current services	-	-	19,484	19,484
Other	167,000	167,000	2,433	(164,567)
Transfers from other funds	13,638,000	15,013,300	15,013,300	-
Total resources	14,583,400	15,958,700	15,610,299	(348,401)
Amount available for appropriation	12,042,872	13,418,172	13,069,771	(348,401)
Charges to appropriations (outflows):				
Capital outlay	11,180,300	13,436,350	7,145,125	6,291,225
Transfers to other funds	13,497,000	14,872,300	14,872,300	-
Total charges to appropriations	24,677,300	28,308,650	22,017,425	6,291,225
Excess of resources over (under) charges to appropriations	(12,634,428)	(14,890,478)	(8,947,654)	5,942,824
FUND BALANCES:	\$ (12,634,428)	\$ (14,890,478)	\$ (8,947,654)	\$ 5,942,824

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Redevelopment PCD Capital Project Fund - Major Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 20,864,842	\$ 20,864,842	\$ 20,864,842	\$ -
Resources (inflows):				
Taxes	8,911,450	8,911,450	9,058,525	147,075
Use of money and property	300,000	300,000	222,188	(77,812)
Intergovernmental	-	-	284,848	284,848
Other	-	-	1,581	1,581
Transfers from other funds	1,642,000	1,642,000	1,642,000	-
Total resources	10,853,450	10,853,450	11,209,142	355,692
Amount available for appropriation	31,718,292	31,718,292	32,073,984	355,692
Charges to appropriations (outflows):				
Departmental:				
Community development	5,228,250	5,151,550	5,025,135	126,415
Capital outlay	1,642,000	1,904,100	357,259	1,546,841
Transfers to other funds	9,140,550	11,525,500	11,525,500	-
Total charges to appropriations	16,010,800	18,581,150	16,907,894	1,673,256
Excess of resources over (under) charges to appropriations	15,707,492	13,137,142	15,166,090	2,028,948
FUND BALANCES:	\$ 15,707,492	\$ 13,137,142	\$ 15,166,090	\$ 2,028,948

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Community Development Block Grant Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ (121)	\$ (121)	\$ (121)	\$ -
Resources (inflows):				
Use of money and property	-		403	403
Intergovernmental	548,300	548,300	535,660	(12,640)
Total resources	548,300	548,300	536,063	(12,237)
Amount available for appropriation	548,179	548,179	535,942	(12,237)
Charges to appropriations (outflows):				
Departmental:				
Community development	548,300	548,300	521,464	26,836
Capital outlay	-	-	8,637	(8,637)
Total charges to appropriations	548,300	548,300	530,101	18,199
Excess of resources over (under) charges to appropriations	(121)	(121)	5,841	5,962
FUND BALANCES:	\$ (121)	\$ (121)	\$ 5,841	\$ 5,962

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Community, Library, and Public Facilities Impact Fee Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 1,775,074	\$ 1,775,074	\$ 1,775,074	\$ -
Resources (inflows):				
Licenses, permits and fees	200,000	200,000	828,613	628,613
Use of money and property	70,000	70,000	42,493	(27,507)
Other	25,000	25,000	3,850	(21,150)
Total resources	295,000	295,000	874,956	579,956
Amount available for appropriation	2,070,074	2,070,074	2,650,030	579,956
Charges to appropriations (outflows):				
Departmental:				
Community development	474,000	474,000	5,752	468,248
Transfers to other funds	1,283,400	1,283,400	1,756,400	(473,000)
Total charges to appropriations	1,757,400	1,757,400	1,762,152	(4,752)
Excess of resources over (under) charges to appropriations	312,674	312,674	887,878	584,708
FUND BALANCES:	\$ 312,674	\$ 312,674	\$ 887,878	\$ 584,708

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Flood Mitigation Impact Fees Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 5,210,672	\$ 5,210,672	\$ 5,210,672	\$ -
Resources (inflows):				
Licenses, permits and fees	120,000	120,000	219,083	99,083
Use of money and property	50,000	50,000	70,914	20,914
Intergovernmental	350,000	350,000	32,315	(317,685)
Total resources	520,000	520,000	322,312	(197,688)
Amount available for appropriation	5,730,672	5,730,672	5,532,984	(197,688)
Charges to appropriations (outflows):				
Departmental:				
Public works	1,919,000	1,919,000	133,458	1,785,542
Transfers to other funds	27,000	27,000	1,595,000	(1,568,000)
Total charges to appropriations	1,946,000	1,946,000	1,728,458	217,542
Excess of resources over (under) charges to appropriations	3,784,672	3,784,672	3,804,526	19,854
FUND BALANCES:	\$ 3,784,672	\$ 3,784,672	\$ 3,804,526	\$ 19,854

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Housing In-Lieu Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 9,727,266	\$ 9,727,266	\$ 9,727,266	\$ -
Resources (inflows):				
Licenses, permits and fees	309,500	309,500	415,956	106,456
Use of money and property	120,000	120,000	662,754	542,754
Total resources	429,500	429,500	1,078,710	649,210
Amount available for appropriation	10,156,766	10,156,766	10,805,976	649,210
Charges to appropriations (outflows):				
Departmental:				
Community development	2,923,900	3,268,900	2,060,662	1,208,238
Interest and fiscal charges	-	-	5,141	(5,141)
Total charges to appropriations	2,923,900	3,268,900	2,065,803	1,203,097
Excess of resources over (under) charges to appropriations	7,232,866	6,887,866	8,740,173	1,852,307
FUND BALANCES:	\$ 7,232,866	\$ 6,887,866	\$ 8,740,173	\$ 1,852,307

City of Petaluma

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

(Budgetary Basis) - Park Development, Parkland Acquisition, Aquatic Facilities Impact Fees Special Revenue Fund
For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 1,517,680	\$ 1,517,680	\$ 1,517,680	\$ -
Resources (inflows):				
Licenses, permits and fees	400,000	400,000	653,228	253,228
Use of money and property	20,000	20,000	60,368	40,368
Intergovernmental	586,000	586,000	-	(586,000)
Other revenue	400,000	400,000	-	(400,000)
Transfers from other funds	204,000	204,000	204,000	-
Total resources	1,610,000	1,610,000	917,596	(692,404)
Amount available for appropriation	3,127,680	3,127,680	2,435,276	(692,404)
Charges to appropriations (outflows):				
Departmental:				
Parks and recreation	2,483,000	2,483,000	9,112	2,473,888
Transfers to other funds	-	-	1,471,000	(1,471,000)
Total charges to appropriations	2,483,000	2,483,000	1,480,112	1,002,888
Excess of resources over (under) charges to appropriations	644,680	644,680	955,164	310,484
FUND BALANCES:	\$ 644,680	\$ 644,680	\$ 955,164	\$ 310,484

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Traffic Mitigation Impact Fee Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 7,771,884	\$ 7,771,884	\$ 7,771,884	\$ -
Resources (inflows):				
Licenses, permits and fees	575,000	575,000	2,212,967	1,637,967
Use of money and property	200,000	200,000	63,853	(136,147)
Intergovernmental	115,000	115,000	469,012	354,012
Other	-	-	2,090	2,090
Total resources	890,000	890,000	2,747,922	1,857,922
Amount available for appropriation	8,661,884	8,661,884	10,519,806	1,857,922
Charges to appropriations (outflows):				
Departmental:				
Public works	935,000	935,000	8,678	926,322
Transfers to other funds	5,797,100	5,797,100	6,731,100	(934,000)
Total charges to appropriations	6,732,100	6,732,100	6,739,778	(7,678)
Excess of resources over (under) charges to appropriations	1,929,784	1,929,784	3,780,028	1,850,244
FUND BALANCES:	\$ 1,929,784	\$ 1,929,784	\$ 3,780,028	\$ 1,850,244

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Gas Tax Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 483,592	\$ 483,592	\$ 483,592	\$ -
Resources (inflows):				
Use of money and property	20,000	20,000	13,395	(6,605)
Intergovernmental	1,335,000	1,335,000	1,184,805	(150,195)
Other	-	-	100	100
Total resources	1,355,000	1,355,000	1,198,300	(156,700)
Amount available for appropriation	1,838,592	1,838,592	1,681,892	(156,700)
Charges to appropriations (outflows):				
Departmental:				
Public works	454,400	454,400	29,590	424,810
Transfers to other funds	1,050,000	1,050,000	1,075,000	(25,000)
Total charges to appropriations	1,504,400	1,504,400	1,104,590	399,810
Excess of resources over (under) charges to appropriations	334,192	334,192	577,302	243,110
FUND BALANCES:	\$ 334,192	\$ 334,192	\$ 577,302	\$ 243,110

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Supplemental Law Enforcement Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 74,910	\$ 74,910	\$ 74,910	\$ -
Resources (inflows):				
Use of money and property	-	-	2,651	2,651
Intergovernmental	110,000	110,000	100,000	(10,000)
Total resources	110,000	110,000	102,651	(7,349)
Amount available for appropriation	184,910	184,910	177,561	(7,349)
Charges to appropriations (outflows):				
Transfers to other funds	110,000	110,000	110,000	-
Total charges to appropriations	110,000	110,000	110,000	-
Excess of resources over (under) charges to appropriations	74,910	74,910	67,561	(7,349)
FUND BALANCES:	\$ 74,910	\$ 74,910	\$ 67,561	\$ (7,349)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Landscape Assessment Districts Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 259,227	\$ 259,227	\$ 259,227	\$ -
Resources (inflows):				
Use of money and property	6,000	6,000	10,435	4,435
Charges for current services	292,400	292,400	306,512	14,112
Other	-	-	282,215	282,215
Transfers from other funds	263,000	263,000	13,000	(250,000)
Total resources	561,400	561,400	612,162	50,762
Amount available for appropriation	820,627	820,627	871,389	50,762
Charges to appropriations (outflows):				
Departmental:				
General government	-	-	2,340	(2,340)
Parks and recreation	235,100	235,100	337,254	(102,154)
Total charges to appropriations	235,100	235,100	339,594	(104,494)
Excess of resources over (under) charges to appropriations	585,527	585,527	531,795	(53,732)
FUND BALANCES:	\$ 585,527	\$ 585,527	\$ 531,795	\$ (53,732)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Police Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 123,066	\$ 123,066	\$ 123,066	\$ -
Resources (inflows):				
Fines, forfeitures and penalties	50,000	50,000	9,094	(40,906)
Use of money and property	2,000	2,000	1,898	(102)
Intergovernmental	-	-	8,003	8,003
Total resources	52,000	52,000	18,995	(33,005)
Amount available for appropriation	175,066	175,066	142,061	(33,005)
Charges to appropriations (outflows):				
Police department	69,000	69,000	-	69,000
Capital outlay	-	-	94,053	(94,053)
Transfers to other funds	25,000	25,000	25,000	-
Total charges to appropriations	94,000	94,000	119,053	(25,053)
Excess of resources over (under) charges to appropriations	81,066	81,066	23,008	(58,058)
FUND BALANCES:	\$ 81,066	\$ 81,066	\$ 23,008	\$ (58,058)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Street Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 1,123,242	\$ 1,123,242	\$ 1,123,242	\$ -
Resources (inflows):				
Taxes	250,000	250,000	16,417	(233,583)
Licenses, permits and fees	-	-	228,901	228,901
Use of money and property	-	-	(2,577)	(2,577)
Other	-	-	764,000	764,000
Transfers from other funds	10,081,750	13,081,750	12,317,750	(764,000)
Total resources	10,331,750	13,331,750	13,324,491	(7,259)
Amount available for appropriation	11,454,992	14,454,992	14,447,733	(7,259)
Charges to appropriations (outflows):				
Public works	10,895,750	10,895,750	-	10,895,750
Capital outlay	-	-	2,892,253	(2,892,253)
Transfers to other funds	-	3,000,000	7,177,000	(4,177,000)
Total charges to appropriations	10,895,750	13,895,750	10,069,253	3,826,497
Excess of resources over (under) charges to appropriations	559,242	559,242	4,378,480	3,819,238
FUND BALANCES:	\$ 559,242	\$ 559,242	\$ 4,378,480	\$ 3,819,238

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Transient Occupancy Tax Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 185,829	\$ 185,829	\$ 185,829	\$ -
Resources (inflows):				
Taxes	1,053,000	1,053,000	1,108,471	55,471
Fines, forfeitures and penalties	-	-	7,397	7,397
Use of money and property	-	-	7,982	7,982
Other	-	-	2,447	2,447
Total resources	1,053,000	1,053,000	1,126,297	73,297
Amount available for appropriation	1,238,829	1,238,829	1,312,126	73,297
Charges to appropriations (outflows):				
Departmental:				
Community development	522,100	522,100	523,032	(932)
Transfers to other funds	500,000	500,000	500,000	-
Total charges to appropriations	1,022,100	1,022,100	1,023,032	(932)
Excess of resources over (under) charges to appropriations	216,729	216,729	289,094	72,365
FUND BALANCES:	\$ 216,729	\$ 216,729	\$ 289,094	\$ 72,365

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - City Debt Service Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,173,828	\$ 2,173,828	\$ 2,173,828	\$ -
Resources (inflows):				
Use of money and property	-	-	15,031	15,031
Intergovernmental	45,000	45,000	-	(45,000)
Transfers from other funds	1,391,400	1,391,400	1,815,131	423,731
Total resources	1,436,400	1,436,400	1,830,162	393,762
Amount available for appropriation	3,610,228	3,610,228	4,003,990	393,762
Charges to appropriations (outflows):				
Debt service:				
Principal	3,300,000	3,300,000	3,772,000	(472,000)
Interest and fiscal charges	231,650	231,650	231,990	(340)
Total charges to appropriations	3,531,650	3,531,650	4,003,990	(472,340)
Excess of resources over (under) charges to appropriations	78,578	78,578	-	(78,578)
FUND BALANCES:	\$ 78,578	\$ 78,578	\$ -	\$ (78,578)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Redevelopment CBD Debt Service Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 110,127	\$ 110,127	\$ 110,127	\$ -
Resources (inflows):				
Use of money and property	20,000	20,000	19,869	(131)
Other	-	-	42,805	42,805
Transfers from other funds	139,000	139,000	139,000	-
Total resources	159,000	159,000	201,674	42,674
Amount available for appropriation	269,127	269,127	311,801	42,674
Charges to appropriations (outflows):				
Debt service:				
Principal	95,000	95,000	95,000	-
Interest and fiscal charges	44,000	44,000	41,054	2,946
Total charges to appropriations	139,000	139,000	136,054	2,946
Excess of resources over (under) charges to appropriations	130,127	130,127	175,747	45,620
FUND BALANCES:	\$ 130,127	\$ 130,127	\$ 175,747	\$ 45,620

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Governmental Capital Project Funds For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Use of money and property	-	-	(48,067)	(48,067)
Intergovernmental	1,025,000	1,025,000	200,229	(824,771)
Other	445,000	445,000	56	(444,944)
Transfers from other funds	8,545,000	11,604,850	11,778,831	173,981
Total resources	10,015,000	13,074,850	11,931,049	(1,143,801)
Amount available for appropriation	10,015,000	13,074,850	11,931,049	(1,143,801)
Charges to appropriations (outflows):				
Departmental:				
General government	-	-	6,951	(6,951)
Community development	370,000	370,000	48,098	321,902
Parks and recreation	2,482,000	2,482,000	53,640	2,428,360
Public works	9,872,000	9,828,000	1,122,538	8,705,462
Capital outlay	-	-	4,861,962	(4,861,962)
Total charges to appropriations	12,724,000	12,680,000	6,093,189	6,586,811
Excess of resources over (under) charges to appropriations	(2,709,000)	394,850	5,837,860	5,443,010
FUND BALANCES:	\$ (2,709,000)	\$ 394,850	\$ 5,837,860	\$ 5,443,010

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Prince Park Trust Special Revenue Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 1,002,143	\$ 1,002,143	\$ 1,002,143	\$ -
Resources (inflows):				
Use of money and property	30,000	30,000	32,860	2,860
Total resources	30,000	30,000	32,860	2,860
Amount available for appropriation	1,032,143	1,032,143	1,035,003	2,860
Charges to appropriations (outflows):				
Transfers to other funds	30,000	30,000	30,000	-
Total charges to appropriations	30,000	30,000	30,000	-
Excess of resources over (under) charges to appropriations	1,002,143	1,002,143	1,005,003	2,860
FUND BALANCES:	\$ 1,002,143	\$ 1,002,143	\$ 1,005,003	\$ 2,860

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Wickersham Park Trust Permanent Fund For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 25,034	\$ 25,034	\$ 25,034	\$ -
Resources (inflows):				
Use of money and property	700	700	284	(416)
Total resources	700	700	284	(416)
Amount available for appropriation	25,734	25,734	25,318	(416)
FUND BALANCES:	\$ 25,734	\$ 25,734	\$ 25,318	\$ (416)

Internal Service Funds

Employee Benefits Fund - The fund accounts for City employees' dental, unemployment and vision benefits, and retiree benefits.

General Services Fund - The fund accounts for purchasing, printing and mail services.

Information Services Fund - This fund accounts for the cost of purchasing, operating and maintaining the City's voice, data and computer systems.

Risk Management Fund - The fund accounts for the accumulation of the resources and expenses related to the City's risk management activities and general insurance programs.

Vehicle/Equipment Replacement Fund - The fund accounts for the accumulation of resources, and related expenses incurred for the replacement of major equipment and vehicles in the City. The fund is divided into two sub-funds, one for equipment acquired for general government activities, and one for equipment acquired for business-type activities.

Workers' Compensation Fund - The fund accounts for the accumulation of resources, and expenses related to funding workers' compensation benefits for City employees.

City of Petaluma
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2004

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
ASSETS				
Current assets:				
Cash and investments	\$ 510,344	\$ 227,641	\$ 285,448	\$ 2,935,074
Interest receivable	5,094	1,795	1,920	16,279
Inventories	-	10,029	-	-
Deposits and prepaids	29,763	-	-	571,378
Total current assets	545,201	239,465	287,368	3,522,731
Non-current assets:				
Capital assets:				
Depreciable	-	72,932	330,255	16,856
Less accumulated depreciation	-	(48,600)	(268,720)	(913)
Total capital assets	-	24,332	61,535	15,943
Total non-current assets	-	24,332	61,535	15,943
Total assets:	545,201	263,797	348,903	3,538,674
LIABILITIES				
Current liabilities:				
Accounts payable	24,237	6,509	17,603	26,244
Wages payable	715	6,512	11,149	7,853
Accrued claims	-	-	-	195,000
Compensated absences	615	5,883	7,069	2,062
Total current liabilities	25,567	18,904	35,821	231,159
Non-current liabilities:				
Accrued claims	-	-	-	1,431,000
Compensated absences	3,243	37,091	43,408	11,714
Total Non-current liabilities	3,243	37,091	43,408	1,442,714
Total liabilities	28,810	55,995	79,229	1,673,873
NET ASSETS				
Invested in capital assets, net of related debt	-	24,332	61,535	15,943
Unrestricted	516,391	183,470	208,139	1,848,858
Total net assets	\$ 516,391	\$ 207,802	\$ 269,674	\$ 1,864,801

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ 2,807,679	\$ 746,345	\$ 1,695,902	\$ 9,208,433
21,486	5,712	15,595	67,881
-	-	-	10,029
88,641	-	-	689,782
<u>2,917,806</u>	<u>752,057</u>	<u>1,711,497</u>	<u>9,976,125</u>
559,977	518,469	16,429	1,514,918
(87,364)	(60,136)	(3,550)	(469,283)
<u>472,613</u>	<u>458,333</u>	<u>12,879</u>	<u>1,045,635</u>
<u>472,613</u>	<u>458,333</u>	<u>12,879</u>	<u>1,045,635</u>
<u>3,390,419</u>	<u>1,210,390</u>	<u>1,724,376</u>	<u>11,021,760</u>
-	39,525	39,765	153,883
-	-	2,327	28,556
-	-	1,180,000	1,375,000
-	-	518	16,147
<u>-</u>	<u>39,525</u>	<u>1,222,610</u>	<u>1,573,586</u>
-	-	2,753,000	4,184,000
-	-	3,098	98,554
-	-	2,756,098	4,282,554
<u>-</u>	<u>39,525</u>	<u>3,978,708</u>	<u>5,856,140</u>
472,613	458,333	12,879	1,045,635
<u>2,917,806</u>	<u>712,532</u>	<u>(2,267,211)</u>	<u>4,119,985</u>
<u>\$ 3,390,419</u>	<u>\$ 1,170,865</u>	<u>\$ (2,254,332)</u>	<u>\$ 5,165,620</u>

City of Petaluma
Combining Statement of Activities and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2004

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
OPERATING REVENUES:				
Charges for current services	\$ 575,105	\$ 357,314	\$ 841,770	\$ 2,278,436
Total operating revenues	575,105	357,314	841,770	2,278,436
OPERATING EXPENSES:				
Cost of services	319,742	356,506	632,578	832,834
Claims	344,027	-	-	82,606
General and administrative	16,769	17,436	59,939	41,275
Depreciation and amortization	-	2,713	26,374	842
Total operating expenses	680,538	376,655	718,891	957,557
Operating income (loss)	(105,433)	(19,341)	122,879	1,320,879
NONOPERATING REVENUES (EXPENSES):				
Investment earnings and rent	23,578	7,458	5,824	(17,582)
Total nonoperating revenues (expenses)	23,578	7,458	5,824	(17,582)
INCOME (LOSS) BEFORE TRANSFERS:	(81,855)	(11,883)	128,703	1,303,297
Transfers in	-	-	-	1,000,000
Total transfers	-	-	-	1,000,000
Change in net assets	(81,855)	(11,883)	128,703	2,303,297
NET ASSETS:				
Beginning of year	598,246	219,685	140,971	(438,496)
End of year	\$ 516,391	\$ 207,802	\$ 269,674	\$ 1,864,801

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ -	\$ -	\$ 1,069,741	\$ 5,122,366
-	-	1,069,741	5,122,366
-	3,959	225,918	2,371,537
-	-	1,361,499	1,788,132
-	10,405	47,241	193,065
60,401	57,720	2,053	150,103
60,401	72,084	1,636,711	4,502,837
(60,401)	(72,084)	(566,970)	619,529
25,999	6,911	65,926	118,114
25,999	6,911	65,926	118,114
(34,402)	(65,173)	(501,044)	737,643
664,835	485,165	-	2,150,000
664,835	485,165	-	2,150,000
630,433	419,992	(501,044)	2,887,643
2,759,986	750,873	(1,753,288)	2,277,977
\$ 3,390,419	\$ 1,170,865	\$ (2,254,332)	\$ 5,165,620

City of Petaluma
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2004

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 565,342	\$ 365,060	\$ 841,770	\$ 2,278,436
Cash payments to suppliers for goods and services	(667,612)	(363,651)	(637,782)	(889,196)
Cash payments to employees for services	(13,155)	(827)	(26,139)	(19,646)
Claims paid	-	-	-	(48,609)
Net cash provided (used) by operating activities	(115,425)	582	177,849	1,320,985
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	1,000,000
Net cash provided (used) by non-capital financing activities	-	-	-	1,000,000
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition or disposal of capital assets, net	-	-	-	-
Net cash provided (used) by capital and related financing activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	18,484	5,664	3,905	(33,860)
Net cash provided (used) by investing activities	18,484	5,664	3,905	(33,860)
Net increase (decrease) in cash and cash equivalents	(96,941)	6,246	181,754	2,287,125
CASH AND CASH EQUIVALENTS:				
Beginning of year	607,285	221,395	103,694	647,949
End of year	\$ 510,344	\$ 227,641	\$ 285,448	\$ 2,935,074
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (105,433)	\$ (19,341)	\$ 122,879	\$ 1,320,879
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2,713	26,374	842
Changes in current assets and liabilities:				
Inventories	-	5,652	-	-
Deposits and prepaids	(9,763)	2,094	-	-
Accounts payable	(3,843)	(7,145)	(5,204)	26,244
Wages payable	208	2,413	4,230	7,853
Accrued claims	-	-	-	(48,609)
Compensated absences	3,406	14,196	29,570	13,776
Total adjustments	(9,992)	19,923	54,970	106
Net cash provided (used) by operating activities	\$ (115,425)	\$ 582	\$ 177,849	\$ 1,320,985

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ (88,641)	\$ -	\$ 1,069,741	\$ 5,031,708
-	(174,620)	(1,673,979)	(4,406,840)
-	(10,405)	(79,544)	(149,716)
-	-	583,010	534,401
<u>(88,641)</u>	<u>(185,025)</u>	<u>(100,772)</u>	<u>1,009,553</u>
664,835	485,165	-	2,150,000
<u>664,835</u>	<u>485,165</u>	<u>-</u>	<u>2,150,000</u>
(179,175)	(219,184)	-	(398,359)
<u>(179,175)</u>	<u>(219,184)</u>	<u>-</u>	<u>(398,359)</u>
4,513	1,199	50,331	50,236
<u>4,513</u>	<u>1,199</u>	<u>50,331</u>	<u>50,236</u>
401,532	82,155	(50,441)	2,811,430
<u>2,406,147</u>	<u>664,190</u>	<u>1,746,343</u>	<u>6,397,003</u>
<u>\$ 2,807,679</u>	<u>\$ 746,345</u>	<u>\$ 1,695,902</u>	<u>\$ 9,208,433</u>
\$ (60,401)	\$ (72,084)	\$ (566,970)	\$ 619,529
60,401	57,720	2,053	150,103
-	-	-	5,652
(88,641)	-	-	(96,310)
-	(170,661)	(86,562)	(247,171)
-	-	(27,395)	(12,691)
-	-	583,010	534,401
-	-	(4,908)	56,040
<u>(28,240)</u>	<u>(112,941)</u>	<u>466,198</u>	<u>390,024</u>
<u>\$ (88,641)</u>	<u>\$ (185,025)</u>	<u>\$ (100,772)</u>	<u>\$ 1,009,553</u>



Fiduciary Fund Financial Statements

Expendable Trust Funds:

Thomas Lee Charity Trust Fund - This fund is a private purpose trust fund in which trust earnings are available for one-time aid to Petaluma citizens in need.

Child Care Trust Fund - This is a private purpose trust fund in which the fund's earnings are available for childcare vouchers for eligible Petaluma working families with childcare costs.

Agency Fund:

General Fund - The fund is account for resources received from, held for, and due to, non-related parties.

Public Community Access Fund - The fund is used to account for funds received from the local television cable company, and used by the not-for-profit organization, which provides public television to City residents.

Assessment Districts Funds - This fund accounts for funds held by the City, collected from parcel assessments, and used to pay special assessment debt, pursuant to the provisions of the Improvements Bonds Act of 1915.

City of Petaluma
Combining Balance Sheet
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Funds		Total Private Purpose Trust Funds	Total Agency Fund
	Thomas Lee Charity Fund	Child Care Fund		
ASSETS				
Cash and investments	\$ 20,284	\$ 147,294	\$ 167,578	\$ 3,654,040
Interest receivable	157	1,140	1,297	19,375
Intergovernmental	-	-	-	38,716
Restricted cash	-	-	-	1,486,863
Total assets	20,441	148,434	168,875	\$ 5,198,994
LIABILITIES				
Accounts payable	-	140	140	\$ -
Accrued liabilities	-	-	-	5,198,994
Total liabilities	-	140	140	\$ 5,198,994
NET ASSETS				
Held in trust for private purposes	<u>\$ 20,441</u>	<u>\$ 148,294</u>	<u>\$ 168,735</u>	

City of Petaluma

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Expendable Trust Funds

For the year ended June 30, 2004

	<u>Thomas Lee Charity Fund</u>	<u>Child Care Fund</u>	<u>Total</u>
ADDITIONS:			
Investment earnings	\$ 658	\$ 4,797	\$ 5,455
Donations			-
Total revenues	<u>658</u>	<u>4,797</u>	<u>5,455</u>
DEDUCTIONS:			
Program costs	-		-
Administrative costs	500	2,129	2,629
Total expenditures	<u>500</u>	<u>2,129</u>	<u>2,629</u>
Change in net assets	<u>158</u>	<u>2,668</u>	<u>2,826</u>
NET ASSETS:			
Beginning of year	<u>20,283</u>	<u>145,626</u>	<u>165,909</u>
End of year	<u>\$ 20,441</u>	<u>\$ 148,294</u>	<u>\$ 168,735</u>

City of Petaluma
Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2004

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>General Agency Funds</u>				
Assets:				
Cash and investments	\$ 1,466,093	\$ 1,895,937	\$ (1,043,184)	\$ 2,318,846
Total assets	\$ 1,466,093	\$ 1,895,937	\$ (1,043,184)	\$ 2,318,846
Liabilities:				
Accrued liabilities	\$ 1,466,093	\$ 2,149,378	\$ (1,296,625)	\$ 2,318,846
Total liabilities	\$ 1,466,093	\$ 2,149,378	\$ (1,296,625)	\$ 2,318,846
<u>Public Community Access Fund</u>				
Assets:				
Cash and investments	\$ 201,417	\$ 14,701	\$ (25,050)	\$ 191,068
Accounts receivable	11,016	8,359	-	19,375
Total assets	\$ 212,433	\$ 23,060	\$ (25,050)	\$ 210,443
Liabilities:				
Accrued liabilities	\$ 212,433	\$ 14,525	\$ (16,515)	\$ 210,443
Total liabilities	\$ 212,433	\$ 14,525	\$ (16,515)	\$ 210,443
<u>Assessment District Funds</u>				
Assets:				
Cash and investments	\$ 3,227,113	\$ 3,701,862	\$ (5,784,849)	\$ 1,144,126
Intergovernmental receivable	21,922	40,621	(23,827)	38,716
Restricted cash	550,672	2,080,042	(1,143,851)	1,486,863
Total assets	\$ 3,799,707	\$ 5,822,525	\$ (6,952,527)	\$ 2,669,705
Liabilities:				
Accrued liabilities	\$ 3,799,707	\$ 3,282,511	\$ (4,412,513)	\$ 2,669,705
Total liabilities	\$ 3,799,707	\$ 3,282,511	\$ (4,412,513)	\$ 2,669,705
<u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 4,894,623	\$ 5,612,500	\$ (6,853,083)	\$ 3,654,040
Accounts receivable	11,016	8,359	-	19,375
Intergovernmental receivable	21,922	40,621	(23,827)	38,716
Restricted cash	550,672	2,080,042	(1,143,851)	1,486,863
Total assets	\$ 5,478,233	\$ 7,741,522	\$ (8,020,761)	\$ 5,198,994
Liabilities:				
Accrued liabilities	\$ 5,478,233	\$ 5,446,414	\$ (5,725,653)	\$ 5,198,994
Total liabilities	\$ 5,478,233	\$ 5,446,414	\$ (5,725,653)	\$ 5,198,994

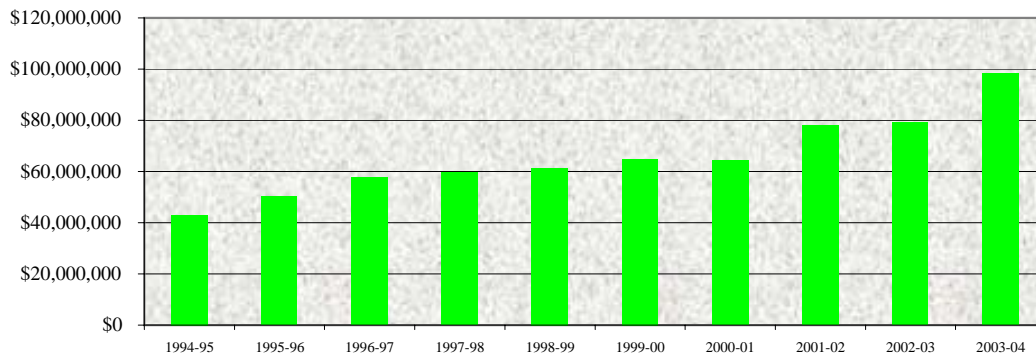
City of Petaluma, CA

Government-wide Expenditures by Function

Last Ten Fiscal Years

Fiscal Year	General Government	Community Development	Public Safety	Parks & Recreation	Public Works	Capital Outlay	Debt Service	Total Expenditures
1994-95	\$ 5,828,103	\$ 3,553,862	\$ 11,683,133	\$ 2,801,414	\$ 14,299,920	\$ 2,465,973	\$ 2,345,467	\$ 42,977,872
1995-96	5,079,797	2,444,145	13,299,714	3,355,896	17,000,203	6,636,380	2,314,077	50,130,212
1996-97	6,390,070	3,363,990	13,499,517	4,640,413	18,424,680	8,925,485	2,520,596	57,764,751
1997-98	7,310,073	3,927,466	14,230,057	3,678,529	17,019,364	10,735,969	2,687,512	59,588,970
1998-99	8,915,430	3,693,157	15,539,501	4,100,469	19,475,356	6,775,844	2,836,584	61,336,341
1999-00	8,739,696	4,027,921	17,215,459	4,684,030	22,806,706	3,922,850	3,480,339	64,877,001
2000-01	10,494,837	6,685,265	16,978,013	5,131,444	18,470,151	2,641,388	3,917,777	64,318,875
2001-02	17,107,863	4,644,735	18,474,520	4,243,003	24,250,654	4,061,515	5,379,858	78,162,148
2002-03	15,795,305	7,051,515	19,186,699	4,149,369	20,654,766	8,261,954	4,168,009	79,267,617
2003-04	12,020,135	15,038,727	20,340,189	4,487,931	21,494,587	15,675,426	9,208,835	98,265,830

TOTAL EXPENDITURES BY YEAR



Source: City of Petaluma Finance Department

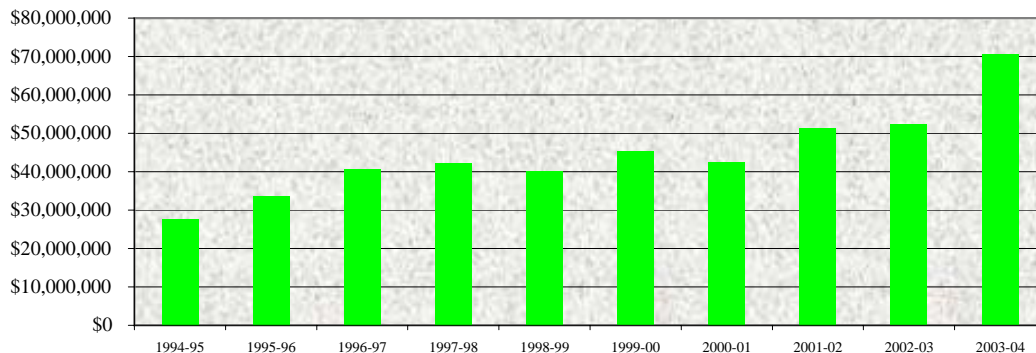
City of Petaluma, CA

General Government Expenditures by Function (1)

Last Ten Fiscal Years

Fiscal Year	General Government	Community Development	Public Safety	Parks & Recreation	Public Works	Capital Outlay	Debt Service	Total Expenditures
1994-95	\$ 2,556,055	\$ 3,553,862	\$ 10,781,281	\$ 2,553,357	\$ 4,293,928	\$ 2,465,973	\$ 1,548,396	\$ 27,752,852
1995-96	1,678,068	2,444,145	12,248,178	3,107,309	6,109,759	6,636,381	1,496,559	33,720,399
1996-97	2,400,520	3,363,990	12,451,412	4,397,558	7,450,469	8,925,485	1,664,786	40,654,220
1997-98	2,662,687	3,927,466	13,094,454	3,387,914	6,680,144	10,735,969	1,851,161	42,339,795
1998-99	3,002,754	3,693,157	14,293,524	3,829,989	6,552,942	6,775,844	2,025,951	40,174,161
1999-00	3,726,509	4,027,921	15,911,887	4,381,511	10,739,974	3,922,850	2,567,343	45,277,995
2000-01	4,148,238	6,685,265	15,638,564	4,848,888	5,836,223	2,641,388	2,792,257	42,590,823
2001-02	8,054,130	4,644,735	16,673,773	3,846,209	9,599,040	4,061,515	4,521,015	51,400,417
2002-03	8,353,588	7,051,515	17,541,094	3,780,018	3,783,389	8,261,954	3,527,303	52,298,861
2003-04	4,827,427	15,038,727	18,389,234	4,149,849	4,414,278	15,675,426	7,984,073	70,479,014

TOTAL EXPENDITURES BY YEAR



(1) Includes all governmental fund types (General Fund, Special Revenue, Debt Service and Capital Project)

Source: City of Petaluma Finance Department

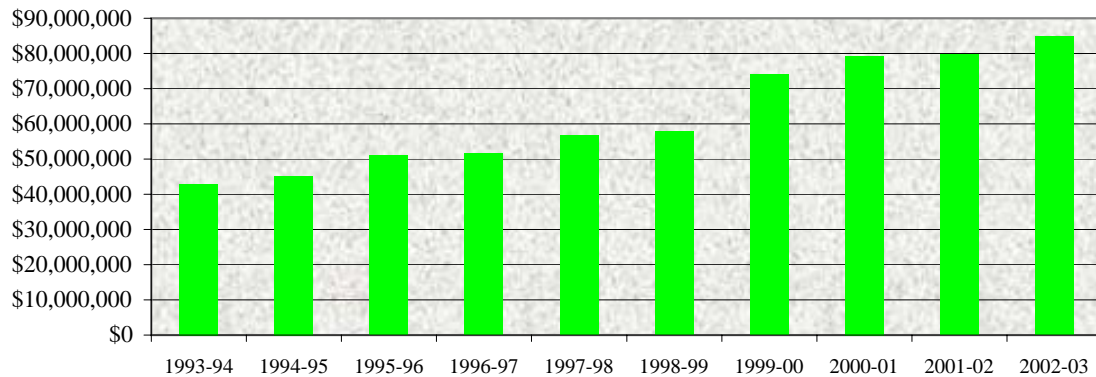
City of Petaluma, CA

Government-wide Revenue by Source

Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Fines, Forfeitures and Penalties	Investment Earnings and Rents	Intergovernmental	Charges for Services	Other Revenue	Charges for Sales	Connec-tion Fees	Total Revenues
1994-95	\$ 14,454,803	\$ 5,292,205	\$ 169,616	\$ 2,036,375	\$ 4,137,581	\$ 10,443,789	\$ 757,768	\$ 4,856,700	\$ 3,020,746	\$ 45,169,583
1995-96	15,908,087	4,586,666	219,575	2,134,253	8,138,839	10,869,363	1,968,543	5,275,999	1,972,033	51,073,358
1996-97	17,193,934	4,552,437	200,461	2,392,141	5,515,412	11,758,695	2,630,542	5,503,782	1,906,796	51,654,200
1997-98	18,925,464	5,745,409	213,406	1,965,377	7,433,367	12,701,090	2,209,707	5,223,538	2,340,418	56,757,776
1998-99	20,655,163	6,661,823	379,775	1,812,045	6,728,795	13,751,045	229,256	5,416,979	2,280,962	57,915,843
1999-00	23,671,898	8,674,820	410,331	2,772,721	14,245,311	15,171,228	280,468	5,918,106	2,813,143	73,958,026
2000-01	27,465,505	5,334,771	403,084	4,493,725	14,646,113	18,004,976	707,499	6,593,491	1,588,895	79,238,059
2001-02	28,677,815	3,625,559	394,426	3,978,140	11,908,163	20,576,168	694,405	8,878,849	905,355	79,638,880
2002-03	30,811,015	3,777,172	579,621	3,313,778	12,588,324	23,124,705	506,066	8,906,511	1,170,093	84,777,285
2003-04	30,466,226	8,668,866	531,759	1,784,456	15,401,924	26,128,162	1,800,233	9,839,443	2,183,114	96,804,183

TOTAL REVENUE BY YEAR



Motor vehicle in lieu revenue in the amount of \$1,602,302 was reclassified from taxes to intergovernmental beginning with fiscal year 1994-95.

Source: City of Petaluma Finance Department

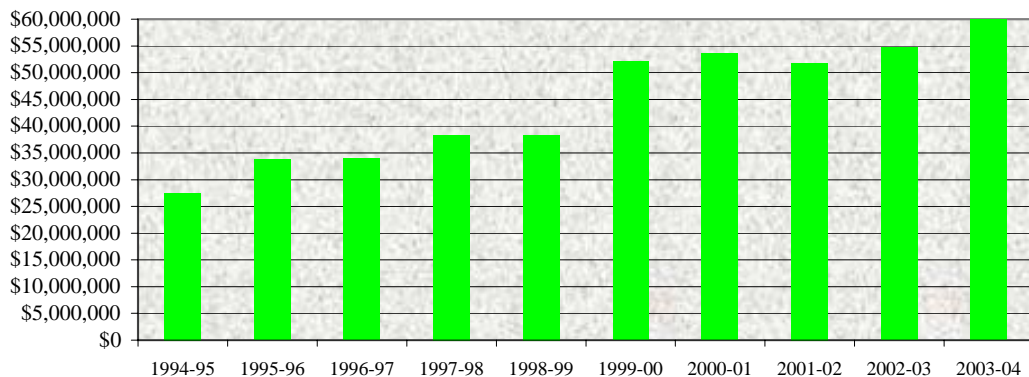
City of Petaluma, CA

General Government Revenue by Source (1)

Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Fines and Forfeitures	Investment Earnings and Rents	Intergovernmental	Charges for Services	Other Revenue	Total Revenues
1994-95	\$ 14,454,803 (2)	\$ 5,292,205	\$ 169,616	\$ 1,624,953	\$ 3,352,970 (2)	\$ 2,043,788	\$ 565,719	\$ 27,504,054
1995-96	15,908,087	4,586,666	219,575	1,664,985	7,351,766	2,416,678	1,605,836	33,753,593
1996-97	17,193,934	4,552,437	200,461	1,842,190	4,606,779	3,144,805	2,381,583	33,922,189
1997-98	18,925,464	5,745,409	213,406	1,500,012	6,492,192	3,499,368	1,943,660	38,319,511
1998-99	20,655,163	6,661,823	379,775	1,399,198	5,695,276	3,350,447	229,256	38,370,938
1999-00	23,671,898	8,674,820	410,331	2,164,631	13,291,937	3,536,127	280,468	52,030,212
2000-01	27,465,505	5,334,771	403,084	3,219,472	12,513,738	3,881,377	707,499	53,525,446
2001-02	28,677,815	3,625,559	394,426	3,026,728	10,803,365	4,589,380	708,723	51,825,996
2002-03	30,811,015	3,777,172	579,621	2,561,646	11,456,132	5,227,749	319,866	54,733,201
2003-04	30,466,226	8,668,866	531,759	1,426,738	10,955,677	6,052,771	1,800,233	59,902,270

TOTAL REVENUE BY YEAR



(1) Includes all governmental fund types (General Fund, Special Revenue, Debt Service and Capital Project)

(2) Motor vehicle in lieu revenue in the amount of \$1,602,302 was reclassified from taxes to intergovernmental beginning with fiscal year 1994-95.

Source: City of Petaluma Finance Department

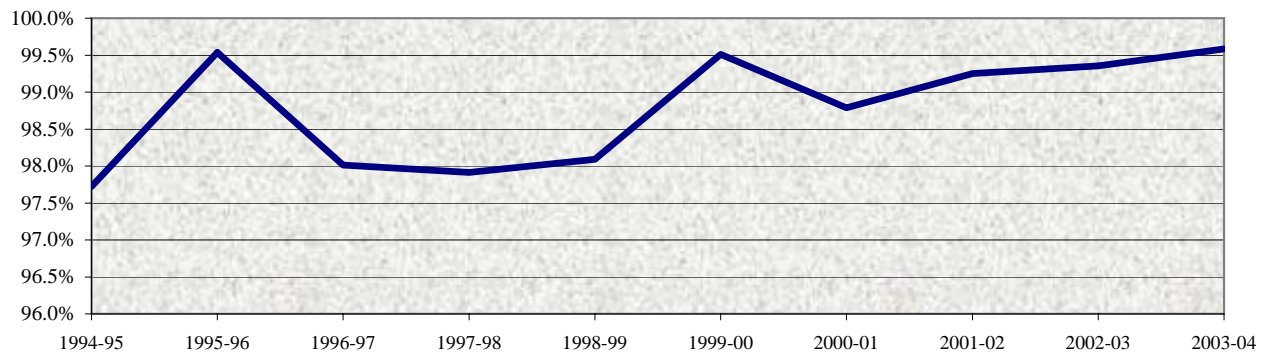
City of Petaluma, CA

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Total Tax Collected	Percent of Tax Collected to Tax Levied
1994-95	\$ 3,091,245	\$ 3,020,828	97.7%
1995-96	3,103,260	3,088,944	99.5%
1996-97	3,661,656	3,588,840	98.0%
1997-98	3,478,871	3,406,210	97.9%
1998-99	3,637,226	3,567,721	98.1%
1999-00	3,874,803	3,855,863	99.5%
2000-01	4,147,865	4,097,557	98.8%
2001-02	4,680,283	4,645,274	99.3%
2002-03	5,010,207	4,977,826	99.4%
2003-04	5,186,649	5,165,100	99.6%

TAX COLLECTED TO TAX LEVIED



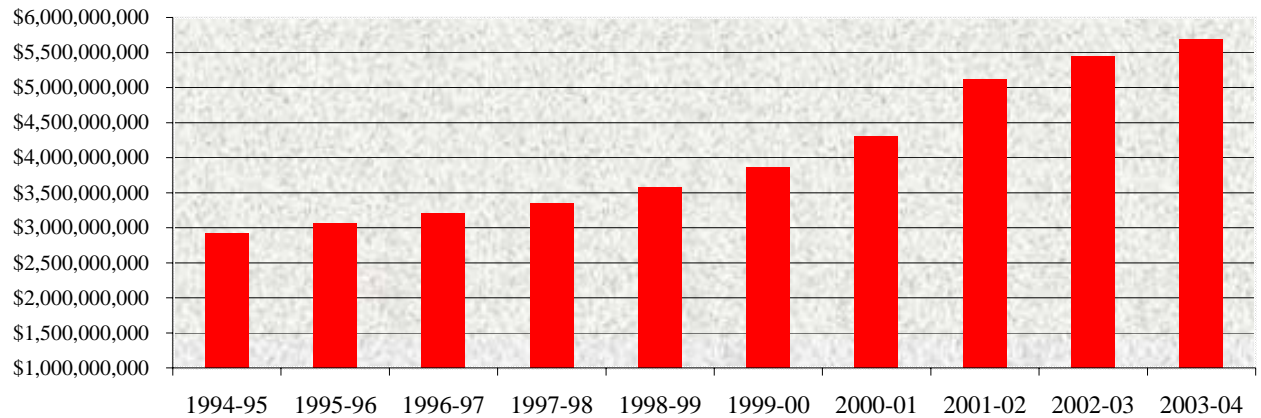
Source: Sonoma County Auditor-Controller

City of Petaluma, CA
Assessed Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Gross Assessed Value (1)			
	Real Property			Valuation
1994-95	\$ 2,712,863,551	\$ 191,881,111	\$ 6,221,173	\$ 2,910,965,835
1995-96	2,870,357,395	190,460,417	6,221,038	3,067,038,850
1996-97	3,011,759,590	185,972,605	2,616,555	3,200,348,750
1997-98	3,143,122,848	205,576,918	63,050 (2)	3,348,762,816
1998-99	3,334,240,875	237,550,538	-	3,571,791,413
1999-00	3,590,627,123	275,359,257	-	3,865,986,380
2000-01	3,959,242,711	345,043,235	-	4,304,285,946
2001-02	4,617,101,817	504,372,194	-	5,121,474,011
2002-03	4,921,513,378	514,678,553	-	5,436,191,931
2003-04	5,212,580,231	479,991,078	-	5,692,571,309

TOTAL ASSESSED VALUATION



(1) Data is stated at full value as required under Article XIII-A of the Constitution of the State of California.

Assessed values exclude property subject to redevelopment tax increments.

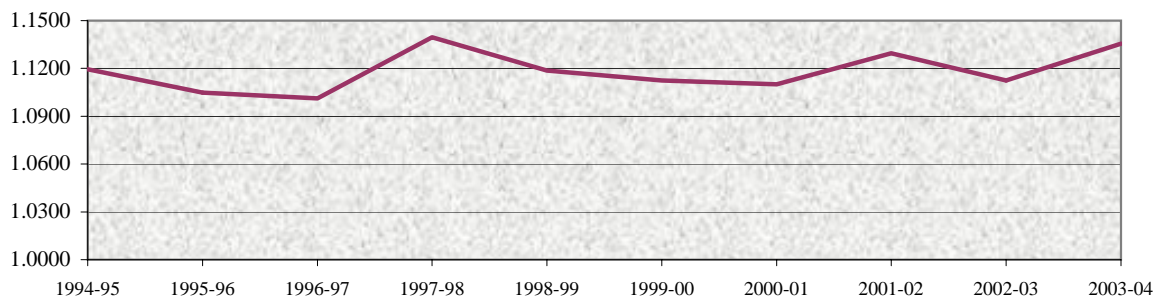
(2) Railroad property has been sold to an entity that is not categorized as a public utility by the State of California.

Source: Sonoma County Auditor-Controller

City of Petaluma, CA
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic Prop 13 Statewide Tax Rate (1)	Voter Approved or Pre 1978 Debt Service			Total Property Tax Rate (2)
		City	School Districts	Special Districts	
1994-95	1.0000	0.0089	0.1045	0.0060	1.1194
1995-96	1.0000	0.0094	0.0895	0.0060	1.1049
1996-97	1.0000	0.0065	0.0887	0.0060	1.1012
1997-98	1.0000	0.0059	0.1277	0.0060	1.1396
1998-99	1.0000	0.0060	0.1066	0.0060	1.1186
1999-00	1.0000	0.0060	0.1051	0.0013	1.1124
2000-01	1.0000	0.0060	0.1041	0.0000	1.1101
2001-02	1.0000	0.0070	0.1225	0.0000	1.1295
2002-03	1.0000	0.0070	0.1054	0.0000	1.1124
2003-04	1.0000	0.0070	0.1286	0.0000	1.1356

TOTAL PROPERTY TAX RATES



(1) In 1978, the voters approved Proposition 13 which, among other things, established a statewide limit of property tax levies to a maximum of 1% of the assessed valuation. Subsequently, the State legislation fixed the statewide property tax rate at 1%.

(2) Per \$100 assessed valuation

Source: Sonoma County Auditor-Controller

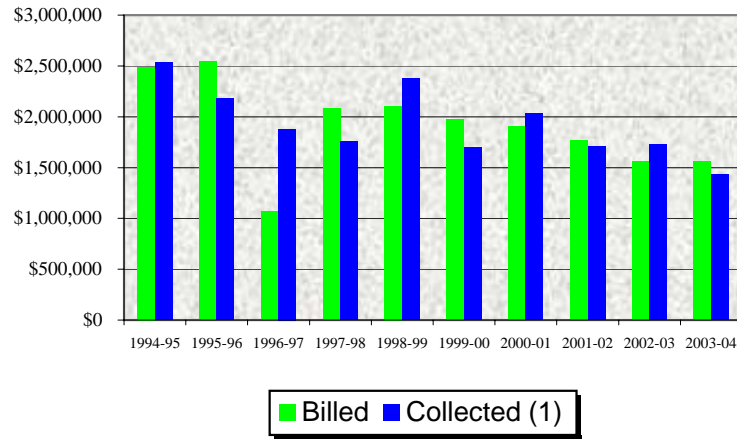
City of Petaluma, CA

Special Assessment Billings and Collections

Last Ten Fiscal Years

Fiscal Year	Current Assessments Billed	Assessments Collected (1)
1994-95	\$ 2,489,971	\$ 2,537,138
1995-96	2,539,334	2,177,993
1996-97	1,069,159	1,878,419
1997-98	2,083,724	1,754,430
1998-99	2,106,852	2,377,419
1999-00	1,974,978	1,695,874
2000-01	1,907,068	2,033,538
2001-02	1,766,690	1,706,330
2002-03	1,559,869	1,729,662
2003-04	1,559,900	1,434,452

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS



Source: City of Petaluma Finance Department

City of Petaluma, CA
Computation of Legal Debt Margin

As of June 30, 2004

Assessed Value		\$ <u>5,692,571,309</u>
Legal Debt Margin		
Debt Limitation 15% of Assessed Valuation		853,885,696
Debt Applicable to Limitation		
General Obligations Bonds Outstanding	-	
Less Amounts Available for Repayment	<u>-</u>	
Total Debt Applicable to Limitation		<u>-</u>
Available Legal Debt Margin		\$ <u>853,885,696</u>

Sources:

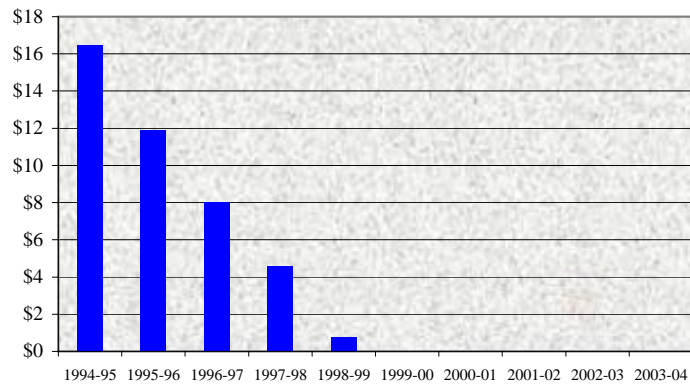
Assessed Value - Sonoma County Auditor-Controller

General Obligation Bonds - City of Petaluma Finance Department

City of Petaluma, CA
Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt per Capita
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Fund (1)	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt per Capita
1994-95	48,569	\$ 2,910,965,835	\$ 830,000	\$ 29,899	\$ 800,101	Not Measurable	16.47
1995-96	47,699	3,067,038,850	595,000	28,583	566,417	Not Measurable	11.87
1996-97	48,994	3,200,348,750	425,000	32,652	392,348	Not Measurable	8.01
1997-98	50,439	3,348,762,816	245,000	15,349	229,651	Not Measurable	4.55
1998-99	51,668	3,571,791,413	60,000	19,042	40,958	Not Measurable	0.80
1999-00	52,985	3,865,986,380	-	-	-	Not Measurable	-
2000-01	54,548	4,304,285,946	-	-	-	Not Measurable	-
2001-02	55,900	5,121,474,011	-	-	-	Not Measurable	-
2002-03	56,100	5,436,191,931	-	-	-	Not Measurable	-
2003-04	55,884	5,692,571,309	-	-	-	Not Measurable	-

NET BONDED DEBT PER CAPITA



(1) Amount available for repayment of general bonded debt

Sources:

Population - State Department of Finance (Estimate as of January 1 each year) and US Census (1990)

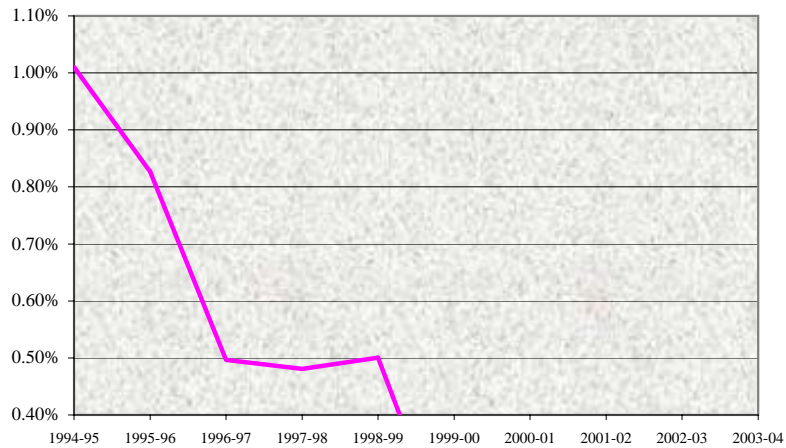
Assessed Value - Sonoma County Auditor-Controller

City of Petaluma, CA
Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Government Expenditures
Last Ten Fiscal Years

Fiscal Year	Total General Bonded Debt Service Expenditures	Total General Government Expenditures	Ratio of Debt Services to General Government Expenditures
1994-95	\$ 280,300	\$ 27,752,853	1.01%
1995-96	278,787	33,720,400	0.83%
1996-97	201,879	40,654,220	0.50%
1997-98	203,548	42,339,795	0.48%
1998-99	201,064	40,174,161	0.50%
1999-00	67,215	45,278,365	0.15%
2000-01	-	42,590,823	0.00%
2001-02	-	51,400,417	0.00%
2002-03	-	53,298,860	0.00%
2003-04	-	-	0.00%

The General Obligation bonds were paid in full April 15, 2000.

**RATIO OF DEBT SERVICES TO GENERAL
GOVERNMENT EXPENDITURES**



Source: City of Petaluma Finance Department

City of Petaluma, CA
Direct and Overlapping Bonded Debt Statement

Direct and Overlapping Bonded Debt:	<u>% Applicable</u>	<u>Debt June 30, 2004</u>
Direct:		
City of Petaluma Certificates of Participation	0.00%	\$ -
City of Petaluma 1915 Act Bonds	100.00%	<u>10,500,000</u>
Total Direct		<u>10,500,000</u>
Overlapping:		
Sonoma County Pension Obligations	12.00%	9,578,400
Petaluma Joint Union High School District	76.00%	38,297,896
Petaluma City School District	86.00%	20,271,000
Old Adobe Union School District	91.41%	8,647,017
Sonoma County Water Agency	17.00%	31,674,209
Sonoma County Sunnyslope Assessment District	100.00%	260,000
Waugh School District Community Facilities District #1	100.00%	<u>9,980,000</u>
Total Overlapping		<u>\$ 118,708,522</u>
Total Direct and Overlapping Bonded Debt		<u>\$ 129,208,522</u> (1)

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Sources:

City of Petaluma Finance Department
Sonoma County Treasurer-Tax Collector

City of Petaluma, CA
Schedule of Revenue Bond Coverage for Proprietary Funds
Last Ten Fiscal Years
(in \$000)

Fiscal Year	Gross Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Total Debt Service Requirements	Times Coverage
1994-95	N/A	N/A	N/A	*	N/A
1995-96	N/A	N/A	N/A	*	N/A
1996-97	N/A	N/A	N/A	*	N/A
1997-98	N/A	N/A	N/A	*	N/A
1998-99	N/A	N/A	N/A	*	N/A
1999-00	N/A	N/A	N/A	*	N/A
2000-01	N/A	N/A	N/A	*	N/A
2001-02	N/A	N/A	N/A	*	N/A
2002-03	N/A	N/A	N/A	*	N/A
2003-04	N/A	N/A	N/A	*	N/A

* Water Revenue Bonds were called 9-1-93

N/A - Not Applicable

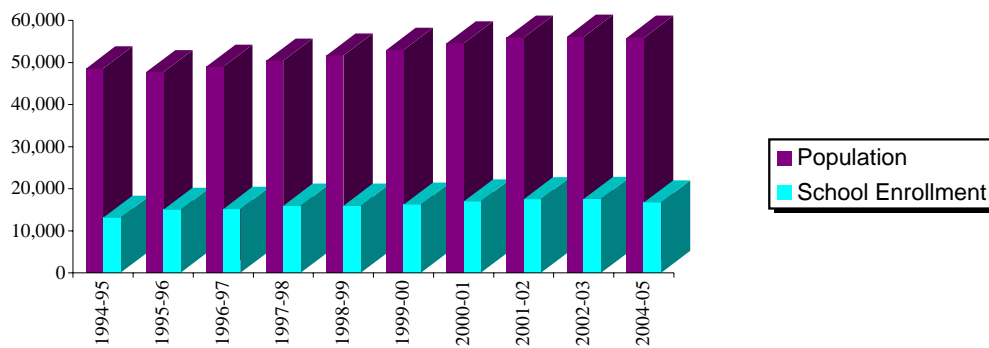
Source: City of Petaluma Finance Department

City of Petaluma, CA

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	Median Age (3)	School Enrollment (4)	Unemployment Rate (5)
1994-95	48,569	\$ 11,850	N/A	13,080	5.0%
1995-96	47,699 *	11,766	N/A	14,958	3.8%
1996-97	48,994	12,072	N/A	15,172	3.6%
1997-98	50,439	12,460	N/A	15,918	3.8%
1998-99	51,668	13,575	N/A	15,923	2.7%
1999-00	52,985	13,975	N/A	16,193	2.7%
2000-01	54,548	14,525	N/A	16,940	2.6%
2001-02	55,900	15,450	N/A	17,483	3.4%
2002-03	56,100	15,850	N/A	17,540	3.7%
2004-05	55,884	17,875	N/A	16,739	3.2%



* In FY 95-96, the State Department of Finance amended the methodology in estimating population which resulted in a statewide population decrease for many cities.

N/A - Not Available

Sources:

- (1) State Department of Finance (Estimate as of January 1 Each Year) and US Census (1990)
- (2) U.S. Department of Housing and Urban Development- 2001-2002 Median H/H Income Schedule for Household of 4
- (3) Taken from the 1990 U.S. Census
- (4) Petaluma Joint Union High School, Petaluma City Schools, Old Adobe, Waugh School, Cinnabar and Junior College (1995) districts
- (5) California State Employment Department

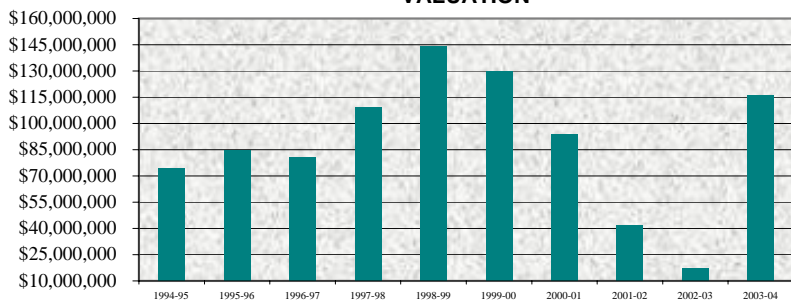
City of Petaluma , CA

Construction, Property Value and Bank Deposits

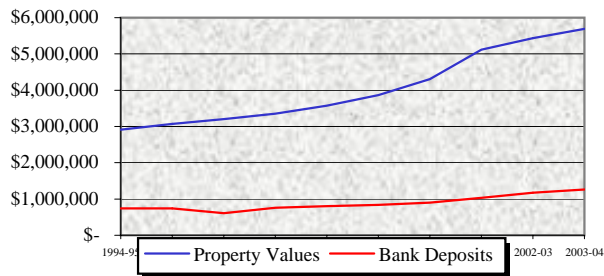
Last Ten Fiscal Years

Fiscal Year	Commercial (1)		Residential (1)		Estimated Property Value (2) (in \$000)	Bank Deposits (3) (in \$000)
	Number of Permits	Valuation	Number of Permits	Valuation		
1994-95	640	17,049,911	2,995	57,244,460	2,910,966	742,465
1995-96	693	33,396,642	3,088	51,318,243	3,067,039	740,120
1996-97	640	32,416,279	2,633	48,370,537	3,200,349	608,709
1997-98	813	45,143,240	2,967	64,049,974	3,348,763	756,051
1998-99	594	53,777,280	3,145	90,136,143	3,571,791	799,474
1999-00	644	40,557,184	3,657	89,448,851	3,865,986	840,791
2000-01	786	54,566,196	2,314	39,285,439	4,304,286	902,086
2001-02	351	16,024,345	1,330	25,443,127	5,121,474	1,030,053
2002-03	166	11,101,405	280	6,206,290	5,436,192	1,169,659
2003-04	343	61,275,627	970	55,082,248	5,692,571	1,263,704

COMMERCIAL AND RESIDENTIAL BUILDING PERMIT VALUATION



PROPERTY VALUE AND BANK DEPOSITS



Sources:

- (1) City of Petaluma Building Department
- (2) Sonoma County Auditor-Controller - Assessed Valuations
- (3) State Department of Banking - Calendar Year Deposits Starting 1985

City of Petaluma, CA
Assessed Valuation of
Principal Property Taxpayers

Taxpayer	Type of Business	2003-04 Assessed Valuation (1)	Percentage of Total Assessed Valuation
Park Central Apartments LP	Residential Apartments	\$ 38,460,547	14.19%
BNP Paribas Leasing Corp	Equipment Leasing	30,860,496	11.39%
EQR Lakeville Resort General PTP	Residential Apartments	30,436,228	11.23%
Pine Creek Properties	Industrial/Comm Dev.	28,284,133	10.44%
Savoy Corporation	Industrial/Comm Dev.	26,317,895	9.71%
Chelsea GCA Realty Group	Retail	25,421,419	9.38%
TCP Petaluma LLC	Corporate Services	24,552,146	9.06%
RNM Lakeville	Industrial/Comm Dev.	23,460,088	8.66%
Lok Petaluma Marina Hotel	Hotel	23,283,479	8.59%
Syers Properties	Industrial/Comm Dev.	<u>19,911,666</u>	<u>7.35%</u>
Total Principal Property Taxpayers		270,988,097	4.54%
All Other Taxpayers		<u>5,692,571,309</u>	<u>95.46%</u>
Total 2002-03 Assessed Valuation		<u>\$ 5,963,559,406</u>	<u>100.00%</u>

Source: Sonoma County Tax Collector

City of Petaluma, CA

Miscellaneous Statistics

As of June 30, 2004

Date of Incorporation/Charter	1858/1947
Form of Government	Council/Manager
Number of Full Time Positions	316.5
Population	55,884
Area in Square Miles	13.4
Altitude in Feet (Downtown)	11

City of Petaluma Facilities and Services:

Public Works:

Miles of Streets	170	Number of Street Lights	5,043
Miles of Water Mains	245	Annual Water Purchased in Billion/Gallons	3.509
Turning Basin Public Dock Footage	995	Utility Accounts	18,968
Sewage Treatment Type	Secondary	Average Dry Weather Flows of Sewage	4.4 mgd
Number of City Parking Lots/Spaces	3/1,043	Number of Signalized Intersections	45

Fire Protection and Paramedic/Ambulance Service:

Number of Stations	3	Number of Fire Protection Vehicles	16
Number of Fire Personnel	57	Number of Fire Calls	1,428
Number of Ambulances	3	Number of Ambulance Runs	3,333

Police Protection:

Number of Stations	1	Number of Police Vehicles	40
Number of Police Personnel - sworn	69	Number of Police Calls	58,748
Number of Police Personnel - non sworn	27.5		

Culture and Leisure:

Parks	43	Park Acreage	200
Community Centers	2	Community Swimming Pools	2
Recreational Facilities	3	Tennis Courts	7
Ball/Soccer Fields	40	Marina Berth Slips	190
Library/Museum	1	Food Kitchen	1

Transit & Airport:

Number of Bus Routes/Buses	3/8	Annual Ridership	163,775
Runway Length	3,600	Tiedown Spaces	97
City Hangars	127	Acreage at Airport	219

Other Agencies:

School/College Districts:

Number of School Districts	5	Number of Community Colleges	1
Number of Students Enrolled	11,036	Number of Students Enrolled	5,703

Hospital District:

Number of Hospitals	1	Number of Patient Beds	99
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County Library:

City Branches	1	Books/ Audiovisual Recordings in Circulation	97,900
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