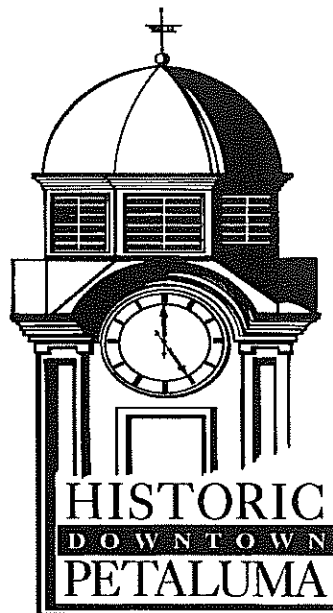


**PETALUMA COMMUNITY
DEVELOPMENT COMMISSION**

CITY OF PETALUMA, CALIFORNIA

**BASIC FINANCIAL STATEMENTS and
Independent Auditors' Reports
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**



Petaluma Community Development Commission
Basic Financial Statements
For the year ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma, California (City), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Commission'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 *Governmental Accounting 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statements date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Commission has not been informed and is not aware of any investment losses. Accordingly, investment losses, if any, have not been reflected in the accompanying basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2008, and the respective changes in financial position, 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 15, 2008 on our consideration of Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

As described in Note 1 to the Basic Financial Statements, the Commission implemented Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

The accompanying Required Supplementary Information, such as Budgetary Information, and Budgetary Comparison Schedule, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

The Commission has not presented the Management's Discussion and Analysis which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission'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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capricci & Carson

Oakland, California
December 15, 2008

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Petaluma Community Development Commission
Statement of Net Assets
June 30, 2008

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and investments | \$ 5,510,984 |
| Restricted cash and investments with fiscal agents | 26,425,261 |
| Accounts receivable | 6,688 |
| Intergovernmental receivables | 878,145 |
| Total current assets | <u>32,821,078</u> |
| Noncurrent assets: | |
| Noncurrent receivables | 2,078,171 |
| Notes receivable | 15,497,678 |
| Deferred charges, net | 1,433,237 |
| Property held for resale | 402,053 |
| Capital assets: | |
| Nondepreciable | 38,980,952 |
| Capital assets, net | <u>38,980,952</u> |
| Total noncurrent assets | <u>58,392,091</u> |
| Total assets | <u>91,213,169</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 218,557 |
| Wages payable | 46,612 |
| Interest payable | 565,727 |
| Due to the City of Petaluma | 1,927,000 |
| Refundable deposits | 147,423 |
| Compensated absences - due within one year | 35,595 |
| Long-term debt - due within one year | 1,250,275 |
| Total current liabilities | <u>4,191,189</u> |
| Noncurrent liabilities: | |
| Compensated absences - due in more than one year | 84,749 |
| Long-term debt - due in more than one year | 72,438,244 |
| Total noncurrent liabilities | <u>72,522,993</u> |
| Total liabilities | <u>76,714,182</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | <u>7,817,115</u> |
| Restricted for: | |
| Debt service | 7,187 |
| Capital projects | 25,651,684 |
| Special projects | 20,722,346 |
| Total restricted | <u>46,381,217</u> |
| Unrestricted | <u>(39,699,345)</u> |
| Total net assets | <u>\$ 14,498,987</u> |

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2008

| Functions/Programs | Expenses | Program Revenues | | | Total | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|----------------------|-------------------------|--|--|---------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| Community development | \$ 10,274,277 | \$ 31,666 | \$ 613,890 | \$ 585,165 | \$ 1,230,721 | \$ (9,043,556) |
| Interest on long-term debt | 3,567,427 | - | - | - | - | (3,567,427) |
| Total governmental activities | \$ 13,841,704 | \$ 31,666 | \$ 613,890 | \$ 585,165 | \$ 1,230,721 | (12,610,983) |

General Revenues and Transfers:

| | |
|---|----------------------|
| Tax increment | 16,777,120 |
| Investment earnings | 1,800,224 |
| Miscellaneous | 356 |
| Transfers to the City of Petaluma | (6,552,673) |
| Total general revenues and transfers | 12,025,027 |
| Change in net assets | (585,956) |
| Net assets - beginning of year | 15,084,943 |
| Net assets - end of year | \$ 14,498,987 |

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Petaluma Community Development Commission
Balance Sheet
Governmental Funds
June 30, 2008

| | Major Funds | | | Total Governmental Funds |
|--|----------------------------------|-------------------------------|----------------------------------|--------------------------------|
| | Redevelopment Special Revenue | Redevelopment Debt Service | Redevelopment Capital Project | |
| ASSETS | | | | |
| Cash and investments | \$ 5,465,319 | \$ 737 | \$ 44,928 | \$ 5,510,984 |
| Restricted cash and investments | - | 51,450 | 26,373,811 | 26,425,261 |
| Receivables: | | | | |
| Accounts receivable, net | 6,500 | - | 188 | 6,688 |
| Intergovernmental receivables | 565,911 | - | 312,234 | 878,145 |
| Notes receivable | 15,226,102 | - | 271,576 | 15,497,678 |
| Noncurrent receivables | 2,078,171 | - | - | 2,078,171 |
| Land held for resale | - | - | 402,053 | 402,053 |
| Total assets | \$ 23,342,003 | \$ 52,187 | \$ 27,404,790 | \$ 50,798,980 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 49,654 | \$ - | \$ 168,903 | \$ 218,557 |
| Wages payable | 9,832 | - | 36,780 | 46,612 |
| Deferred revenue | 2,078,171 | - | - | 2,078,171 |
| Refundable deposits | - | - | 147,423 | 147,423 |
| Due to City of Petaluma | 482,000 | 45,000 | 1,400,000 | 1,927,000 |
| Total liabilities | 2,619,657 | 45,000 | 1,753,106 | 4,417,763 |
| Fund Balances: | | | | |
| Reserved: | | | | |
| Encumbrances | 175,000 | - | - | 175,000 |
| Notes receivable | 15,226,102 | - | 271,576 | 15,497,678 |
| Land held for resale | - | - | 402,053 | 402,053 |
| Debt service | - | 7,187 | - | 7,187 |
| Unreserved, undesignated reported in: | | | | |
| Special revenue fund | 5,321,244 | - | - | 5,321,244 |
| Capital projects fund | - | - | 24,978,055 | 24,978,055 |
| Total fund balances | 20,722,346 | 7,187 | 25,651,684 | 46,381,217 |
| Total liabilities and fund balances | \$ 23,342,003 | \$ 52,187 | \$ 27,404,790 | \$ 50,798,980 |

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balances - Total Governmental Funds \$ 46,381,217

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. 38,980,952

Revenues which were deferred on the Governmental Funds Balance Sheet because they were not currently available were reported as revenue in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Government-Wide Statement of Net Assets. 2,078,171

Deferred charges, such as bond issuance costs, were an expenditure in the governmental funds but were capitalized and amortized over the life of the bonds in the Government-Wide Financial Statements. 1,433,237

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. (565,727)

Long-term liabilities consisting of bonds and notes payable, 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 (35,595)

Compensated absences - due in more than one year (84,749)

Long-term debt - due within one year (1,250,275)

Long-term debt - due in more than one year (72,438,244)

Net Assets of Governmental Activities \$ 14,498,987

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Petaluma Community Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

| | Major Funds | | | Total Governmental Funds |
|---|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | Redevelopment Special Revenue | Redevelopment Debt Services | Redevelopment Capital Project | |
| REVENUES: | | | | |
| Taxes | \$ 3,277,878 | \$ - | \$ 13,499,242 | \$ 16,777,120 |
| Use of money and property | 234,671 | 37,004 | 1,711,589 | 1,983,264 |
| Intergovernmental | 613,890 | - | 125,938 | 739,828 |
| Charges for services | 31,021 | - | 645 | 31,666 |
| Other revenues | 356 | - | - | 356 |
| Total revenues | 4,157,816 | 37,004 | 15,337,414 | 19,532,234 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Community development | 787,682 | 26,308 | 10,815,815 | 11,629,805 |
| Capital outlay | - | - | 29,001 | 29,001 |
| Debt service: | | | | |
| Principal | - | 1,184,000 | - | 1,184,000 |
| Interest and fiscal charges | - | 3,484,023 | - | 3,484,023 |
| Total expenditures | 787,682 | 4,694,331 | 10,844,816 | 16,326,829 |
| REVENUES OVER (UNDER) EXPENDITURES | 3,370,134 | (4,657,327) | 4,492,598 | 3,205,405 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Developer contribution | 459,227 | - | - | 459,227 |
| Transfers in from the City of Petaluma | - | - | 81,000 | 81,000 |
| Transfers out to the City of Petaluma | - | - | (6,633,673) | (6,633,673) |
| Transfers in | - | 4,439,000 | 10,029,730 | 14,468,730 |
| Transfers out | (880,192) | (455,750) | (13,132,788) | (14,468,730) |
| Total other financing sources (uses) | (420,965) | 3,983,250 | (9,655,731) | (6,093,446) |
| Net change in fund balances | 2,949,169 | (674,077) | (5,163,133) | (2,888,041) |
| FUND BALANCES: | | | | |
| Beginning of year | 17,773,177 | 681,264 | 30,814,817 | 49,269,258 |
| End of year | \$ 20,722,346 | \$ 7,187 | \$ 25,651,684 | \$ 46,381,217 |

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
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, 2008

| | |
|---|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (2,888,041) |
| Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets 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 in the current period. | 4,146,880 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. | (2,731,265) |
| Revenues which were deferred on the Governmental Funds Balance Sheet because they were not currently available in prior years were reported as revenue as they became available. In the Statement of Activities and Changes in Net Assets these amounts had been recorded in prior years, as a result they were not subject to revenue recognition in the current year. | (183,040) |
| Compensated absences were 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, Compensated absences were not reported as expenditures in Governmental Funds. | (31,086) |
| Bond premium and discount were recognized as expenditures on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond premium and discount were capitalized and amortized over the life of the bonds. This amount represents the current year amortization. | (61,725) |
| Amortization expenses on bond issuance costs 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, amortization expenses on bond issuance cost was not reported as an expenditure in governmental funds. | (56,991) |
| 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. | |
| Long-term debt repayments | 1,184,000 |
| 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. | 35,312 |
| Change in Net Assets of Governmental Activities | <u>\$ (585,956)</u> |

Petaluma Community Development Commission
Notes to Basic Financial Statements
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Petaluma Community Development Commission, of the City of Petaluma, California (Commission) 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 Commission's accounting policies are described below.

A. Reporting Entity

The Commission, a component unit of the City of Petaluma, California (City), is a community redevelopment agency formed in September 1976, pursuant to the provisions of Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code. Pursuant to this law, the Commission is vested with the responsibility of carrying out a duly adopted redevelopment plan. The Commission defined the Central Business District Project Area, encompassing approximately 225 acres, on September 27, 1976, amended in April 2001. The Petaluma Community Development Project Area was defined as encompassing approximately 2,740 acres on July 18, 1994 and 2001.

The Commission's primary source of revenue, other than loans, advances from the City, and bond proceeds, is an allocation of a portion of current property taxes. Property taxes allocated to the Commission from other agencies are computed in the following manner:

- a. The assessed valuation of all property within the project area is determined on the date of adoption of the redevelopment plan, and identified as the base year valuation.
- b. Property taxes based on the incremental increase in assessed values above the base year valuation are allocated to the Commission. Property taxes based on the base year assessed valuation are allocated to the City, county and other districts.

The Commission has no power to levy and collect taxes.

B. Basis of Accounting and Measurement Focus

The accounts of the Commission 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.

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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements

The Commission'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 activities for the Commission.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Commission'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 and Changes in Net Assets are presented using the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Commission's program revenues consisted of:

- ◆ 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. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- ◆ Transfers in/out

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. 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 Commission has presented all funds as major funds.

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 Sheet.

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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Revenues are recorded when received in cash, except for revenues subject to accrual (revenue received within 60 days following year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Commission are property tax. 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 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.

C. Cash and Investments

The Agency pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments with varying terms.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Commission and are presented as "Cash and Investments" in the accompanying basic financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures

In accordance with GASB Statement No. 31, highly liquid money market investments with maturities of one year or less 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. Interest earned on investment is allocated to all funds on the basis of monthly cash and investment balances.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

The Commission 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.

D. Restricted Cash and Investments with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds, reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

F. Capital Assets

The Commission transfers its capital assets to the City as projects are completed since the City is required to maintain all assets. The Commission retains its construction in process until the projects are completed. At that time, the assets will be contributed to the City. The PCDC cannot use tax increment for maintenance, thus, the City is required to maintain all Agency assets. Consequently, all completed capital assets are recorded as City assets.

G. Interest Payable

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities. However in the governmental funds financial statements, interest expenditures on long-term debt are recognized when payment is due.

H. Deferred Revenue

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 Commission records deferred revenue for transactions for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are interest on notes receivable and loans receivable financed with federal funds.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences

The Commission 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.

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, 2008. Compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements.

J. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Financial Statements

The governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

K. Net Assets and Fund Equity

In the government-wide financial statements, net assets are classified in the following categories:

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

Unrestricted - 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."

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity, Continued

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

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of the basic 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.

M. Property Tax

Under California law, property taxes are assessed and collected by Sonoma County (County) up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to cities based on complex formulas. The County assesses, bills, and collects property taxes as follows:

| | |
|-----------------|---|
| Lien Date | January 1 |
| Levy Date | July 1 |
| Due Date | Secured: November 1 and February 1 Unsecured: July 1 |
| Collection Date | Secured: December 10 and April 10 Unsecured: August 31 |

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, under the Teeter Plan. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid.

N. New Pronouncements

In 2008, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2008 consisted of the following:

| | |
|---|-----------------------------|
| Cash and investments pooled with the City | \$ 5,510,984 |
| Restricted cash and investments | <u>26,425,261</u> |
| Total cash and investments | <u>\$ 31,936,245</u> |

The Commission pools its cash and investments with the City in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

The investments made by the Agency are limited to those allowable under State statutes and include the following types of investments:

- Local Agency Investment Fund (LAIF)
- California Assessment Management Program (CAMP)
- Certificates of deposits placed with commercial banks and/or savings and loans
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Securities of the U.S. Government or its Agencies
- Repurchase Agreements
- Commercial Paper
- Money Market
- Mutual Funds
- Guaranteed Investment Contracts

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related interest rate risk, credit rate risk, custodial risk and concentration risk

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

3. NOTES RECEIVABLE

At June 30, 2008, the Agency had the following loans receivable:

| | |
|---------------------------------|-----------------------------|
| Housing Loans | |
| Old Elm Partners | \$ 1,305,961 |
| Roundwalk Village Partners | 933,400 |
| Boulevard (Buckelew) Project | 480,200 |
| Downtown River Associate LP | 3,662,836 |
| Edith Street Apartments, Inc. | 889,964 |
| Lieb Senior Apartments Inc. | 810,241 |
| Parklane Apartments Corp | 167,314 |
| 575 Vallejo Street Association | 851,184 |
| 579 Vallejo Street Association | 990,000 |
| Casa Grande | 1,656,655 |
| Wood Sorrel | 657,967 |
| Petaluma Blvd Senior Apartments | 1,432,000 |
| Logan Place | 1,000,000 |
| Salishan Apartments Inc. | <u>388,380</u> |
| Total Housing Loans | 15,226,102 |
| Storefront Loan Program | <u>271,576</u> |
| Total | <u><u>\$ 15,497,678</u></u> |

The Petaluma Community Development Commission entered into various loan agreements with not-for-profit agencies to finance the construction of low and moderate income housing. The terms range from 8 to 60 years, and the interest rates range from 0% to 6%. Payment is deferred until a variety of events occur, such as sale or transfer of property, failure to adhere to low and moderate income housing provisions of the promissory note, to the extent of residual receipts, or at the maturity date of the note.

The Redevelopment Agency offers low interest loans to property owners with building located in the Central Business District (Downtown) as an incentive to make improvements to the exterior storefronts.

4. DEFERRED REVENUE

Deferred revenue in the Governmental Funds Financial Statements as of June 30, 2008 was reported as follows:

| | |
|---|----------------------------|
| Interest receivable on Notes Receivable | <u>\$ 2,078,171</u> |
| Total deferred revenue | <u><u>\$ 2,078,171</u></u> |

These amounts are recognized as revenues in the Government-Wide Financial Statements.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

5. INTERFUND ACTIVITIES

A. Transfers In/Out

Transfers in/out for the year ended June 30, 2008 were as follows:

| | Transfers In | | |
|-------------------------------|---------------------|----------------------------------|---------------------|
| | Debt Service | Redevelopment Capital Project | Total |
| Transfers Out | | | |
| Redevelopment Special Revenue | \$ - | \$ 880,192 | \$ 880,192 |
| Redevelopment Debt Service | - | 455,750 | 455,750 |
| Redevelopment Capital Project | 4,439,000 | - | 4,439,000 |
| Total | \$ 4,439,000 | \$ 1,335,942 | \$ 5,774,942 |

Transfers between funds were to provide funding for capital projects, debt service, and general and specific operation expenditures.

6. PROPERTY HELD FOR RESALE

Property held for resale is recorded in capital projects funds at the lower of cost or estimated net realizable value. The available fund balance is reserved in an amount equal to the carrying value of land and buildings held for resale because such assets are not available to finance the Commission's current operations. The amount recorded as assets held for resale and the corresponding fund balance reserved as of June 30, 2008, was \$402,053.

7. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2008 were as follows:

| | Balance July 1, 2007 | Adjustments | Additions | Deletions | Balance June 30, 2008 |
|--------------------------|-------------------------|-------------|---------------------|-----------------------|--------------------------|
| Non-depreciable: | | | | | |
| Construction in progress | \$ 37,565,337 | \$ - | \$ 4,146,880 | \$ (2,768,307) | \$ 38,943,910 |
| Total non-depreciable | 37,565,337 | - | 4,146,880 | (2,768,307) | 38,943,910 |
| Total | \$ 37,565,337 | \$ - | \$ 4,146,880 | \$ (2,768,307) | \$ 38,943,910 |

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2007 were as follows:

| | Balance | | | Balance June 30, 2008 | Classification | |
|----------------------------------|----------------------|-------------|-----------------------|--------------------------|------------------------|------------------------------|
| | July 1, 2007 | Additions | Deletions | | Amounts | Amounts |
| | | | | | Due Within One Year | Due in More than One Year |
| 2000A Tax Allocation Bonds | \$ 295,000 | \$ - | \$ (145,000) | \$ 150,000 | \$ - | |
| 2001A Tax Allocation Bonds | 2,410,000 | - | (305,000) | 2,105,000 | 1,790,000 | |
| 2003A Tax Allocation Bonds | 23,200,000 | - | (430,000) | 22,770,000 | 22,325,000 | |
| Unamortized Discount 2003 A TAB | (12,321) | - | 474 | (11,847) | (474) | |
| 2005A Tax Allocation Bonds | 18,165,000 | - | (105,000) | 18,060,000 | 17,955,000 | |
| Deferred amt refunding 2005A TAB | (1,148,546) | - | 49,937 | (1,098,609) | (49,937) | |
| Unamortized Premium 2005A TAB | 150,616 | - | (6,478) | 144,138 | 137,660 | |
| 2007 Tax Allocatin Bonds | 31,825,000 | - | (115,000) | 31,710,000 | 31,505,000 | |
| Unamortized Premium 2007 TAB | (563,955) | - | 17,792 | (546,163) | (528,371) | |
| Auto Plaza DDA - AD 19 | 490,000 | - | (84,000) | 406,000 | 314,000 | |
| Total | \$ 74,810,794 | \$ - | \$ (1,122,275) | \$ 73,688,519 | \$ 72,438,244 | |

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. This debt was partially refunded with the 2005A TAB. The defeased amount currently outstanding and removed from the long-term liabilities was \$16,700,000. The remaining balance at June 30, 2008, of \$150,000, which is included in long-term liabilities, bears an interest rate of 5%.

The Commission has pledged a portion of future property tax increment revenue to repay the 2000A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$157,500 payable through 2009.

The annual debt service requirements for the 2000A Tax Allocation Bonds outstanding at June 30, 2008, was as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|-------------------|-----------------|-------------------|
| 2009 | \$ 150,000 | \$ 7,500 | \$ 157,500 |
| Total | \$ 150,000 | \$ 7,500 | \$ 157,500 |

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT, Continued

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 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 \$2,105,000 as of June 30, 2008.

The Commission has pledged a portion of future property tax increment revenue to repay the 2001A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$2,434,935 payable through 2014.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2008, was as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|---------------------|-------------------|---------------------|
| 2009 | \$ 315,000 | \$ 89,140 | \$ 404,140 |
| 2010 | 330,000 | 76,540 | 406,540 |
| 2011 | 340,000 | 63,340 | 403,340 |
| 2012 | 355,000 | 49,315 | 404,315 |
| 2013 | 375,000 | 34,050 | 409,050 |
| 2014 | 390,000 | 17,550 | 407,550 |
| Total | \$ 2,105,000 | \$ 329,935 | \$ 2,434,935 |

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 \$22,770,000 as of June 30, 2008.

The Commission has pledged a portion of future property tax increment revenue to repay the 2003A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$41,572,169 payable through 2033.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT, Continued

2003A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2008 were as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 445,000 | \$ 1,052,655 | \$ 1,497,655 |
| 2010 | 460,000 | 1,040,418 | 1,500,418 |
| 2011 | 475,000 | 1,026,043 | 1,501,043 |
| 2012 | 495,000 | 1,010,011 | 1,505,011 |
| 2013 | 505,000 | 992,686 | 1,497,686 |
| 2014-2018 | 2,700,000 | 4,662,320 | 7,362,320 |
| 2019-2023 | 3,310,000 | 4,035,458 | 7,345,458 |
| 2024-2028 | 4,180,000 | 3,177,577 | 7,357,577 |
| 2029-2033 | 10,200,000 | 1,805,001 | 12,005,001 |
| Total | \$ 22,770,000 | \$ 18,802,169 | \$ 41,572,169 |

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.

2005A Tax Allocation Bonds

On September 21, 2005, the Commission issued Refunding Tax Allocation Bonds, Series 2005A Tax Allocation Bonds in the amount of \$18,355,000. The proceeds of the bonds will be used to refund the 2000A Tax Allocation Bonds and finance the issuance of the 2005A Refunding Tax Allocation Bonds. The Bonds mature annually each May 1 from 2006 to 2030, in amounts ranging from \$90,000 to \$1,420,000 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 before May 1, 2016, 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, 2015, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from solely from secured tax revenues. The outstanding balance of the bonds was \$18,060,000 as of June 30, 2008.

The Commission has pledged a portion of future property tax increment revenue to repay the 2005A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$29,985,657 payable through 2030.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT, Continued

2005A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2008 were as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 105,000 | \$ 789,201 | \$ 894,201 |
| 2010 | 260,000 | 786,051 | 1,046,051 |
| 2011 | 270,000 | 778,251 | 1,048,251 |
| 2012 | 275,000 | 769,814 | 1,044,814 |
| 2013 | 285,000 | 760,739 | 1,045,739 |
| 2014-2018 | 3,475,000 | 3,541,513 | 7,016,513 |
| 2019-2023 | 4,740,000 | 2,711,453 | 7,451,453 |
| 2024-2028 | 5,880,000 | 1,579,135 | 7,459,135 |
| 2029-2030 | 2,770,000 | 209,500 | 2,979,500 |
| Total | \$ 18,060,000 | \$ 11,925,657 | \$ 29,985,657 |

The bonds were issued at a premium of \$161,953 which is being amortized over the 25 years life of the bonds resulting in an annual amortization of \$6,478.

In connection with the issuance of the bonds, the City recorded a deferral on refunding of debt which is reported as part of long-term debt. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. The total amount deferred was \$1,248,420 which will be amortized over the 25 years life of the bonds resulting in an annual amortization of \$49,937.

2007 Tax Allocation Bonds

On April 10, 2007, the Commission issued Subordinate Tax Allocation Bonds, Series 2007 in the amount of \$31,825,000. The proceeds of the bonds will be used to refund the 2000B Tax Allocation Bonds and provide \$30,000,000 in project funds. The Bonds mature annually each May 1 from 2008 to 2039, in amounts ranging from \$115,000 to \$4,355,000 and bear interest at rates ranging from 4.00% to 4.5%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or before May 1, 2016, 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, 2015, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable solely from secured tax revenues. The outstanding balance of the bonds was \$31,710,000 as of June 30, 2008.

The Commission has pledged a portion of future property tax increment revenue to repay the 2007 Tax Allocation Bonds. Total principal and interest remaining on the bond is \$66,821,851 payable through 2039.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT, Continued

2007 Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2008 were as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 205,000 | \$ 1,393,311 | \$ 1,598,311 |
| 2010 | 205,000 | 1,385,111 | 1,590,111 |
| 2011 | 220,000 | 1,376,911 | 1,596,911 |
| 2012 | 230,000 | 1,367,011 | 1,597,011 |
| 2013 | 240,000 | 1,357,812 | 1,597,812 |
| 2014-2018 | 1,330,000 | 6,638,460 | 7,968,460 |
| 2019-2023 | 1,610,000 | 6,250,440 | 7,860,440 |
| 2024-2028 | 1,950,000 | 5,988,966 | 7,938,966 |
| 2029-2033 | 2,235,000 | 5,534,468 | 7,769,468 |
| 2034-2038 | 19,130,000 | 3,623,384 | 22,753,384 |
| 2039 | 4,355,000 | 195,976 | 4,550,976 |
| Total | \$ 31,710,000 | \$ 35,111,851 | \$ 66,821,851 |

The bonds were issued at a discount of \$568,396 which is being amortized over the 32-year life of the bonds resulting in an annual amortization of \$17,762.

The deferred loss on refunding of \$2,364 was immaterial, and thus not recorded.

Auto Plaza DDA- AD 19

The Commission has an obligation under the Auto Center Disposition and Development Agreement, dated 1992 to refund 50% of assessments paid by property owners in relation to the Assessment District 19 Bonds. 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 outstanding balance was \$406,000 as of June 30, 2008.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. LONG-TERM DEBT, Continued

Auto Plaza DDA- AD 19, Continued

The annual debt service requirements on these bonds outstanding at June 30, 2008, were as follows:

| For the Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|-------------------|------------------|-------------------|
| 2009 | \$ 92,000 | \$ 27,782 | \$ 119,782 |
| 2010 | 100,000 | 20,435 | 120,435 |
| 2011 | 103,000 | 12,594 | 115,594 |
| 2012 | 111,000 | 4,301 | 115,301 |
| Total | \$ 406,000 | \$ 65,112 | \$ 471,112 |

Non-Agency Obligation Debt

Oakmont project - the Redevelopment Agency 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. Current balance is \$3,650,000. 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 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 \$6,197,000. Current balance is \$5,985,000. 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.

Non-Agency Defeased Debt

In prior years, the Commission has defeased 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 Commission financial statements. At June 30, 2008, the amount of Redevelopment tax allocation defeased debt outstanding, but removed from the long-term liabilities, totaled \$150,000.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

9. COMPENSATED ABSENCES

The Commission accrues a liability for the vested and unpaid compensated absences (accrued vacation, sick leave, compensatory time and administrative leave). The balance at June 30, 2008 was \$120,344.

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 | Due in One Year | Due in More Than One Year |
|--------------------------------|-------------------------|------------|--------------|--------------------------|--------------------|------------------------------|
| Governmental activities | \$ 89,258 | \$ 313,919 | \$ (282,833) | \$ 120,344 | \$ 35,595 | \$ 84,749 |
| Total | \$ 89,258 | \$ 313,919 | \$ (282,833) | \$ 120,344 | \$ 35,595 | \$ 84,749 |

10. COMMITMENT AND CONTINGENCIES

A. Lawsuits

The Commission is presently involved in certain matters of litigation that have arisen in the normal course of conducting Commission business. Commission management believes, based upon consultation with the Commission Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Commission. Additionally, Commission management believes that the Commission's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Commitments

The Commission's year-end commitments for professional services commitments were \$379,271 as of June 30, 2008.

In 1990, the Commission contributed to the North McDowell Boulevard Improvement project to finance roadway improvements; which was also funded by Assessment District 17. The Commission pays a right-of-way acquisition credit to the property owners who own residential property and also a credit to commercial property owners to maintain the low and moderate income housing use of the property. The credits totaled \$52,920 for the fiscal year ended June 30, 2008.

Pass-through Agreements

The Petaluma Community Development Project Area is a party to pass-through agreements relating to property tax allocations with Sonoma County, Sonoma County Library, Cinnabar School District, Waugh School District, Petaluma City School District, Sonoma County Junior College District and Old Abode School District. The County and Library agreements allow the County to receive annual property tax revenue based upon increases in assessed valuation under state law not to exceed 2% and the County and Library will each receive 96% of the property tax revenue that the agencies would have received based upon the fiscal year 1993-1994 assessed valuation. The School Districts have elected under Health and Safety Code Section 33676 to receive 100% of any taxes imposed by the District and the annual property tax revenue based on increases in assessed valuation allowed under state law not to exceed 2%.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

10. COMMITMENT AND CONTINGENCIES, Continued

B. Commitments, Continued

During the fiscal year, the Petaluma Community Development Project Area received \$4,775,485 in tax increment revenue, which was passed-through to the County, the Library and the School Districts mentioned above. This amount was recorded as both tax increment revenue and general government expenditure.

The Central Business District Project Area was amended in 2001. The tax increment related to the increased project area is subject to a statutory pass-through amount of 25%. During the current fiscal year, the Central Business District Project Area received \$264,658 in tax increment passed-through to various other local governmental agencies, with the highest pass-through amount going to Sonoma County, School Districts and the City of Petaluma. This amount was recorded as tax increment revenue and as a general government expenditure.

11. OTHER REQUIRED DISCLOSURES

The unrestricted net asset (deficit) of \$39,699,345 is expected as the Commission's investment in assets is primarily in City owned property, and other than property held for resale, it does not hold property in its own name. In fact, the Commission, under State Law, needs to show indebtedness in order to be eligible to receive tax increment. Future tax increment revenue will be used to pay the deficit.

12. REDEVELOPMENT ACTIVITIES

On October 18, 2006 an ordinance approving and adopting an amendment to the redevelopment plan, fiscally merging the Central Business District Project Area with the Petaluma Community Development Project Area was approved by the City Council/PCDC Governing Board. The amendment provides for the fiscal merger of the project areas in order to pool tax increment revenue and establish a unified bonded indebtedness limit for the two project areas, while retaining the separate identity of each project area for other purposes. The amendment increases the outstanding bonded indebtedness limit to the sum of \$250,000,000, but does not alter the limitation on the amount of tax increment revenue that may be allocated to PCDC over the life of the redevelopment plan.

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REQUIRED SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Required Supplementary Information
For the year ended June 30, 2008

1. BUDGETS AND BUDGETARY ACCOUNTING

An annual budget is adopted by the Commissioners prior to the first day of the fiscal year. The budget process includes a detailed review of proposed budget by the Executive Director, and a final review by the Finance Director. The recommended budget is then transmitted to the Commissioners for their review before the required date of adoption. Once transmitted to the Commissioners, the proposed budget is made available for public inspection. A public hearing is held to give the public the opportunity to comment upon the proposed budget. Notice of such public hearing is given in a newspaper of general circulation.

The adoption of the budget is accomplished by the approval of a Budget Resolution. The legal level of budgetary control is at the department level. Any budget modification, which would result in an appropriation increase, requires Commissioners' approval. The Finance Director and City Manager are jointly authorized to transfer appropriations within a departmental budget.

Reported budget figures are as originally adopted or subsequently amended and include prior year encumbrances. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. 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.

An annual budget for the year ended June 30, 2008, was adopted and approved by the Commissioners for the special revenue, debt service and capital projects funds. These budgets are prepared on the modified accrual basis of accounting. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. However the budget for the capital projects funds is approved by the Commissioners annually.

Budget amounts are reported as originally adopted and as further amended by the Commissioners.

Petaluma Community Development Commission
Required Supplementary Information, Continued
For the year ended June 30, 2008

Budgetary Comparison Schedule, Redevelopment Special Revenue Fund

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Fund balance, July 1 | \$ 17,773,177 | \$ 17,773,177 | \$ 17,773,177 | \$ - |
| Resources (inflows): | | | | |
| Taxes | 2,800,000 | 2,800,000 | 3,277,878 | 477,878 |
| Use of money and property | 44,000 | 44,000 | 234,671 | 190,671 |
| Intergovernmental | 630,000 | 630,000 | 613,890 | (16,110) |
| Charges for current services | 13,500 | 13,500 | 31,021 | 17,521 |
| Other | - | - | 356 | 356 |
| Total resources | 3,487,500 | 3,487,500 | 4,157,816 | 670,316 |
| Amount available for appropriation | 21,260,677 | 21,260,677 | 21,930,993 | 670,316 |
| Charges to appropriations (outflows): | | | | |
| Departmental: | | | | |
| Community development | 2,518,150 | 2,518,150 | 787,682 | 1,730,468 |
| Transfers to other funds | - | 915,000 | 880,192 | 34,808 |
| Total charges to appropriations | 2,518,150 | 3,433,150 | 1,667,874 | 1,765,276 |
| Fund balance at June 30, | \$ 18,742,527 | \$ 17,827,527 | \$ 20,263,119 | \$ 2,435,592 |

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SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Debt Service Fund
For the year ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------|---|
| | Original | Final | | |
| Fund balance, July 1 | \$ 681,264 | \$ 681,264 | \$ 681,264 | \$ - |
| Resources (inflows): | | | | |
| Use of money and property | 1,000,000 | 1,000,000 | 37,004 | (962,996) |
| Transfers from other funds | 3,973,000 | 3,973,000 | 4,439,000 | 466,000 |
| Total resources | 4,973,000 | 4,973,000 | 4,476,004 | (496,996) |
| Amount available for appropriation | 5,654,264 | 5,654,264 | 5,157,268 | (496,996) |
| Charges to appropriations (outflows): | | | | |
| Departmental: | | | | |
| Community development | 37,050 | 37,050 | 26,308 | 10,742 |
| Debt service: | | | | |
| Principal | 1,154,000 | 1,184,000 | 1,184,000 | - |
| Interest | 3,532,750 | 3,484,056 | 3,484,023 | 33 |
| Transfer to other funds | - | - | 455,750 | (455,750) |
| Total charges to appropriations | 4,723,800 | 4,705,106 | 5,150,081 | (444,975) |
| Fund balance at June 30, | \$ 930,464 | \$ 949,158 | \$ 7,187 | \$ (941,971) |

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Capital Project
For the year ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Fund balance, July 1 | \$ 30,814,817 | \$ 30,814,817 | \$ 30,814,817 | \$ - |
| Resources (inflows): | | | | |
| Taxes | 12,000,000 | 12,000,000 | 13,499,242 | 1,499,242 |
| Use of money and property | 16,000 | 16,000 | 1,711,589 | 1,695,589 |
| Intergovernmental | - | - | 125,938 | 125,938 |
| Transfers from other funds | 7,579,000 | 5,762,000 | 10,029,730 | 4,267,730 |
| Transfers from the City of Petaluma | - | - | 81,000 | 81,000 |
| Total resources | 19,595,000 | 17,778,000 | 25,447,499 | 7,669,499 |
| Amount available for appropriation | 50,409,817 | 48,592,817 | 56,262,316 | 7,669,499 |
| Charges to appropriations (outflows): | | | | |
| Departmental: | | | | |
| Community development | 7,799,700 | 14,560,700 | 10,815,815 | 3,744,885 |
| Capital outlay | 7,268,000 | 279,000 | 29,001 | 249,999 |
| Transfers to other funds | 17,372,000 | 15,435,000 | 13,132,788 | 2,302,212 |
| Transfers to the City of Petaluma | - | - | 6,633,673 | (6,633,673) |
| Total charges to appropriations | 32,439,700 | 30,274,700 | 30,611,277 | (336,577) |
| Fund balance at June 30, | \$ 17,970,117 | \$ 18,318,117 | \$ 25,651,039 | \$ 7,332,922 |

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

We have audited the basic financial statements of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma, California (City), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal over financial reporting control that we consider to be material weaknesses, as defined above.

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Commission Board and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
December 15, 2008