

City of Petaluma

Petaluma, California

Comprehensive Annual Financial Report

For the year ended June 30, 2007

Prepared By:

The City of Petaluma Administrative Services Department
Finance Division

Steven Carmichael, Administrative Services Director
Cinde Rubaloff, Finance and Accounting Manager

C&L
Caporicci & Larson
Certified Public Accountants

City of Petaluma
Comprehensive Annual Financial Report
For the year ended June 30, 2007

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City of Petaluma

11 English Street • Petaluma, CA 94952

November 26, 2007

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. 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 CAFR of the City of Petaluma, California for the fiscal year ended June 30, 2007.

For the fiscal year ended June 30, 2007, the City of Petaluma continues to comply with the pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement No. 34. This is the fifth fiscal year the new reporting model has been presented, which provides financial report users a narrative introduction, overview, and analysis, in the form of Management's Discussion and Analysis (MD&A), which accompanies the Basic Financial Statements. 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 MD&A 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.

The City of Petaluma's financial statements have been audited by Caporicci & Larsen, Certified Public Accountants, a 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, 2007, 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, 2007, 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.

CITY OF PETALUMA PROFILE

The City of Petaluma, founded in 1852, became a chartered city in 1858, and is located in southern Sonoma County, California, approximately 40 miles north of San Francisco. Petaluma consists of 13.8 square miles and includes residential communities, commercial retail areas and several industrial/office complexes. It is also home to 44 parks, 2 community centers, 4 recreational facilities and 48 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 a six member Council. 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 seven member 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, low and moderate income housing, street and park maintenance, recreational programs, and infrastructure, public and community facilities, and park, capital improvement construction. The City also includes water and wastewater utilities. The City owns a marina and airport, and provides citizens with transit and ambulance services. There is a redevelopment agency within the City.

LONG-TERM FINANCIAL PLANNING

The main long term financial planning goal is the completion of the 2025 General Plan. This must be finished before new impact fees can be implemented, which will increase current fees by over 50%.

Other long term planning include:

Replace legacy financial system over the next two years. This will greatly improve functionality and improve efficiency of City employees by eliminating much of the manual paperwork currently needed.

Install a city-wide Records Management System which will greatly improve data retrieval.

Continue installation of city-wide Work Order Maintenance Management to track City resources more effectively.

Develop and implement a Five Year Capital Improvement Projects Master Plan to develop a strategy for funding projects.

Create an Economic Development Strategy that provides a system to keep current retailers and encourages new retail development.

Complete the Five Year Water Supply Master Plan to determine the amount of economic development possible within the City.

Implement new development and redevelopment fees to insure that the full and ongoing fair share of infrastructure improvement and long term maintenance are covered.

Design and construct a new cross-town connector within the next 10 years.

Design and build a new fire station headquarters and new police headquarters.

ECONOMY

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.

Sonoma County business executives remain positive about the local economy as the Sonoma County Business Confidence Index scored 6.72 on a 10-point scale. There is less optimism than at the beginning of the summer, due to a decrease in new housing construction. Local business executives predict that the County's economy will be slightly stronger over the next six months.

The economy is continuing to improve with estimates of increased salary and wages, as well as an increase in business profits.

Retail sales in Petaluma increased slightly in FY 2007 over FY 2006 results. Total sales tax received in FY 2007 was \$11.5 million, a 7% increase over FY 2006. Another area of increased tax revenue was property taxes (13% increase for City and RDA combined). A decrease in property transfer tax of 37% (\$700,000) during 2007 was a result of the slow down in housing sales.

While the City remains heavily reliant on sales tax revenues from the sale of new and used vehicles (25% 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 and sales tax, which will provide funds for the General Fund.

Although the economy is showing signs of slowing down due to the housing slump, sales tax and other economic indicators remain strong in Petaluma and Sonoma County as a whole.

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 final 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.

The City ended the year with cash and investments of \$96.2 million, of which \$64.5 million is directly managed by the City Treasurer. Fiscal agents, at the direction of the City Treasurer, managed bond related funds of \$31.8 million. Total annual accrued investment earnings were \$ 3.1 million.

Debt Administration. As of June 30, 2007, the City of Petaluma and its component units have a number of debt issues outstanding. The City's General Fund has no outstanding long-term debt. 2007 TAB was issued by the Redevelopment Agency during the fiscal year.

Risk Management. The City uses a combination of insured and partially self-insured programs to finance its property and casualty risk. The City is self-insured with a \$750,000 SIR for workers' compensation insurance and has \$500,000 SIR for liability coverage up to \$40,000,000. First party insurances and other insurances are obtained through a risk purchasing pool (CJPRMA) as well as the private insurance market.

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 MD&A or in the notes in this transmittal letter.

AWARDS AND ACKNOWLEDGEMENTS

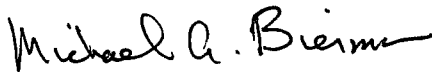
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the City of Petaluma for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the eleventh consecutive year that the City of Petaluma has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive

annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements. This report could not have been prepared without the effort of Cinde Rubaloff, Finance and 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 Cinde Rubaloff, Kate Lloyd and Cindy Juandy. I would also like to thank the Mayor and City Council 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



Steven Carmichael
Administrative Services Director

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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, 2006

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.



President

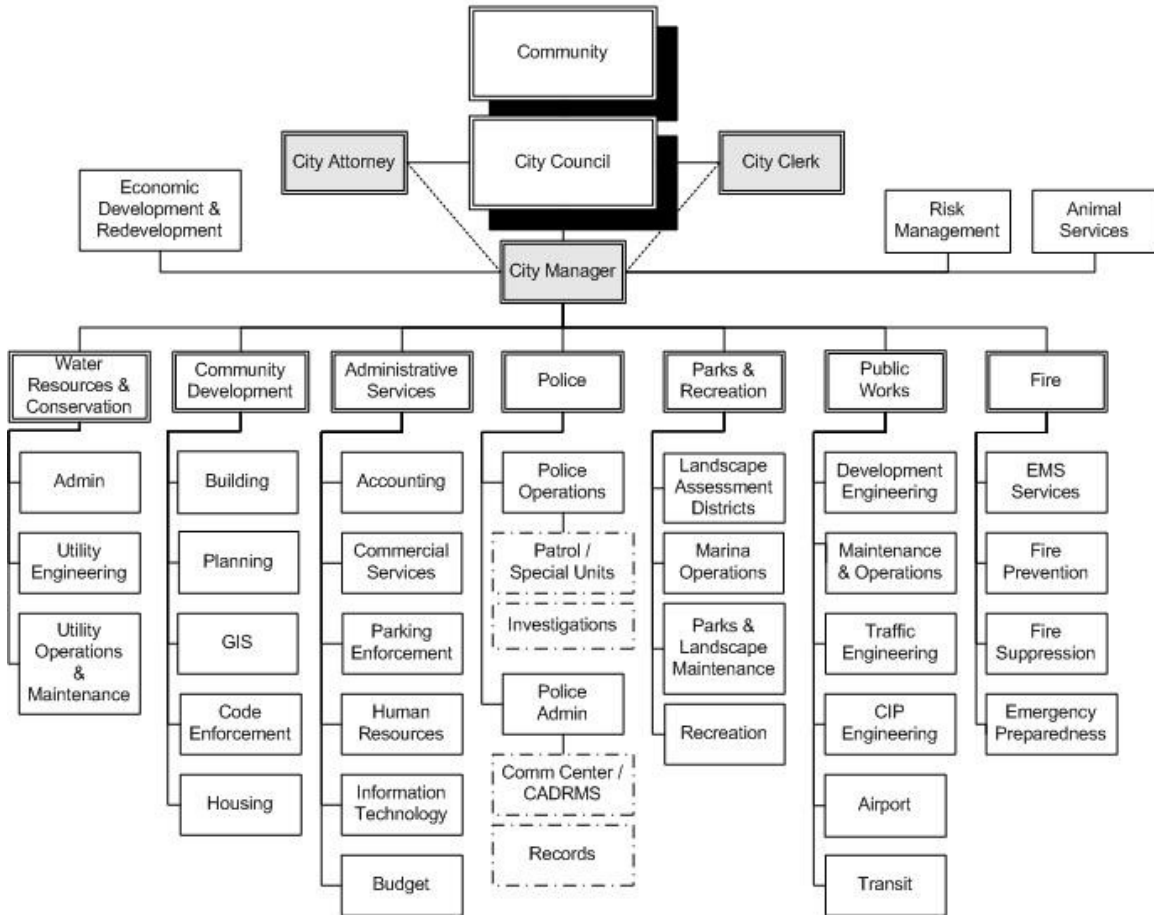
Executive Director

Organizational Chart

Offices, Departments, & Divisions

City of Petaluma, California

July 1, 2007



PRINCIPAL OFFICIALS CITY OF PETALUMA,
CALIFORNIA



PAMELA TORLIATT
Mayor



KAREN NAU
Vice-Mayor



TERESA BARRETT
Councilmember



SAMANTHA FREITAS
Councilmember



MIKE HARRIS
Councilmember



MIKE O'BRIEN
Councilmember



DAVID RABBITT
Councilmember

CITY MANAGER
Michael A. Bierman

ADMINISTRATIVE SERVICES
DIRECTOR
Steven Carmichael

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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, 2007, 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 opinion.

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, 2007, 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 November 1, 2007 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. 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.

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.

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Orange County

9 Corporate Park, Suite 100
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Sacramento, California 95825

San Diego

4858 Mercury, Suite 106
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
November 26, 2007

CITY OF PETALUMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Petaluma, 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, 2007.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page i-vi of this report.

Financial Highlights

Government Wide Financial Statements

- The assets of the City of Petaluma exceeded its liability at the close of the fiscal year by \$290.4 million (Net Assets). Of this amount, \$215.5 million was invested in capital assets, net of related debt. The balance was restricted for capital projects, \$7.5 million, debt service, non-expendable trusts and special projects, \$37.0 million, and unrestricted, \$30.4 million. This included all City funds and Redevelopment Agency funds.
- The City's total net assets increased by \$30.0 million, comprised of a \$22.3 million, increase in governmental net assets and \$7.7 million increase in business-type activities net assets over prior year amounts.

Fund Financial Statements

- At the close of the fiscal year, the City's governmental funds, including the General Fund, special revenue funds, debt service funds, capital projects funds, and redevelopment agency funds, reported combined ending fund balances of \$84.4 million, an increase of \$29.0 million from the prior year. The 2007 fund balance was comprised of \$37.3 million reserved balances, and \$1.2 million designated balances, producing an unreserved fund balance of \$45.9 million.
- At the end of the fiscal year, the total General Fund fund balance was \$9.0 million, approximately \$400,000 greater than the prior year. Of this amount, \$8.5 million was reserved, including \$5.5 million reserved for contingencies, approximately 11% of annual expenditures. The undesignated/unreserved portion was \$129,604, approximately .2% of General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the City of Petaluma's Basic Financial Statements. The City of Petaluma's Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the 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 consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets, which are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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 or decreases in net assets may serve as a useful indicator of changes in the City's financial position.

The Statement of Activities and Changes in Net Assets presents the change in the government's net assets during the current fiscal year. All changes in net assets are reported when 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).

Both of the Government-Wide Financial Statements distinguish the two functions of the City. The first is activities which are principally supported by taxes and intergovernmental revenues (governmental activities). The second is activities that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include: general government, community development, police, fire, parks and recreation, and public works. The business-type activities of the City include: airport, ambulance, development services, marina, transit, waste water and water utilities.

The Government-Wide Financial Statements include not only the City itself but also the Redevelopment Agency component unit. Financial information for this component unit is blended with the financial statements of the City, the primary government. The Redevelopment Agency, although legally separate, functions, for all practical purposes, as a department of the City, and therefore, has been included as an integral part of the primary government.

The Government-Wide Financial Statements can be found on pages 29-33 of this report.

Fund Financial Statements - 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, uses 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 - Governmental funds account for basically the same functions as reported as government activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 in the Governmental Fund Financial Statements 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 Governmental funds information is presented in the Governmental Fund Financial Statements for the City's major funds:

- General Fund,
- HOME/Begin Special Revenue Fund,
- Redevelopment Agency Special Revenue Fund,
- Impact Fee Special Revenue Fund,
- City Capital Project Fund,
- Redevelopment Agency Capital Project Fund

Data from the ten non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic Governmental Fund Financial Statements are on pages 37-44 of this report.

Overview of the Financial Statements, continued

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the functions presented as business-type activities in the Governmental-Wide Financial Statements. Enterprise funds account for airport, ambulance, development services, marina and transit operations, and waste water and water utilities.

Internal service funds, the second type of proprietary fund, are used to account for the accumulation of resources, and the allocation of costs, which are required to provide internal services to various City departments and functions. Employee benefits, general services, information technology, risk management, vehicle/equipment replacement and worker's compensation comprise the City's internal service funds. Because these services predominantly benefit governmental, rather than business-type functions, all but the business activity portion of the vehicle/equipment replacement fund have been included within the governmental activities in the Government-Wide Financial Statements. The business activity portion of the vehicle/equipment replacement fund has been combined with the business type activities in the Government-Wide Financial Statements.

The Proprietary Fund Financial Statements provide fund information for the each enterprise fund separately. The internal service funds are combined into a single, aggregated presentation in the Proprietary Fund Financial Statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The Proprietary Fund Financial Statements are on pages 45-51 of this report.

Notes to the Basic Financial Statements – The notes 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 begin on page 57 through page 98 of this report.

Other Information – In addition to the Basic Financial Statements and accompanying notes, this report also presents certain required supplementary information. The first type of information presented is the budgetary information. The budgetary comparison statements have been provided for the governmental funds to demonstrate compliance with the legal provisions of the 2007 appropriation ordinance. The second type of information included relates to the City's progress in funding its obligation to provide pension benefits to its employees. The Required Supplementary Information begins on page 99 of this report.

Government-Wide Financial Statement Analysis

Statement of Net Assets - As noted earlier, net assets are an indicator of a government's financial position. In the case of the City, net assets (the amount by which total assets exceeded total liabilities) equaled \$290.4 million at the close of the fiscal year.

The largest portion of the City's net assets (74%) reflect its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any related, outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 i.e. future revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (15%) represents resources that are subject to external restrictions. The remaining balance (11%), the unrestricted net assets, may be used to meet the government's ongoing obligations to citizens and creditors, subject to restrictions of various funding sources, as applicable.

As stated earlier, net assets increased by \$30.1 million during the fiscal year. This increase is due to increase in capital assets, net of related debt. The general government capital assets increased \$25 million, and the business activity capital assets increased \$5 million (see disclosures for details). Net assets restricted for capital projects decreased by \$5 million and unrestricted net assets increased by \$5 million.

Summary Statement of Net Assets			
Total Primary Government			
As of June 30, 2007 and 2006			
(in thousands)			
	Total Activities 2007	Total Activities 2006	Total Activities Change
Assets:			
Current and other assets	\$ 135,349	\$ 98,507	\$ 36,842
Capital Assets, net of depreciation	<u>355,693</u>	<u>280,939</u>	<u>74,754</u>
Total assets	<u>491,042</u>	<u>379,446</u>	<u>111,596</u>
Liabilities:			
Long-term liabilities	178,310	99,577	78,733
Other Liabilities	<u>22,356</u>	<u>19,529</u>	<u>2,827</u>
Total liabilities	<u>200,666</u>	<u>119,106</u>	<u>81,560</u>
Net Assets:			
Invested in capital assets, net of related debt	215,525	186,426	29,099
Restricted	44,399	47,726	(3,327)
Unrestricted	<u>30,451</u>	<u>26,187</u>	<u>4,264</u>
Total net assets	<u>\$ 290,375</u>	<u>\$ 260,339</u>	<u>\$ 30,036</u>

Government-Wide Financial Statement Analysis, continued

Governmental Activities - Governmental activities contributed \$195.5 million to the City's net assets, an increase of \$22.3 million over the prior year.

Summary of Net Assets Governmental Activities As of June 30, 2007 and 2006 (in thousands)			
	Governmental Activities 2007	Governmental Activities 2006	Governmental Activities Change
Assets:			
Current and other assets	\$ 113,974	\$ 83,932	\$ 30,042
Capital Assets, net of depreciation	170,848	148,689	22,159
Total assets	<u>284,822</u>	<u>232,621</u>	<u>52,201</u>
Liabilities:			
Long-term liabilities	81,535	50,874	30,661
Other Liabilities	7,768	8,553	(785)
Total liabilities	<u>89,303</u>	<u>59,427</u>	<u>29,876</u>
Net Assets:			
Invested in capital assets, net of related debt	128,149	103,564	24,585
Restricted	43,108	46,501	(3,393)
Unrestricted	24,262	23,129	1,133
Total net assets	<u>\$ 195,519</u>	<u>\$ 173,194</u>	<u>\$ 22,325</u>

Charges for services include:

- charges for administration,
- charges for community development planning, permits, inspection and other services, developer impact fees,
- specific police, fire and public works services for which a fee is charged,
- recreation charges and rents of park property,
- finances and penalties,
- various fees and license charges,
- parking permits,
- and sales.

Operating and capital grants and contributions include amounts received from federal, state and county governments, as well as private grantors, developer and other donors. Franchise taxes include amounts collected from the providers of the City's cable, garbage and utilities services. Other taxes include transient occupancy tax, business license tax, and other miscellaneous taxes.

General government function includes legislative and administrative branches of the City: City Council, City Clerk, City Manager, City Attorney, Administrative Services Department, and Animal Services.

Community development function provides for inspection, permit, code enforcement, as well and housing services. This year, a portion of this fund, the cost recovery section of building, development and planning services, was converted to an enterprise fund, as it is required to charge adequate fees to cover its costs of services.

Parks and recreation includes operation of City parks, community centers, recreation classes and services, swimming pools, museum, and landscape assessment districts.

Public works function covers costs for street maintenance, street lights, traffic signals, street signs, building and equipment maintenance, and the Turning Basin operation.

Governmental Activities Changes:

- General governmental expenses and indirect expense allocations are consistent with prior year.
- General governmental charges for service revenue increase is attributed to increased CIP activity for which overhead is charged and not eliminated .
- Community development expenses decreased approximately \$1.2 million, and charges for service revenue approximately \$800,000 because this function was broken into governmental activity portion and business activity portion. Community development grants, both operating and capital, decreased as a result of reclassification of developer contributions from general community development (where they were classified in prior years) into their specific related functions, such as public works and parks and recreation
- Police and Fire function expenses increased due to increased staffing. Their revenues remain consistent except for a slight increase in police operating grants attributed to increase in booking fee revenue from the State.
- The Park and Recreation function's increase in operating grant is due to receipt of Prop 10, Prop 40 and State Park and Rec Grants, all used for non-capital park improvement expenses. The increase in capital grant is a developer donation of park land.
- Public Works charge for service revenue increased due to reclassification of public works related impact fee charges to this function. In the prior year all impact fees were classified as other taxes. Operating grant revenue increased as a result of FEMA and OES receipts related to non-capital expenses which resulted from the Winter 2006 and Spring 2007 disasters suffered in the City. The capital grants' increase was developer contribution of infrastructure received by the City during 2007.
- General property taxes and Redevelopment Agency tax increment both increased due to increasing property values in the community.
- Property transfer tax and motor vehicle in-lieu tax are reported as Intergovernmental, unrestricted taxes in 2007, and are consistent with 2006, except for a slight decrease in transfer tax due to the slow-down in housing market sales.
- Other taxes decreased due to a reclassification of impact fees to charges for services during the current year.

Government-Wide Financial Statement Analysis, continued

The charts that follow show the program revenues, general revenues, and expenses by function for all Governmental activities, including the Redevelopment Agency.

Summary of Statement of Activities and Changes in Net Assets Governmental Activities For the Years Ended June 30, 2007 and 2006 (In thousands)			
	Governmental Activities 2007	Governmental Activities 2006	Percentage Change
Revenues:			
Program Revenues			
Charges for service	\$ 11,059	\$ 8,669	27.6%
Operating grants and contributions	7,103	3,393	109.3%
Capital grants and contributions	11,509	3,817	201.5%
Total program revenue	<u>29,671</u>	<u>15,879</u>	86.9%
General Revenues:			
Taxes:			
Property Tax	7,136	6,030	18.3%
Redevelopment Tax Increment	15,697	14,181	10.7%
Sales Tax	11,460	10,726	6.8%
Franchise Tax	2,608	2,419	7.8%
Intergovernmental/Unrestricted	5,594	6,000	-6.8%
Other Taxes	2,345	5,962	-60.7%
Total Taxes	44,840	45,318	-1.1%
Unrestricted Investment Earnings	3,721	2,555	45.6%
Miscellaneous Revenue	-	683	-100.0%
Total Revenue	<u>78,232</u>	<u>64,435</u>	21.4%
Expenses:			
General government	987	767	28.7%
Community development	13,396	14,526	-7.8%
Police	15,327	14,701	4.3%
Fire	8,425	7,597	10.9%
Parks and recreation	5,388	4,970	8.4%
Public works	10,841	7,424	46.0%
Interest on long-term debt	2,412	1,953	23.5%
Total Expenses	<u>56,776</u>	<u>51,938</u>	9.3%
Revenues Over (Under) Expenses	21,456	12,497	71.7%
Internal Capital Contributions	-	-	
Transfers	869	1,681	-48.3%
Change in Net Assets	<u>22,325</u>	<u>14,178</u>	57.5%
Net assets-beginning of year	173,194	159,017	8.9%
Net assets-end of year	<u>\$ 195,519</u>	<u>\$ 173,195</u>	12.9%

Government-Wide Financial Statement Analysis, continued

Business-Type Activities – Business-type activities net assets contributed \$94.9 million to the City’s net assets, an increase of \$7.7 million over the prior year. All business-type activities are intended to be fully supported by the fees they charge (including subsidies received for operations, as is the case with the Transit operation). Their expenses include indirect costs and in-lieu fees of \$2.9 million charged by the General Fund and the internal service funds for support and general City services.

Summary of Statement of Net Assets			
Business-type Activities			
As of June 30, 2007 and 2006			
(in thousands)			
	Business-type Activities 2007	Business-type Activities 2006	Business-type Activities Change
Assets:			
Current and other assets	\$ 21,375	\$ 14,575	\$ 6,800
Capital Assets, net of depreciation	184,845	132,250	52,595
Total assets	206,220	146,825	59,395
Liabilities:			
Long-term liabilities	96,775	48,703	48,072
Other Liabilities	14,588	10,976	3,612
Total liabilities	111,363	59,679	51,684
Net Assets:			
Invested in capital assets, net of related debt	87,376	82,862	4,514
Restricted	1,291	1,225	66
Unrestricted	6,189	3,058	3,131
Total net assets	\$ 94,856	\$ 87,145	\$ 7,711

Charges for services include:

- charges for waste water and water utilities ,
- water and waste water connection fees,
- airport and marina charges for sales,
- airport and marina leases rents and transient parking,
- charges for ambulances services,
- charges for transit services
- charges for development services

Operating grants and contributions, and capital grants and contributions include amounts received from federal, state and county governments.

Business-type Activities Changes:

- Airport received FAA funding for hangar capital project in both 2006 and 2007.
- Development Services is a new business type activity for the City. It includes all cost recovery services for which fees charged are required to cover the cost of providing the building, development and planning services.
- Marina's operating grant is debt forgiveness revenue. In the past, the RDA had loaned the Marina funds for construction. It has become apparent that the Marina does not have the resources to repay the loan. Thus it was forgiven during 2007.
- Transit's increase in expenses is attributed to costs related to transition in staffing during 2007, increased charges for risk, and generally higher overall costs of operations. Transit received both operating subsidies and capital grants from TDA and STA. During 2007 capital grant was received for purchase of new buses.
- Waste water expense decrease is attributable to reduced 2007 repair costs. Waste water received FEMA/OES funds related to the 2006 Winter and 2007 Spring Storm disasters for capital repair, thus the increase in capital grants.
- Water expenses increased due to a number of factors:
 - i. Increase in salary expense of 12%,
 - ii. \$415,000 interest expense, expenses this year since there were no capital projects to capitalize it to,
 - iii. 79% increase in water conservation program cost for water conservation plan,
 - iv. \$200,000 increase in cost of water purchased, and
 - v. \$400,000 increase in non-capital replacement projects

Government-Wide Financial Statement Analysis, continued

The charts that follow show the program revenues, general revenues, and expenses by function for all business-type activities:

Summary of Statement of Activities and Changes in Net Assets					
Business-type Activities					
For the Years Ended June 30, 2007 and 2006					
(In thousands)					
	Business-type Activities	2007	Business-type Activities	2006	Percentage Change
Revenues:					
Program Revenues					
Charges for service	\$	31,517	\$	27,676	13.9%
Operating grants and contributions		2,963		1,184	150.3%
Capital grants and contributions		<u>2,559</u>		<u>990</u>	0.0%
Total program revenue		37,039		29,850	24.1%
General Revenues:					
Miscellaneous revenue		542		-	
Unrestricted investment earnings		<u>881</u>		<u>440</u>	100.2%
Total Revenue		38,462		30,290	27.0%
Expenses:					
Business-type Activities					
Airport		1,437		1,259	14.1%
Ambulance		2,165		2,512	-13.8%
Development Services		1,286		-	100.0%
Marina		973		941	3.4%
Transit		2,180		1,638	33.1%
Waste Water		10,169		10,674	-4.7%
Water Utility		<u>11,672</u>		<u>10,048</u>	16.2%
Total Expenses		<u>29,882</u>		<u>27,072</u>	10.4%
Revenues Over (Under) Expenses		8,580		3,218	166.6%
Internal Capital Contributions		-		-	0.0%
Transfers		<u>(869)</u>		<u>(1,681)</u>	-48.3%
Change in Net Assets		7,711		1,537	401.7%
Net assets-beginning of year		<u>87,145</u>		<u>85,608</u>	1.8%
Net assets-end of year	\$	<u>94,856</u>	\$	<u>87,145</u>	8.8%

Governmental Major Funds

General Fund

This fund provides for the basic services which are expected of a local government, including general government, police, fire, recreation, community development and public works. Support for these services is provided by charges for services, fees, taxes, intergovernmental revenues, donations and grants.

HOME/Begin Special Revenue Fund

The federal HOME program was created in 1990 and has provided over \$6.3 million to the City of Petaluma to fund affordable housing on a project-specific basis. The HOME program is administered through the California State Department of Housing and Community Development.

Impact Fee Special Revenue Funds

These funds are used to account for the impact fees, in the following categories, which are imposed on development in the City:

- Community Facilities
- Library Facility
- Public Facilities
- Fire Suppression
- Storm Drainage
- Housing in-Lieu
- Commercial Linkage
- Parkland Acquisition/Development
- Aquatic Facility
- Police Facility
- Traffic Mitigation

These fees are used for the specific purposes for which they are collected. The majority are used for capital improvement projects, which are required as a result of the impact of development on the City.

City Capital Project Funds

The City Capital Project Funds account for the capital improvement activities and projects (CIP) which are financed with governmental resources. They include:

- General Government CIP
- Community Development CIP
- Police CIP
- Fire CIP
- Parks and Recreation CIP
- Public Works CIP
- FEMA CIP
- TDA CIP

Fund Financial Statements Analysis, continued

Redevelopment Special Revenue Funds and Redevelopment Capital Project Fund

The City's Redevelopment Agency (RDA), Petaluma Community Development Commission (PCDC), was activated on December 1, 1975 and adopted the Redevelopment Plan for the Central Business District Project Area (CBD) on September 27, 1976. In 1988, the PCDC adopted the Petaluma Community Development Project Area (PCD). In adopting the redevelopment project areas, the PCDC exercises all redevelopment powers authorized under the constitution and the Health & Safety Code of the State of California.

In October, 2007 the CBD and PCD project areas were fiscally merged. This enables the Agency to pool tax increment revenue and establishes a unified bonded indebtedness limit for the two project areas, while retaining the separate identity of each project area for other purposes.

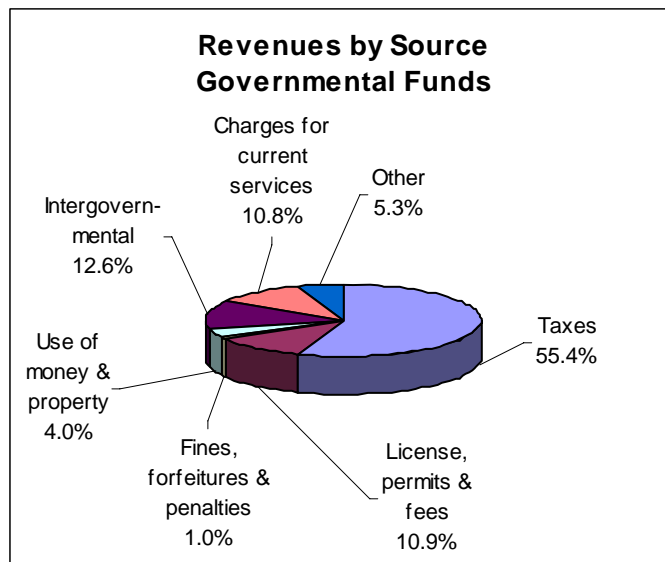
The seven members of the PCDC Board of Directors are the members of the Petaluma City Council. The City Manager acts as the Commission's Executive Director.

This Redevelopment Agency includes three major funds:

- Redevelopment Special Revenue (Grants, Donations, Low and Moderate Income Housing),
- Redevelopment Capital Projects.

**Revenues Classified by Source
Governmental Funds
For the Years ending June 30, 2007 and 2006
(in millions of dollars)**

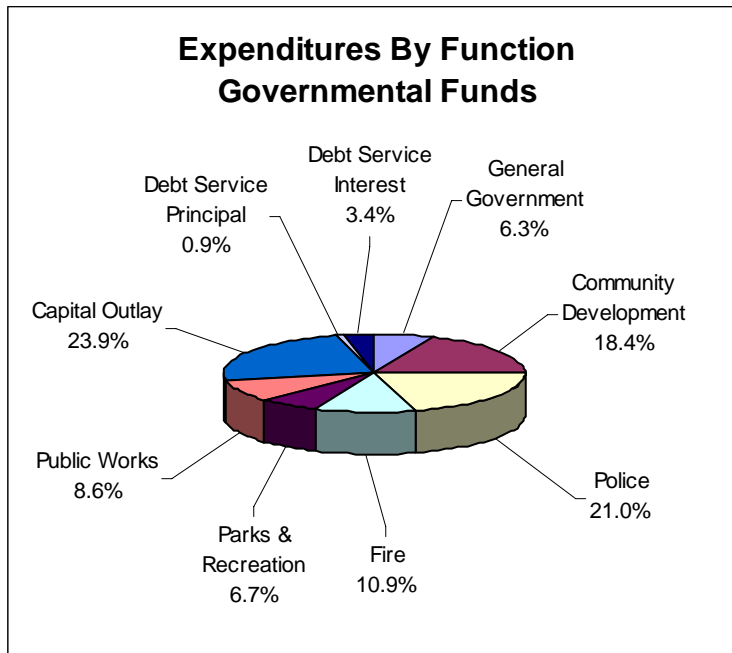
Revenue by Source	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Taxes	\$ 40.49	50.5%	\$ 37.37	55.8%	\$ 3.12	8.3%
Licenses, permits & fees	3.80	4.7%	7.00	10.5%	(3.20)	-45.7%
Fines, forfeitures & penalties	0.76	0.9%	0.64	1.0%	0.12	18.8%
Use of money & property	3.06	3.8%	2.71	4.0%	0.35	12.9%
Intergovernmental	11.78	14.7%	8.44	12.6%	3.34	39.6%
Charges for current services	7.95	9.9%	7.26	10.8%	0.69	9.5%
Other	12.38	15.4%	3.55	5.3%	8.83	248.7%
Totals	\$ 80.22	100.0%	\$ 66.97	100.0%	\$ 13.25	19.8%



Fund Financial Statements Analysis, continued

**Expenditures Classified by Function
Governmental Funds
For the Years ending June 30, 2007 and 2006
(in millions of dollars)**

Expenditures by Function	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Current:						
General Government	\$ 4.63	5.6%	\$ 4.53	6.3%	\$ 0.10	2.2%
Community Development	12.12	14.6%	13.25	18.4%	(1.13)	-8.6%
Police	15.49	18.7%	15.15	21.0%	0.34	2.3%
Fire	7.97	9.6%	7.83	10.9%	0.14	1.8%
Parks & Recreation	4.93	5.9%	4.81	6.7%	0.12	2.5%
Public Works	9.02	10.9%	6.21	8.6%	2.81	45.2%
Capital Outlay	24.67	29.8%	17.28	23.9%	7.39	42.8%
Debt Service:						
Principal	1.14	1.4%	0.67	0.9%	0.47	70.1%
Interest	2.09	2.5%	1.87	2.6%	0.22	11.8%
Cost of issuance	0.84	1.0%	0.56	0.8%	0.28	0.0%
Totals	<u>\$ 82.90</u>	<u>100.0%</u>	<u>\$ 72.16</u>	<u>100.0%</u>	<u>\$ 10.74</u>	<u>13.0%</u>



Proprietary Major Funds

Airport Fund

This fund accounts for the daily operation and maintenance of the Petaluma Airport, including capital improvement projects.

Ambulance Fund

This fund accounts for the activities related to providing ambulance services for the City.

Development Services Fund

This fund accounts for the cost recovery services offered by the City for building, development and planning.

Marina Fund

The Marina Fund accounts for the daily operation and maintenance of the Petaluma Marina, including capital improvement projects.

Public Transportation Fund

Transit services, which are provided by the City, are accounted for in this fund, including capital projects.

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 waste water. Capital projects are included in this fund.

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. Capital projects are included in this fund.

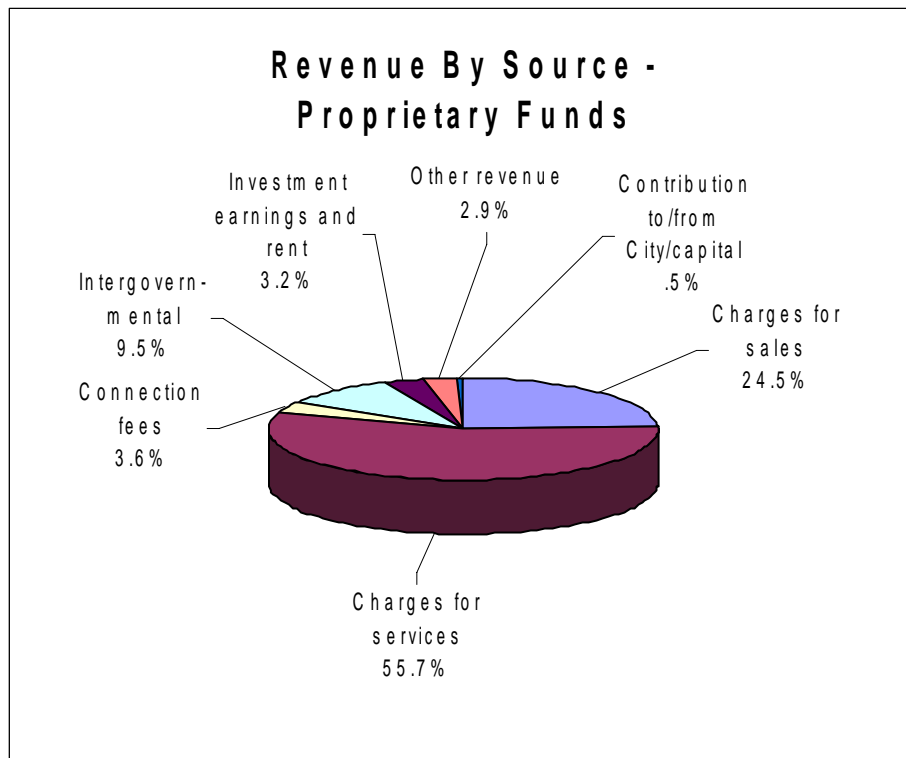
Changes in revenue include increases in charges for sales and services due to increased fees in all enterprise funds, the largest of which are higher water and waste water charges. Additionally PY 2007 includes a new enterprise fund, Development Services, which increases total charges for services by \$1 million. Connection fee revenue decreased from prior year due to development slow down. Intergovernmental revenue increase is the result of TDA capital funds received by Transit Fund for new buses, and FEMA/OES funds received by Marina Fund for flood disaster recovery expenses. Interest revenue increased due to higher interest rates. The majority of FY 2007 other revenue is debt forgiveness income recognized by the Marina Fund.

Changes in cost of services and general and administrative expenses result from reclassification of some items between these two line items. The majority of the overall increase in total expenses is attributable to the addition of a new enterprise fund this year.

Fund Financial Statements Analysis, continued

**Revenues Classified by Source
Proprietary Funds
For the Years ending June 30, 2007 and 2006
(in millions of dollars)**

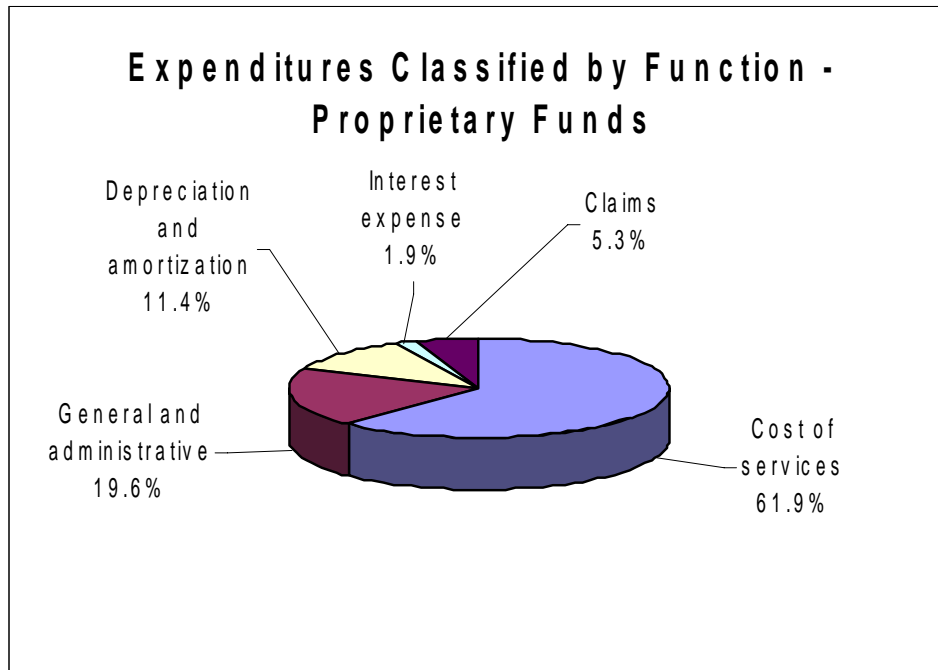
Revenue by Source	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Charges for sales	\$ 11.15	24.5%	\$ 9.93	26.2%	\$ 1.22	12.3%
Charges for services	25.35	55.7%	22.64	59.8%	2.71	12.0%
Connection Fees	1.65	3.6%	2.48	6.6%	(0.83)	-33.5%
Intergovern. operating/non-operating	4.31	9.5%	1.24	3.3%	3.07	247.6%
Investment earnings and rent	1.47	3.2%	0.58	1.5%	0.89	153.4%
Other revenue	1.34	2.9%	-	0.0%	1.34	0.0%
Contribution to/from City/Capital	0.21	0.5%	0.99	2.6%	(0.78)	0.0%
Totals	<u>\$ 45.48</u>	<u>100.0%</u>	<u>\$ 37.86</u>	<u>100.0%</u>	<u>\$ 7.62</u>	<u>20.1%</u>



Fund Financial Statements Analysis, continued

**Expenditures Classified by Function
Proprietary Funds
For the Years ending June 30, 2007 and 2006
(in millions of dollars)**

	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Cost of services	\$ 22.04	61.9%	\$ 17.63	54.3%	\$ 4.41	25.0%
Claims	1.89	5.3%	0.96	3.0%	0.93	96.9%
General and administrative	6.96	19.6%	9.64	29.7%	(2.68)	-27.8%
Depreciation and amortization	4.05	11.4%	3.65	11.3%	0.40	10.9%
Interest expense	0.66	1.9%	0.56	1.7%	0.10	17.4%
Totals	<u>\$ 35.60</u>	<u>100.0%</u>	<u>\$ 32.45</u>	<u>100.0%</u>	<u>\$ 3.16</u>	<u>8.9%</u>



Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the City of Petaluma’s Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Petaluma Governmental Funds reported combined ending fund balances of \$84.4 million, an increase of \$28.9 million from the prior year. Total reserves equal \$37.3 million. Encumbrances are \$.4 million, notes receivable \$27.6 million, long term advances and due from other funds \$2.6 million, contingencies \$5.5 million, and miscellaneous \$1.2 million. An addition \$1.2 million is designated for special projects. This leaves an unreserved fund balance of \$45.9 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$129,604, while total fund balance was \$9.0 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents .2% of total General Fund expenditures, unreserved plus reserved for contingencies is 11.2%, while total fund balance represents 18% of that same amount.

The General Fund’s fund balance increased by \$392,864 during the current fiscal year.

The Redevelopment Agency had a total fund balance of \$42.3 million:

- Special Revenue Funds \$17.8 million
- Capital Project Fund \$30.8 million

Reserves for notes receivables equal \$14.5 million. An additional \$1.1 million is reserved for miscellaneous items, including debt service. The unreserved amount is \$3.5 million, which is undesignated and reported in special revenue fund. The remaining \$30.1 million is unreserved, undesignated and reported in capital project. Total RDA fund balance increased \$31.9 million. The increase in special revenue funds totals \$2.4 million, where tax increment revenue exceeded program expenses by that amount. Additionally the capital project fund’s fund balance increased by \$31.8 from net proceeds from new debt issue.

Financial Analysis of the Governmental Funds, continued

Summary of Balance Sheet			
Governmental Funds			
As of June 30, 2007 and 2006			
(in thousands)			
	Governmental Funds 2007	Governmental Funds 2006	Governmental Funds Change
Assets:			
Total assets	<u>\$ 101,692</u>	<u>\$ 103,989</u>	<u>\$ (2,297)</u>
Liabilities:			
Total liabilities	17,310	48,566	(31,256)
Fund Balance:			
Reserved	37,286	69,102	(31,816)
Unreserved, designated	1,220	4,712	(3,492)
Unreserved, undesignated	<u>45,876</u>	<u>(18,391)</u>	<u>64,267</u>
Total fund balance	<u>84,382</u>	<u>55,423</u>	<u>28,959</u>
Total liabilities and fund balances	<u>\$ 101,692</u>	<u>\$ 103,989</u>	<u>\$ (2,297)</u>

Financial Analysis of the Proprietary Funds

Proprietary Funds - Enterprise Funds activity included a new fund, Development Services. Change in net assets for the Airport Fund was \$200,000 greater than prior year due to increase in charges. Ambulance fund's expenses over revenue was less than prior year due to decrease in current year expenses. Marina Fund has positive change in net asset, unlike prior years, due to debt forgiveness revenue. Transit Fund received more TDA funds for both operating and capital this year, compared to prior year. Waste Water Fund's revenue exceeded prior year by \$2 million (due to increased rates) and expenses decreased by \$500,000 (due to decreased repair costs), thus a total of \$5.6 million was added to net assets, compared to \$2.4 from prior year. Water Fund activity was consistent with prior year, with a negative impact on net assets of \$900,000.

Internal Service Funds activity included less revenue and more expenses than in the prior year. Thus the positive impact on net assets was \$1.9 million compared to \$3.0 million in the prior year. Greatest change is attributable to Worker's Compensation Fund.

Summary of Statement of Net Assets			
Proprietary Funds			
As of June 30, 2007 and 2006			
(in thousands)			
	Proprietary Funds 2007	Proprietary Funds 2006	Proprietary Funds Change
Assets:			
Current assets	\$ 33,270	\$ 26,306	\$ 6,964
Non-current assets	<u>189,822</u>	<u>136,065</u>	<u>53,757</u>
Total assets	<u><u>223,092</u></u>	<u><u>162,371</u></u>	<u><u>60,721</u></u>
Liabilities:			
Current liabilities	16,716	12,900	3,816
Non-current liabilities	<u>101,679</u>	<u>54,119</u>	<u>47,560</u>
Total liabilities	<u><u>118,395</u></u>	<u><u>67,019</u></u>	<u><u>51,376</u></u>
Net Assets:			
Invested in capital assets, net of related debt	90,584	85,228	5,356
Restricted for debt service	1,291	1,225	66
Unrestricted	<u>12,822</u>	<u>8,899</u>	<u>3,923</u>
Total net assets	<u><u>\$ 104,697</u></u>	<u><u>\$ 95,352</u></u>	<u><u>\$ 9,345</u></u>

General Fund Budgetary Highlights

The General Fund total revenues were above the adopted budget estimates by \$13.6 million, due to unbudgeted developer contributions of \$11.8 million. The General Fund expenditures were likewise over the budget by \$10.2 million caused by the accounting for the developer contributions and resulting infrastructure expenditures at the end of the year. Note 12 contains detailed information on the amounts and the explanations for all governmental departments and funds which exceeded appropriation at the end of 2007.

Amendments to the General Fund appropriations for 2007 totaled \$2.35 million for various departments including, City Attorney, Public Works and Parks and Rec.

Capital Asset and Debt Administration

Capital Assets - The City of Petaluma's investment in capital assets for its Governmental and Business-Type Activities as of June 30, 2007, equals \$355.7 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, vehicles and equipment, and infrastructure. Detailed information about the City's capital assets is contained in Note 6.

The total increase in the City's investment in capital assets, net of depreciation, for the current fiscal year was \$74.6 million or a 26.6% increase (this represents an increase of 15% in Governmental Activities and a 40% increase for Business-type Activities).

Capital asset balances as of June 30, 2006 and 2007 were:

Capital Assets (net of depreciation, in millions) as of June 30, 2007 and 2006						
	Governmental Activities		Increase (Decrease)	Business-type Activities		Increase (Decrease)
	2007	2006	% Change	2007	2006	% Change
Land	\$ 35.6	\$ 34.6	3%	\$ 10.7	\$ 10.7	0%
Const in Proc	51.4	41.4	24%	101.6	48.6	109%
Bldg and Improv	11.3	11.7	-4%	15.1	15.6	-3%
Vehicle and Equip	5.1	4.4	17%	4.3	2.0	119%
Infrastructure	67.4	56.6	19%	53.1	55.3	-4%
Totals	<u>\$ 170.8</u>	<u>\$ 148.7</u>	15%	<u>\$ 184.8</u>	<u>\$ 132.3</u>	40%

Capital Asset and Debt Administration, continued

Long Term Debt - At the end of the current fiscal year, the City had total long term debt of \$172.5 million, of which \$74.3 was bonded debt of the Redevelopment Agency (secured by future tax increment revenue), \$21.4 million bonded debt of the enterprise funds (\$6 million certificate of participation and \$21.4 million secured by water and waste water revenue). Additionally the Waste Water Fund had \$19.2 million in revolving lines of credit and \$50 million in new State loan for the Ellis Creek Recycle Plant. Finally the Airport Fund and the Marina Fund also had State loans outstanding in the amounts of \$1.7 million and \$5.1 million, respectively.

- The Redevelopment Agency issued \$31,825 million in new debt during the current year. This issue refunded the 2000B TAB.
- The Waste Water Fund's revolving lines of credit with BNP Paribas and Zion 1st National Bank, decreased by \$1.3 million this year.
- The Waste Water Fund secured a State Water Recourse Control Board loan in the amount of \$126 million, \$50 million of which was received during the current year.
- The Information Technology internal service fund entered into a capital lease for VOIP phone equipment in the total amount of \$343,455.

The Moody's rating for the Redevelopment Agency is Aaa (A3 underlying). The Standard & Poor's rating is AAA (A- underlying).

State statutes limit the amount of general obligation debt a governmental entity may issue up to 15% of its total assessed valuation. The current debt limitation for the City is \$1.1 billion. At June 30, 2007, the City had no general obligation debt outstanding. Additional information on the City of Petaluma's long term debt can be found in Note 7 of this report.

Capital Asset and Debt Administration, continued

Governmental Activities Long-Term Debt			
As of June 30, 2007 and 2006			
(in millions)			
	Balance June 30, 2007	Balance June 30, 2006	Increase (Decrease)
2000A Tax Allocation Bonds	\$ 295	\$ 430	\$ (135)
2000B Tax Allocation Bonds	-	585	(585)
2001A Tax Allocation Bonds	2,410	2,700	(290)
2003A Tax Allocation Bonds	23,200	23,630	(430)
2003A TAB unamortized bond discount	(12)	(13)	1
2005A Tax Allocation Bonds	18,165	18,265	(100)
2005A TAB unamortized bond premium	151	157	(6)
2005A TAB deferred amt on refunding	(1,148)	(1,198)	50
2007 Tax Allocation Bonds	31,825	-	31,825
2005A TAB unamortized bond discount	(564)	-	(564)
Auto Plaza DDA-AD 19	490	570	(80)
Total	\$ 74,812	\$ 45,126	\$ 29,686

Governmental Activities Long-Term Debt			
As of June 30, 2007 and 2006			
(in millions)			
	Balance June 30, 2007	Balance June 30, 2006	Increase (Decrease)
2000A Tax Allocation Bonds	\$ 295	\$ 430	\$ (135)
2000B Tax Allocation Bonds	-	585	(585)
2001A Tax Allocation Bonds	2,410	2,700	(290)
2003A Tax Allocation Bonds	23,200	23,630	(430)
2003A TAB unamortized bond discount	(12)	(13)	1
2005A Tax Allocation Bonds	18,165	18,265	(100)
2005A TAB unamortized bond premium	151	157	(6)
2005A TAB deferred amt on refunding	(1,148)	(1,198)	50
2007 Tax Allocation Bonds	31,825	-	31,825
2005A TAB unamortized bond discount	(564)	-	(564)
Auto Plaza DDA-AD 19	490	570	(80)
Total	\$ 74,812	\$ 45,126	\$ 29,686

Economic Factors and Next Year's Budget

The economy at both the national and State level continue to grow at a sluggish rate. We are also challenged by the rising retirement cost of the Public Employees Retirement System (PERS).

The City has a diverse economic base that includes residential, retail, and commercial assets. While the property, sales and hotel taxes have increased, property transfer taxes decreased, mitigating the impact of the housing economic slowdown.

We have adopted a balanced budget for FY 2007-08, taking all the known factors into account.

Requests for Information

This financial report is designed to provide a general overview of the City of Petaluma's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, 11 English Street, Petaluma, CA 94952.

BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of Petaluma
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 44,201,636	\$ 16,184,471	\$ 60,386,107
Restricted cash and investments	30,468,843	1,290,671	31,759,514
Receivables:			
Accounts receivable, net	1,288,021	2,580,865	3,868,886
Interest receivable	524,027	-	524,027
Intergovernmental	3,575,917	111,745	3,687,662
Short-term internal balances	608,400	(608,400)	-
Internal services balances	(687,104)	687,104	-
Inventories	23,814	336,539	360,353
Deposits and prepaid items	70,407	16,813	87,220
Total current assets	80,073,961	20,599,808	100,673,769
Noncurrent assets:			
Non-current assets	746,309	22,650	768,959
Non-current receivables	3,638,930	-	3,638,930
Notes receivable	27,621,806	-	27,621,806
Land held for resale	402,053	-	402,053
Deferred charges	1,490,228	752,287	2,242,515
Capital assets:			
Non-depreciable	87,032,615	112,355,335	199,387,950
Depreciable, net	83,815,836	72,489,619	156,305,455
Total capital assets	170,848,451	184,844,954	355,693,405
Total noncurrent assets	204,747,777	185,619,891	390,367,668
Total assets	284,821,738	206,219,699	491,041,437
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	2,905,009	10,690,339	13,595,348
Wages payable	986,648	180,189	1,166,837
Interest payable	601,039	1,335,722	1,936,761
Refundable deposits	389,695	1,152,381	1,542,076
Claims payable - due within one year	1,259,288	-	1,259,288
Compensated absences - due within one year	447,787	61,391	509,178
Long-term debt - due within one year	1,178,928	1,167,915	2,346,843
Total current liabilities	7,768,394	14,587,937	22,356,331
Noncurrent liabilities:			
Noncurrent deposits	-	60,394	60,394
Claims payable - due in more than one year	4,619,866	-	4,619,866
Compensated absences - due in more than one year	3,035,177	476,948	3,512,125
Long-term debt - due in more than one year	73,879,667	96,238,087	170,117,754
Total noncurrent liabilities	81,534,710	96,775,429	178,310,139
Total liabilities	89,303,104	111,363,366	200,666,470
NET ASSETS			
Invested in capital assets, net of related debt	128,149,019	87,376,102	215,525,121
Restricted for:			
Special projects	34,938,959	-	34,938,959
Debt service	681,264	1,290,671	1,971,935
Permanent fund: Non-expandable trust	16,000	-	16,000
Capital projects	7,471,666	-	7,471,666
Total restricted	43,107,889	1,290,671	44,398,560
Unrestricted	24,261,726	6,189,560	30,451,286
Total net assets	\$ 195,518,634	\$ 94,856,333	\$ 290,374,967

See accompanying Notes to Basic Financial Statements.

City of Petaluma
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

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	\$ 4,745,903	\$ (3,758,650)	\$ 4,375,803	\$ -	\$ -
Community development	12,701,467	694,150	2,716,984	605,957	520,797
Police	15,324,507	3,200	804,138	1,104,313	-
Fire	8,421,882	3,600	539,327	-	-
Parks and recreation	5,325,917	62,400	1,623,461	726,824	1,039,955
Public works	10,759,189	81,800	999,774	4,666,114	9,948,070
Interest on long-term debt	2,411,702	-	-	-	-
Total governmental activities	59,690,567	(2,913,500)	11,059,487	7,103,208	11,508,822
Business-type activities:					
Airport	1,358,073	79,350	1,725,886	-	475,296
Ambulance	1,856,465	309,200	1,959,471	-	-
Development Services	1,210,229	75,650	1,056,394	-	-
Marina	950,633	22,750	225,298	1,274,686	-
Transit	2,050,748	129,450	185,323	1,688,789	1,376,457
Waste water utility	9,084,507	1,084,300	15,088,411	-	707,474
Water utility	10,459,240	1,212,800	11,276,420	-	-
Total business-type activities	26,969,895	2,913,500	31,517,203	2,963,475	2,559,227
Total primary government	\$ 86,660,462	\$ -	\$ 42,576,690	\$ 10,066,683	\$ 14,068,049

General Revenues and Transfers:

Taxes:
Property taxes
Redevelopment tax increment
Sales taxes
Franchise tax
Intergovernmental, unrestricted
Other taxes

Total taxes

Unrestricted investment earnings

Miscellaneous revenue

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expense) Revenue
and Changes in Net Assets

Total	Governmental Activities	Business-Type Activities	Total
\$ 4,375,803	\$ 3,388,550	\$ -	\$ 3,388,550
3,843,738	(9,551,879)	-	(9,551,879)
1,908,451	(13,419,256)	-	(13,419,256)
539,327	(7,886,155)	-	(7,886,155)
3,390,240	(1,998,077)	-	(1,998,077)
15,613,958	4,772,969	-	4,772,969
-	(2,411,702)	-	(2,411,702)
29,671,517	(27,105,550)	-	(27,105,550)
2,201,182	-	763,759	763,759
1,959,471	-	(206,194)	(206,194)
1,056,394	-	(229,485)	(229,485)
1,499,984	-	526,601	526,601
3,250,569	-	1,070,371	1,070,371
15,795,885	-	5,627,078	5,627,078
11,276,420	-	(395,620)	(395,620)
37,039,905	-	7,156,510	7,156,510
\$ 66,711,422	(27,105,550)	7,156,510	(19,949,040)
	7,135,526	-	7,135,526
	15,697,091	-	15,697,091
	11,460,165	-	11,460,165
	2,607,627	-	2,607,627
	5,593,600	-	5,593,600
	2,345,441	-	2,345,441
	44,839,450	-	44,839,450
	3,721,310	881,406	4,602,716
	-	542,080	542,080
	869,137	(869,137)	-
	49,429,897	554,349	49,984,246
	22,324,347	7,710,859	30,035,206
	173,194,287	87,145,474	260,339,761
\$	\$ 195,518,634	\$ 94,856,333	\$ 290,374,967



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 Special Revenue Fund - This fund accounts for the redevelopment agency's 20% set-aside, as required by law, of tax increment for Low and Moderate Income Housing. The activity of this funds consists of supporting development of affordable housing in the community. Also included in this fund are redevelopment agency donations and grant revenues.

Impact Fees Fund - This fund is used to account for fees received from local development projects, which are used for the construction of major public improvements, assistance to low income people in the community, acquisition, development, enhancement of neighborhood and community parks.

City Capital Project Fund - 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.

Redevelopment Capital Project Fund - This funds accounts for the administration, programs and capital projects undertaken in the Redevelopment Agency.

City of Petaluma
Balance Sheet
Governmental Funds
June 30, 2007

	Major Funds			
	General Fund	HOME/Begin Special Revenue	Redevelopment Special Revenue	Impact Fees Special Revenue
ASSETS				
Cash and investments	\$ 5,563,333	\$ 609,270	\$ 3,509,713	\$ 5,594,353
Restricted cash and investments	-	-	-	-
Receivables:				
Accounts receivable, net	574,885	-	454,481	-
Interest receivable	524,027	-	-	-
Intergovernmental receivable	2,625,960	-	146,161	4,076
Due from other funds	2,549,700	-	-	76,000
Inventories	13,446	-	-	-
Deposits and prepaid items	66,354	-	-	-
Non-current receivables	25,629	1,173,273	1,751,937	578,529
Notes receivable	49,375	6,248,290	14,207,076	6,048,321
Land held for resale	-	-	-	-
Total assets	\$ 11,992,709	\$ 8,030,833	\$ 20,069,368	\$ 12,301,279
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,702,654	\$ 700	\$ 7,108	\$ 119,975
Wages payable	891,143	-	7,872	-
Deferred revenue	193,456	7,392,368	2,261,211	405,389
Refundable deposits	242,272	-	-	-
Due to other funds	-	-	20,000	67,800
Total liabilities	3,029,525	7,393,068	2,296,191	593,164
Fund Balances:				
Reserved for:				
Encumbrances	360,000	-	-	-
Notes receivable	49,375	6,248,290	14,207,076	6,048,651
Land held for resale	-	-	-	-
Long-term advances and due from other funds	2,549,700	-	-	76,000
Inventories	13,446	-	-	-
Deposits and prepaids	-	-	-	-
Debt service	66,354	-	-	-
Total reserved	3,038,875	6,248,290	14,207,076	6,124,651
Unreserved, designated in:				
General fund	5,794,705	-	-	-
Special revenue funds	-	56,861	-	526,545
Unreserved, reported in:				
General fund	129,604	-	-	-
Special revenue funds	-	(5,667,386)	3,566,101	5,056,919
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
Total unreserved, undesignated	129,604	(5,667,386)	3,566,101	5,056,919
Total fund balances	8,963,184	637,765	17,773,177	11,708,115
Total liabilities and fund balances	\$ 11,992,709	\$ 8,030,833	\$ 20,069,368	\$ 12,301,279

Major Funds		Non-Major	Total
City	Redevelopment	Governmental	Governmental
Capital Project	Capital Project	Funds	Funds
\$ 9,138,233	\$ 1,318,085	\$ 5,734,980	\$ 31,467,967
-	30,351,971	116,872	30,468,843
-	3,632	253,552	1,286,550
-	-	-	524,027
-	293,978	505,742	3,575,917
-	-	-	2,625,700
-	-	-	13,446
-	-	828	67,182
41,610	808	67,144	3,638,930
-	284,744	784,000	27,621,806
-	402,053	-	402,053
<u>\$ 9,179,843</u>	<u>\$ 32,655,271</u>	<u>\$ 7,463,118</u>	<u>\$ 101,692,421</u>
\$ 574,011	\$ 76,603	\$ 283,853	\$ 2,764,904
3,983	16,428	21,920	941,346
-	-	944,219	11,196,643
-	147,423	-	389,695
120,000	1,600,000	209,500	2,017,300
<u>697,994</u>	<u>1,840,454</u>	<u>1,459,492</u>	<u>17,309,888</u>
-	14,000	-	374,000
-	284,744	784,000	27,622,136
-	402,053	-	402,053
-	-	-	2,625,700
-	-	-	13,446
-	-	828	828
-	-	681,264	747,618
<u>-</u>	<u>700,797</u>	<u>1,466,092</u>	<u>31,785,781</u>
-	-	-	5,794,705
-	-	342,699	926,105
-	-	-	129,604
-	-	4,173,470	7,129,104
8,481,849	30,114,020	-	38,595,869
-	-	21,365	21,365
<u>8,481,849</u>	<u>30,114,020</u>	<u>4,194,835</u>	<u>45,875,942</u>
<u>8,481,849</u>	<u>30,814,817</u>	<u>6,003,626</u>	<u>84,382,533</u>
<u>\$ 9,179,843</u>	<u>\$ 32,655,271</u>	<u>\$ 7,463,118</u>	<u>\$ 101,692,421</u>



City of Petaluma
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2007

Total Fund Balances - Total Governmental Funds \$ 84,382,533

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	87,032,615	
Depreciable, net	80,360,291	
Total capital assets		167,392,906

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. 11,196,643

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. 9,840,230

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. 1,490,228

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. (601,039)

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 in within one year	(429,700)	
Compensated absences - due in more than one year	(2,942,372)	
Long-term liabilities - due within one year	(1,122,275)	
Long-term liabilities - due in more than one year	(73,688,520)	
Total long-term liabilities		(78,182,867)

Net Assets of Governmental Activities \$ 195,518,634

City of Petaluma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	Major Funds			
	General Fund	HOME/Begin Special Revenue	Redevelopment Special Revenue	Impact Fees Special Revenue
REVENUES:				
Taxes	\$ 23,015,988	\$ -	\$ 3,035,021	\$ -
Licenses, permits and fees	1,788,069	-	-	1,986,466
Fines, forfeitures and penalties	689,031	-	-	-
Use of money and property	859,277	51,044	150,194	841,260
Intergovernmental	5,052,139	6,120	51,359	53,905
Charges for current services	7,576,966	-	23,084	-
Other	11,827,619	-	45,696	-
Total revenues	50,809,089	57,164	3,305,354	2,881,631
EXPENDITURES:				
Current:				
General government	4,629,200	-	-	6,000
Community development	1,767,479	2,934	855,768	1,059,569
Police	15,176,849	-	-	3,200
Fire	7,966,372	-	-	3,600
Parks and recreation	4,402,752	-	-	64,400
Public works	5,389,798	-	-	87,800
Capital outlay	11,092,189	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	4,189
Cost of issuance	-	-	-	-
Total expenditures	50,424,639	2,934	855,768	1,228,758
REVENUES OVER (UNDER) EXPENDITURES	384,450	54,230	2,449,586	1,652,873
OTHER FINANCING SOURCES (USES):				
Debt issuance	-	-	-	-
Premium paid	-	-	-	-
Payment to escrow agent	-	-	-	-
Proceeds from sale of asset	56,414	-	-	-
Contribution from enterprise fund	-	-	-	-
Transfers in	1,140,000	-	62,673	872,000
Transfers out	(1,188,000)	-	(122,025)	(4,216,026)
Total other financing sources (uses)	8,414	-	(59,352)	(3,344,026)
Net change in fund balances	392,864	54,230	2,390,234	(1,691,153)
FUND BALANCES:				
Beginning of year	8,570,320	583,535	15,382,943	13,399,268
End of year	\$ 8,963,184	\$ 637,765	\$ 17,773,177	\$ 11,708,115

Major Funds			
City Capital Project	Redevelopment Capital Project	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 12,662,070	\$ 1,775,945	\$ 40,489,024
-	-	28,243	3,802,778
-	-	68,873	757,904
78,327	866,188	214,910	3,061,200
573,546	187,289	5,852,311	11,776,669
-	-	347,048	7,947,098
-	1,796	511,674	12,386,785
<u>651,873</u>	<u>13,717,343</u>	<u>8,799,004</u>	<u>80,221,458</u>
-	-	-	4,635,200
224,308	7,398,172	810,243	12,118,473
-	-	308,588	15,488,637
-	-	2,462	7,972,434
-	-	458,607	4,925,759
-	-	3,538,857	9,016,455
11,348,782	2,086,330	143,898	24,671,199
-	-	1,140,000	1,140,000
-	18,428	2,066,246	2,088,863
-	-	844,300	844,300
<u>11,573,090</u>	<u>9,502,930</u>	<u>9,313,201</u>	<u>82,901,320</u>
<u>(10,921,217)</u>	<u>4,214,413</u>	<u>(514,197)</u>	<u>(2,679,862)</u>
-	-	31,825,000	31,825,000
-	-	(568,396)	(568,396)
-	-	(482,364)	(482,364)
-	-	-	56,414
269,283	-	-	269,283
8,530,498	30,122,025	5,630,119	46,357,315
<u>(1,042,000)</u>	<u>(4,796,773)</u>	<u>(34,453,354)</u>	<u>(45,818,178)</u>
<u>7,757,781</u>	<u>25,325,252</u>	<u>1,951,005</u>	<u>31,639,074</u>
<u>(3,163,436)</u>	<u>29,539,665</u>	<u>1,436,808</u>	<u>28,959,212</u>
<u>11,645,285</u>	<u>1,275,152</u>	<u>4,566,818</u>	<u>55,423,321</u>
<u>\$ 8,481,849</u>	<u>\$ 30,814,817</u>	<u>\$ 6,003,626</u>	<u>\$ 84,382,533</u>

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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 28,959,212
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.	
Capital assets additions	24,671,199
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.	(3,542,626)
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.	
Proceeds from sale of capital assets	(56,414)
Loss on disposal of capital assets	(3,457)
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	61,754
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of certain activities of certain internal service funds is reported with governmental activities.	1,633,881
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.	(234,898)
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.	
Bond issuance costs	844,300
Current year amortization of bond issuance costs	(37,202)
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	(50,739)
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.	(286,423)
Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets.	
Proceeds from debt	(31,825,000)
Discounts on issuance of debt are recorded as expenditures in the Fund Financial Statements. In the Government-Wide Financial Statements, these costs are capitalized and reported as part of long-term debt and amortized over the life of the debt.	568,396
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 from escrow fund	482,364
Long-term debt repayments	1,140,000
Change in Net Assets of Governmental Activities	\$ 22,324,347

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 services to the citizens of the community.

Development Services Fund - This fund accounts for cost recovery services, including building services, development services and planning services provided to developers, where fees charged are required to cover cost of providing services.

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.

Transit 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 account for goods and services provided by the internal service departments to other City departments, on a cost reimbursement basis.

City of Petaluma
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Major Funds			
	Airport Fund	Ambulance Fund	Development Services Fund	Marina Fund
ASSETS				
Current assets:				
Cash and investments	\$ 621,175	\$ 3,757	\$ 851,013	\$ 670
Restricted cash and investment	516,872	-	-	-
Receivables:				
Accounts receivable, net	99,567	353,208	24,210	14,981
Intergovernmental receivable	4,805	-	-	-
Inventories	36,256	-	-	1,604
Deposits and prepaids	-	-	-	7,584
Total current assets	1,278,675	356,965	875,223	24,839
Non-current assets:				
Non-current assets	17,609	-	-	-
Deferred Debt Charges	381,418	-	-	-
Capital assets:				
Nondepreciable	11,110,902	-	-	-
Depreciable	9,685,335	529,040	23,490	4,823,560
Less accumulated depreciation	(7,744,856)	(379,128)	(1,957)	(2,291,217)
Total capital assets	13,051,381	149,912	21,533	2,532,343
Total non-current assets	13,450,408	149,912	21,533	2,532,343
Total assets	14,729,083	506,877	896,756	2,557,182
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	17,810	12,826	112,563	15,342
Wages payable	3,318	33,977	15,056	818
Interest payable	128,512	-	-	188,727
Due to other funds	-	551,400	-	57,000
Refundable deposits	138,375	-	913,103	16,880
Claims payable - due within one year	-	-	-	-
Compensated absences - due within one year	1,878	2,622	7,055	407
Long-term debt - due within one year	306,167	-	-	241,748
Total current liabilities	596,060	600,825	1,047,777	520,922
Non-current liabilities:				
Non-current deposits	17,609	-	-	14,617
Claims payable- due in more than one year	-	-	-	-
Compensated absences - due in more than one year	514	108,157	43,184	-
Long-term debt - due in more than one year	7,421,744	-	-	4,840,607
Total non-current liabilities	7,439,867	108,157	43,184	4,855,224
Total liabilities	8,035,927	708,982	1,090,961	5,376,146
NET ASSETS				
Invested in capital assets, net of related debt	5,323,470	144,137	21,533	(2,550,013)
Restricted for debt service	516,872	-	-	-
Unrestricted	852,814	(346,242)	(215,738)	(268,951)
Total net assets	\$ 6,693,156	\$ (202,105)	\$ (194,205)	\$ (2,818,964)

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

Major Funds					Governmental Activities Internal Service Funds
Transit Fund	Waste Water Utility Fund	Water Utility Fund	Total		
\$ 161,612	\$ 11,787,965	\$ 2,321,920	\$ 15,748,112	\$	13,170,028
-	284	773,515	1,290,671		-
3,787	1,187,428	897,684	2,580,865		1,471
106,940	-	-	111,745		-
22,231	-	276,448	336,539		10,368
241	4,411	4,577	16,813		3,225
<u>294,811</u>	<u>12,980,088</u>	<u>4,274,144</u>	<u>20,084,745</u>		<u>13,185,092</u>
1,000	-	4,041	22,650		746,309
-	166,247	204,622	752,287		-
695,769	98,896,500	1,652,164	112,355,335		-
3,103,518	60,486,986	56,556,324	135,208,253		5,902,588
(852,254)	(26,756,020)	(25,616,137)	(63,641,569)		(1,524,108)
<u>2,947,033</u>	<u>132,627,466</u>	<u>32,592,351</u>	<u>183,922,019</u>		<u>4,378,480</u>
<u>2,948,033</u>	<u>132,793,713</u>	<u>32,801,014</u>	<u>184,696,956</u>		<u>5,124,789</u>
<u>3,242,844</u>	<u>145,773,801</u>	<u>37,075,158</u>	<u>204,781,701</u>		<u>18,309,881</u>
186,677	9,411,356	933,765	10,690,339		140,105
6,202	51,808	69,010	180,189		45,302
-	949,805	68,678	1,335,722		-
-	-	-	608,400		-
-	150	83,873	1,152,381		-
-	-	-	-		1,259,288
-	20,671	28,758	61,391		18,087
-	375,000	245,000	1,167,915		56,653
<u>192,879</u>	<u>10,808,790</u>	<u>1,429,084</u>	<u>15,196,337</u>		<u>1,519,435</u>
-	28,168	-	60,394		-
-	-	-	-		4,619,866
2,964	85,535	236,594	476,948		92,805
-	75,479,726	8,496,010	96,238,087		191,147
<u>2,964</u>	<u>75,593,429</u>	<u>8,732,604</u>	<u>96,775,429</u>		<u>4,903,818</u>
<u>195,843</u>	<u>86,402,219</u>	<u>10,161,688</u>	<u>111,971,766</u>		<u>6,423,253</u>
2,947,033	56,715,666	23,851,341	86,453,167		4,130,680
-	284	773,515	1,290,671		-
99,968	2,655,632	2,288,614	5,066,097		7,755,948
<u>\$ 3,047,001</u>	<u>\$ 59,371,582</u>	<u>\$ 26,913,470</u>	<u>\$ 92,809,935</u>	<u>\$</u>	<u>11,886,628</u>
			687,104		
			1,359,294		
			<u>\$ 94,856,333</u>		

City of Petaluma
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2007

	Major Funds			
	Airport Fund	Ambulance Fund	Development Services Fund	Marina Fund
OPERATING REVENUES:				
Charges for sales	\$ 715,415	\$ 204	\$ -	\$ 17,117
Charges for services	945,434	1,959,267	1,056,394	208,181
Connection fees	-	-	-	-
Intergovernmental operating	65,037	-	-	-
Total operating revenues	1,725,886	1,959,471	1,056,394	225,298
OPERATING EXPENSES:				
Cost of services	816,491	1,367,211	1,105,391	491,779
Claims	-	-	-	-
General and administrative	252,789	685,450	178,531	172,120
Depreciation and amortization	341,957	39,031	1,957	119,824
Total operating expenses	1,411,237	2,091,692	1,285,879	783,723
Operating income (loss)	314,649	(132,221)	(229,485)	(558,425)
NONOPERATING REVENUES (EXPENSES):				
Debt forgiveness	-	-	-	1,274,686
Other revenues	-	-	-	-
Intergovernmental non-operating	-	-	-	468,209
Investment earnings and rent	42,504	-	35,280	10,809
Interest expense	(26,186)	(21,401)	-	(189,660)
Gain or (loss) on disposal of assets	-	-	-	-
Total nonoperating revenues (expenses)	16,318	(21,401)	35,280	1,564,044
Capital contribution	475,296	-	-	-
Income (loss) before operating transfers	806,263	(153,622)	(194,205)	1,005,619
TRANSFERS:				
Transfers in	425,000	-	-	-
Transfers out	(14,337)	-	-	-
Total transfers	410,663	-	-	-
Change in net assets	1,216,926	(153,622)	(194,205)	1,005,619
NET ASSETS:				
Beginning of year	5,476,230	(48,483)	-	(3,824,583)
End of year	<u>\$ 6,693,156</u>	<u>\$ (202,105)</u>	<u>\$ (194,205)</u>	<u>\$ (2,818,964)</u>

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
Transit Fund	Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ -	\$ -	\$ 10,405,385	\$ 11,138,121	\$ 11,154
185,323	14,145,919	165,735	18,666,253	6,680,001
-	942,492	705,300	1,647,792	-
1,688,789	-	-	1,753,826	-
1,874,112	15,088,411	11,276,420	33,205,992	6,691,155
1,430,672	6,271,504	8,254,446	19,737,494	2,304,009
-	-	-	-	1,889,132
308,154	2,437,736	1,802,006	5,836,786	1,119,319
172,089	1,418,618	1,314,209	3,407,685	643,625
1,910,915	10,127,858	11,370,661	28,981,965	5,956,085
(36,803)	4,960,553	(94,241)	4,224,027	735,070
-	-	-	1,274,686	-
73,871	-	-	73,871	-
1,376,457	707,474	-	2,552,140	-
16,637	615,298	130,814	851,342	623,346
-	(8,330)	(415,003)	(660,580)	-
-	8,595	3,250	11,845	(7,883)
1,466,965	1,323,037	(280,939)	4,103,304	615,463
(269,283)	-	-	206,013	-
1,160,879	6,283,590	(375,180)	8,533,344	1,350,533
-	-	-	425,000	530,000
(251,800)	(683,000)	(545,000)	(1,494,137)	-
(251,800)	(683,000)	(545,000)	(1,069,137)	530,000
909,079	5,600,590	(920,180)	7,464,207	1,880,533
2,137,922	53,770,992	27,833,650		10,006,095
\$ 3,047,001	\$ 59,371,582	\$ 26,913,470		\$ 11,886,628

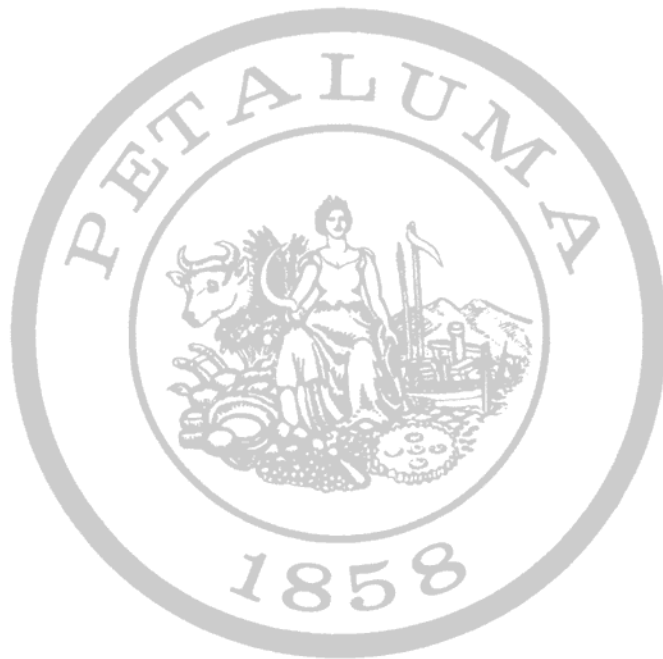
154,936
 91,716
\$ 7,710,859

City of Petaluma
Combining Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2007

	Major Funds			
	Airport Fund	Ambulance Fund	Development Services Fund	Marina Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,720,024	\$ 1,921,595	\$ 1,945,287	\$ 229,183
Cash payments to suppliers for goods and services	(928,183)	(1,381,850)	(992,828)	(478,815)
Cash payments to employees for services	(254,657)	(640,200)	(113,236)	(171,221)
Claims paid	-	-	-	-
Net cash provided (used) by operating activities	537,184	(100,455)	839,223	(420,853)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Due to other funds	-	144,000	-	(1,331,586)
Debt forgiveness	-	-	-	1,274,686
Other revenues	-	-	-	-
Transfers in	425,000	-	-	-
Transfers out	(14,337)	-	-	-
Net cash provided (used) by noncapital financing activities	410,663	144,000	-	(56,900)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Intergovernmental cash receipts	473,259	-	-	468,209
Acquisition of capital assets	(735,582)	(18,906)	(23,490)	-
Proceeds from sale assets	-	-	-	-
Proceeds of long term debt	-	-	-	199,136
Payments of long term debt	(308,050)	-	-	-
Interest paid	(30,957)	(21,401)	-	(200,069)
Net cash provided (used) by capital and related financing activities	(601,330)	(40,307)	(23,490)	467,276
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received from investments and rent	42,504	-	35,280	10,809
Net cash provided (used) by investing activities	42,504	-	35,280	10,809
Net increase (decrease) in cash and cash equivalents	389,021	3,238	851,013	332
CASH AND CASH EQUIVALENTS:				
Beginning of year	749,026	519	-	338
End of year	<u>\$ 1,138,047</u>	<u>\$ 3,757</u>	<u>\$ 851,013</u>	<u>\$ 670</u>
Operating income (loss)	\$ 314,649	\$ (132,221)	\$ (229,485)	\$ (558,425)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	341,957	39,031	1,957	119,824
Changes in:				
Accounts receivable	(12,431)	(37,876)	(24,210)	2,266
Intergovernmental-operating receivable	-	-	-	-
Inventories	(5,177)	-	-	(983)
Deposits and prepaids	(7,216)	-	-	(11)
Accounts payable and accrued liabilities	(106,515)	(14,639)	112,563	13,947
Wage payable	342	17,169	15,056	492
Refundable deposits	13,785	-	913,103	-
Deferred revenue	-	-	-	1,630
Accrued claims	-	-	-	-
Accrued compensated absences	(2,210)	28,081	50,239	407
Total adjustments	<u>222,535</u>	<u>31,766</u>	<u>1,068,708</u>	<u>137,572</u>
Net cash provided (used) by operating activities	\$ 537,184	\$ (100,455)	\$ 839,223	\$ (420,853)
NON CASH ACTIVITIES				
Capital contribution to City	\$ -	\$ -	\$ -	\$ -

See accompanying Notes to Basic Financial Statements.

Major Funds				Governmental
Transit	Waste Water	Water Utility	Total	Activities
Fund	Utility Fund	Fund		Internal
				Service Funds
\$ 1,879,164	\$ 15,537,882	\$ 11,150,347	\$ 34,383,482	\$ 6,718,366
(1,470,429)	(4,629,040)	(8,004,780)	(17,885,925)	(2,347,471)
(339,632)	(2,444,187)	(1,772,068)	(5,735,201)	(1,095,158)
-	-	-	-	(1,249,387)
69,103	8,464,655	1,373,499	10,762,356	2,026,350
-	-	-	(1,187,586)	22,500
-	-	-	1,274,686	-
73,871	-	-	73,871	-
-	-	-	425,000	530,000
(251,800)	(683,000)	(545,000)	(1,494,137)	-
(177,929)	(683,000)	(545,000)	(908,166)	552,500
1,353,610	707,474	-	3,002,552	-
(1,459,104)	(53,759,937)	(12,328)	(56,009,347)	(1,608,649)
-	8,595	3,250	11,845	5,436
-	48,359,759	-	48,558,895	-
-	-	(235,002)	(543,052)	-
-	728,424	(416,471)	59,526	(61,850)
(105,494)	(3,955,685)	(660,551)	(4,919,581)	(1,665,063)
16,637	615,298	130,814	851,342	623,346
16,637	615,298	130,814	851,342	623,346
(197,683)	4,441,268	298,762	5,785,951	1,537,133
359,295	7,346,981	2,796,673	11,252,832	11,632,895
\$ 161,612	\$ 11,788,249	\$ 3,095,435	\$ 17,038,783	\$ 13,170,028
\$ (36,803)	\$ 4,960,553	\$ (94,241)	\$ 4,224,027	\$ 735,070
172,089	1,418,618	1,314,209	3,407,685	643,625
3,787	420,936	(129,838)	222,634	78,570
(7,574)	-	-	(7,574)	-
1,467	-	(42,028)	(46,721)	(970)
8,839	217	(2,845)	(1,016)	(51,359)
(41,224)	1,642,464	291,694	1,898,290	(42,492)
681	5,071	6,287	45,098	7,150
-	28,318	-	955,206	-
-	-	6,610	8,240	-
-	-	-	-	639,745
(32,159)	(11,522)	23,651	56,487	17,011
105,906	3,504,102	1,467,740	6,538,329	1,291,280
\$ 69,103	\$ 8,464,655	\$ 1,373,499	\$ 10,762,356	\$ 2,026,350
\$ 269,283	\$ -	\$ -	\$ 269,283	\$ 309,650



Fiduciary Fund Financial Statements

Private Purpose Trust Funds:

These funds account for assets legally held in trust for specific purpose.

Agency Funds:

These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They are used to account for assets held in an agency capacity for others and therefore cannot be used to support the City's programs.

City of Petaluma
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trusts Funds	Agency Funds
ASSETS		
Cash and investments	\$ 175,898	\$ 3,895,029
Intergovernmental receivable	-	42,043
Total assets	<u>175,898</u>	<u>\$ 3,937,072</u>
LIABILITIES		
Accrued liabilities	-	\$ 3,937,072
Total liabilities	<u>-</u>	<u>\$ 3,937,072</u>
NET ASSETS		
Held in trust	<u>\$ 175,898</u>	

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, 2007

	Private- Purpose Trusts
	<u> </u>
ADDITIONS:	
Investment income	\$ 7,281
Total additions	<u>7,281</u>
DEDUCTIONS:	
Program costs	1,693
Administrative costs	15
Total deductions	<u>1,708</u>
CHANGES IN NET ASSETS	5,573
NET ASSETS:	
Beginning of year	<u>170,325</u>
End of year	<u>\$ 175,898</u>

See accompanying Notes to Basic Financial Statements.



City of Petaluma
Notes to Basic Financial Statements
For the year ended June 30, 2007

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 waste water 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), which were fiscally merged during 2006/2007.

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, 2007

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, 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, 2007

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.

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 60 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. Revenues from taxes are recognized not exceeding 60 days. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The City reports the following funds as major governmental funds of the City.

General Fund - The General Fund is use 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 Special Revenue Fund - This fund accounts for the redevelopment agency's 20% set-aside, as required by law, of tax increment for Low and Moderate Income Housing. The activity of this funds consists of supporting development of affordable housing in the community. Also included in this fund are redevelopment agency donations and grant revenues.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Impact Fees Fund - This fund is used to account for fees received from local development projects, which are used for the construction of major public improvements, assistance to low income people in the community, acquisition, development, enhancement of neighborhood and community parks.

City Capital Project Fund - 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.

Redevelopment Capital Project Fund - This fund accounts for the administration, programs and capital projects undertaken in the Redevelopment Agency.

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.

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 present 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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 and. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following funds as proprietary funds of the City.

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 services to the citizens of the community.

Development Services Fund - This fund accounts for cost recovery services, including building services, development services and planning services provided to developers, where fees charged are required to cover cost of providing services.

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.

Transit 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 fund balances and activities have been combined with governmental activities in the government-wide financial statements, and are comprised of the following 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

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.

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. These funds are accounted for using the accrual basis of accounting.

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.

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments, Continued

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, *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 or 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2007, allowance for doubtful accounts (which is netted with accounts receivables in the financial statement presentation) was as follows for the various funds:

Airport Fund	\$ 5,000
Ambulance Fund	275,000
Marina Fund	5,000
Waste Water Utility Fund	35,000
Water Utility Fund	25,000

G. Interfund Transactions

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 vehicles, office equipment and items with an inherently lower value with a unit cost of \$5,000 or more, and a useful life of one year or more. Land, easements, land improvements, buildings, building improvements and infrastructure with a cost exceeding \$50,000 and a useful life exceeding one year are also capitalized.

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets and Depreciation, Continued

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	3-15 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.

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 basis, 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 government and business-type activities in the Government-Wide Financial Statements and proprietary funds in the fund financial statements as part of the asset cost.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 of \$328,596 Airport Fund, and \$2,065,456 Waste Water Fund was capitalized during the year ended June 30, 2007.

J. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned.

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; interest earned but not received on notes receivable, intergovernmental revenue earned but not received within availability period, and revenue received, but not earned at year-end.

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, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Compensated Absences, Continued

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.

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 Governmental 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 current year 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

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."

In the Fund Financial Statement, reservation and designations of fund balances of governmental funds and restricted net assets of proprietary funds are created to either satisfy legal covenants, or to identify the portion of the fund equity not available for current expenditures.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, August and September's sales tax payments for the previous fiscal year. The July, August and September payment is comprised of the actual April, May and June receipts, respectively. The July and August payments are recognized as revenue. A portion of the September payment is accrued and recorded in deferred revenue since it is measurable, but not available. 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, 2007

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments for all funds.

A. Cash Deposits

The carrying amount of the City's cash deposits were \$2,723,354 at June 30, 2007. Bank balances before reconciling items were \$4,001,385. 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).

Local Agency Investment Fund - The City's investments with Local Agency Investment Funds (LAIF) at June 30, 2007, 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

As of June 30, 2007, the City had \$7,324,044 invested in LAIF, which had invested 3.466% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The City valued its investments in LAIF as of June 30, 2007, 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 0.999545022. The fair value of the City's position in LAIF is materially equivalent to the value of the pool shares.

Investment in Assessment District Bond - The City purchased an 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 County Assessor's Office. At June 30, 2007, the City had \$858,292 invested in the bond.

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.

C. Cash and Investment with Fiscal Agents

The Cash and Investments with Fiscal Agents in the amount of \$31,759,515 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.

D. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2007:

Government-Wide Statement of Net Assets				
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments	\$ 44,201,636	\$ 16,184,471	\$ 4,070,927	\$ 64,457,034
Restricted cash and investments	\$ 30,468,843	\$ 1,290,671	\$ -	\$ 31,759,514
Total cash and investments				\$ 96,216,548

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

D. Summary of Cash and Investments, Continued

Fair value of cash and investments held in the City Treasury grouped by maturity date at June 30, 2007, are shown below:

Cash and Investment Type	Fair Value	Investment Maturities (in years)					
		1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash deposits	\$ 2,723,354	\$ 2,723,354	\$ -	\$ -	\$ -	\$ -	\$ -
Securities of U.S. Government Agencies							
FNMA	6,119,758	-	2,021,875	4,097,883	-	-	-
FFCB	1,482,188	-	1,482,188	-	-	-	-
FHLB	7,893,809	-	1,000,625	6,893,184	-	-	-
FHLMC	5,496,211	1,248,047	2,017,194	2,230,970	-	-	-
Corporate Note	6,509,988	492,665	2,961,308	3,056,015	-	-	-
US Treasury Notes	4,789,045	-	3,000,014	1,789,031	-	-	-
Total Securities of U.S. Government Agencies	32,290,999	1,740,712	12,483,204	18,067,083	-	-	-
Local Agency Investments Funds	7,324,044	7,324,044	-	-	-	-	-
California Asset Management Program	20,694,002	20,694,002	-	-	-	-	-
Money Market	566,343	566,343	-	-	-	-	-
Investments in Assessment Dist. Bond	858,292	87,579	87,579	87,579	87,579	87,579	420,397
Total	\$ 64,457,034	\$ 33,136,034	\$ 12,570,783	\$ 18,154,662	\$ 87,579	\$ 87,579	\$ 420,397

E. Risk Disclosures

Interest Rate Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed five years.

As a means of maintaining liquidity and minimizing interest rate risk, the City's investment policy limits are as follows:

Maturity	% of Portfolio
Up to one year	25% (Minimum)
one year to five years	75% (Maximum)

Credit Risk: Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the City's investment policy, no more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities, and LAIF. If a security is downgraded by either Moody's or S&P to a level below the minimum quality required by the City, it shall be the City's policy to sell that security as soon as practicable.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS, Continued

E. Risk Disclosures, Continued

At June 30, 2007, the City had the following deposits and investments:

	Credit Quality Ratings	
	Moody's	S&P
Investments:		
Securities of U.S. Government Agencies:		
FNMA	Aaa	AAA
FFCB	Aaa	AAA
FHLB	Aaa	AAA
FHLMC	Aaa	AAA
Corporate Notes	Aaa, Aa3, Aa2, Aa1	AAA, AA, AA-, A+
US Treasury Notes	Tsy	Tsy
Local Agency Investment Funds		Not Rated
California Asset Management Program		Not Rated
Investments in Money Market Accounts		Not Rated
Investment in Authority Refunding Revenue Bond		Not Rated
Investments in Assessment District Bond		Not Rated

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

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 \$105,913.

3. NOTES RECEIVABLE

As of June 30, 2007, the City had the following notes receivables:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Housing Loans to				
Not-For-Profit Agencies	\$ 19,849,967	\$ 1,890,412	\$ (2,517)	\$ 21,737,862
First-Time Home Buyers Loans	4,653,700	1,575,000	(629,500)	5,599,200
Storefront Loan Program	60,955	223,789	-	284,744
Eligible Construction Cost Loan and Tax increment Loan	1,871,780	275,683	(2,147,463)	-
Total	\$ 26,436,402	\$ 3,964,884	\$ (2,779,480)	\$ 27,621,806

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

3. NOTES RECEIVABLE, Continued

As of June 30, 2007, the City had the following loans receivable:

Description	Balance at June 30, 2007
Housing Loans to Nonprofit Agencies:	
Old Elm Partners	\$ 2,504,336
Roundwalk Village Partners	1,863,800
Downtown River Assoc LP	7,062,836
Edith St Apt Inc	1,217,884
Lieb Senior Apt Inc	1,593,886
Boulevard (Buckelew) Project	480,200
Parklane Apt Corp	169,983
575 Vallejo St Assoc	851,184
579 Vallejo St Assoc	990,000
Casa Grande	1,656,655
Wood Sorrel	636,272
Petaluma Blvd Senior Apt	1,432,000
Salishan Apt Inc	388,380
Madrone Village Assoc	289,947
Capri Creek Assoc LLC	97,500
Eden-Washington Creek	320,000
Caufield Land St Housing Assoc	182,999
Total Housing Loans to Nonprofit Agencies	<u>21,737,862</u>
First Time Home Buyers Loans	5,599,200
Storefront Loan Program	284,744
Total Notes Receivables	<u><u>\$ 27,621,806</u></u>

Housing Loans to Not-for-Profit-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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

3. NOTES RECEIVABLE, Continued

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.

Storefront Loan Program

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

Fund Financial Statements

At June 30, 2007, the following deferred revenues were recorded in the fund Financial Statements because the funds were not available to finance expenditures of the current period:

Governmental Funds:

Interest receivable on:	
Notes receivable:	
Old Elm Partners	\$ 626,230
Roundwalk Viillage Partners	382,142
Downtown River Assoc LP	738,588
Edith St Apt Inc	240,862
Lieb Senior Apt Inc	167,880
Boulevard (Buckelew) Project	29,093
Parkland Apt Corp	1,485
575 Vallejo St Assoc	355,713
579 Vallejo St Assoc	275,588
Petaluma Blvd Senior Apt	39,851
Salishan Apt Inc	104,863
Madrone Village Assoc	145,320
Eden-Washington Creek	162,569
Total interest on Notes receivable	<u>3,270,184</u>
Housing loans	7,119,165
Developers fees	454,481
Intergovernmental revenues	309,560
Miscellaneous	<u>43,253</u>
Total Governmental Funds	<u><u>\$ 11,196,643</u></u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

5. INTERFUND BALANCES AND TRANSACTIONS

A. Due to/from Other Funds

Due to/from other funds for the year ended June 30, 2007 were as follows:

		Due from other funds		
		Major Funds		
		General Fund	Impact Fees Special Revenue	Total
Due to other funds	Governmental funds:			
	Major funds:			
	Redevelopment Special Revenue	\$ 20,000	\$ -	\$ 20,000
	Impact Fees Special Revenue	67,800	-	67,800
	City Capital Project	120,000	-	120,000
	Redevelopment Cap Projects	1,600,000	-	1,600,000
	Non-Major funds	133,500	76,000	209,500
	Enterprise Funds			
	Ambulance	551,400	-	551,400
	Marina	57,000	-	57,000
	<u>\$ 2,549,700</u>	<u>\$ 76,000</u>	<u>\$ 2,625,700</u>	

The Due to/from other funds are to provide cash flow for the funds with negative cash.

B. Transfers In/Out

Transfers in/out for the year ended June 30, 2007 were as follows:

		Transfers In								
		Governmental Funds					Enterprise Funds			Total
		General Fund	Redevelopment Special Revenue	Impact Fee Special Revenue	City Capital Project	Redevelopment Capital Project	Non-Major Governmental Funds	Airport Fund	Internal Service Funds	
Transfers Out	Governmental Funds:									
	Major Funds:									
	General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 513,000	\$ 375,000	\$ 300,000	\$ 1,188,000
	Redevelopment Special Revenue	-	-	-	-	122,025	-	-	-	122,025
	Impact Fees Special Revenue	-	-	-	4,109,276	-	106,750	-	-	4,216,026
	City Capital Project	-	44,000	872,000	-	-	126,000	-	-	1,042,000
	Redevelopment Capital Projects	-	18,673	-	1,101,000	-	3,677,100	-	-	4,796,773
	Non-Major Funds	1,140,000	-	-	2,292,222	30,000,000	991,132	-	30,000	34,453,354
	Enterprise Funds									
	Airport	-	-	-	-	-	14,337	-	-	14,337
	Transit	-	-	-	-	-	201,800	50,000	-	251,800
	Waster Water Utility	-	-	-	583,000	-	-	-	100,000	683,000
	Water Utility	-	-	-	445,000	-	-	-	100,000	545,000
Total	<u>\$ 1,140,000</u>	<u>\$ 62,673</u>	<u>\$ 872,000</u>	<u>\$ 8,530,498</u>	<u>\$ 30,122,025</u>	<u>\$ 5,630,119</u>	<u>\$ 425,000</u>	<u>\$ 530,000</u>	<u>\$ 47,312,315</u>	

Transfers between funds were to provide funding for capital projects, debt service, vehicle/equipment replacements and general and specific operating expenses.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2007 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-Depreciable Assets:			
Land	\$ 35,651,019	\$ 10,731,231	\$ 46,382,250
Construction in progress	51,381,596	101,624,104	153,005,700
	<u>87,032,615</u>	<u>112,355,335</u>	<u>199,387,950</u>
Depreciable Assets:			
Buildings and improvements	19,357,508	22,102,689	41,460,197
Vehicles and Equipment	9,062,511	8,006,857	17,069,368
Infrastructure	111,961,231	106,357,707	218,318,938
	140,381,250	136,467,253	276,848,503
Less accumulated depreciation	<u>(56,565,414)</u>	<u>(63,977,634)</u>	<u>(120,543,048)</u>
Total depreciable assets, net	<u>83,815,836</u>	<u>72,489,619</u>	<u>156,305,455</u>
Total capital assets	<u><u>\$ 170,848,451</u></u>	<u><u>\$ 184,844,954</u></u>	<u><u>\$ 355,693,405</u></u>

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

	Balance July 1, 2006	Additions	Deletions	Reclassification	Balance June 30, 2007
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 34,611,019	\$ 1,040,000	\$ -	\$ -	\$ 35,651,019
Construction in process	41,365,722	13,521,532	(1,707)	(3,503,951)	51,381,596
Total capital assets, not being depreciated	<u>75,976,741</u>	<u>14,561,532</u>	<u>(1,707)</u>	<u>(3,503,951)</u>	<u>87,032,615</u>
Capital assets, being depreciated:					
Buildings and improvements	19,357,508	-	-	-	19,357,508
Vehicles and equipment	7,870,263	1,740,629	(548,381)	-	9,062,511
Infrastructure	98,971,909	9,978,371	(493,000)	3,503,951	111,961,231
Total capital assets, being depreciated	<u>126,199,680</u>	<u>11,719,000</u>	<u>(1,041,381)</u>	<u>3,503,951</u>	<u>140,381,250</u>
Accumulated depreciation:					
Buildings and improvements	(7,638,050)	(464,702)	-	-	(8,102,752)
Vehicles and equipment	(3,505,914)	(942,477)	476,898	-	(3,971,493)
Infrastructure	(42,342,944)	(2,641,225)	493,000	-	(44,491,169)
Total accumulated depreciation	<u>(53,486,908)</u>	<u>(4,048,404)</u>	<u>969,898</u>	<u>-</u>	<u>(56,565,414)</u>
Total capital assets, being depreciated, net	<u>72,712,772</u>	<u>7,670,596</u>	<u>(71,483)</u>	<u>3,503,951</u>	<u>83,815,836</u>
Total governmental activities	<u><u>\$ 148,689,513</u></u>	<u><u>\$ 22,232,128</u></u>	<u><u>\$ (73,190)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 170,848,451</u></u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

6. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2006	Additions	Deletions	Reclassification	Balance June 30, 2007
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 10,731,231	\$ -	\$ -	\$ -	\$ 10,731,231
Construction in process	48,632,643	53,201,050	-	(209,589)	101,624,104
Total capital assets, not being depreciated	<u>59,363,874</u>	<u>53,201,050</u>	<u>-</u>	<u>(209,589)</u>	<u>112,355,335</u>
Capital assets, being depreciated:					
Buildings and improvements	22,102,689	-	-	-	22,102,689
Vehicles and equipment	5,331,996	2,847,983	(173,122)	-	8,006,857
Infrastructure	106,148,118	-	-	209,589	106,357,707
Total capital assets, being depreciated	133,582,803	2,847,983	(173,122)	209,589	136,467,253
Less accumulated depreciation for:					
Buildings and improvements	(6,456,507)	(513,972)	-	-	(6,970,479)
Vehicles and equipment	(3,365,169)	(511,517)	173,122	-	(3,703,564)
Infrastructure	(50,874,583)	(2,429,008)	-	-	(53,303,591)
Total accumulated depreciation	<u>(60,696,259)</u>	<u>(3,454,497)</u>	<u>173,122</u>	<u>-</u>	<u>(63,977,634)</u>
Total capital assets, being depreciated, net	<u>72,886,544</u>	<u>(606,514)</u>	<u>-</u>	<u>209,589</u>	<u>72,489,619</u>
Total business-type activities	<u>\$ 132,250,418</u>	<u>\$ 52,594,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,844,954</u>

Depreciation expense was charged to various governmental functions as follows:

General government	\$ 735,142
Community development	667,551
Police	173,708
Fire	113,940
Parks and recreation	520,246
Public works	1,837,817
Total depreciation expense - governmental functions	<u>\$ 4,048,404</u>

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

Airport	\$ 313,360
Ambulance	77,628
Development Services	1,958
Marina	119,824
Transit	172,089
Waste Water Utility	1,482,364
Water Utility	1,287,274
Total depreciation expense - business-type functions	<u>\$ 3,454,497</u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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			Balance		
	July 1, 2006	Additions	Deletions	June 30, 2006	Due Within One Year	Due in More than One Year
2000A Tax Allocation Bonds	\$ 430,000	\$ -	\$ (135,000)	\$ 295,000	\$ 145,000	\$ 150,000
2000B Tax Allocation Bonds	585,000	-	(585,000)	-	-	-
2001A Tax Allocation Bonds	2,700,000	-	(290,000)	2,410,000	305,000	2,105,000
2003A Tax Allocation Bonds	23,630,000	-	(430,000)	23,200,000	430,000	22,770,000
Unamortized Discount 2003 A TAB	(12,795)	-	474	(12,321)	(474)	(11,847)
2005A Tax Allocation Bonds	18,265,000	-	(100,000)	18,165,000	105,000	18,060,000
Deferred amt refunding 2005A TAB	(1,198,483)	-	49,937	(1,148,546)	(49,937)	(1,098,609)
Unamortized Premium 2005A TAB	157,094	-	(6,478)	150,616	6,478	144,138
2007 Tax Allocation Bonds	-	31,825,000	-	31,825,000	115,000	31,710,000
Unamortized Discount 2007 TAB	-	(568,396)	4,441	(563,955)	(17,792)	(546,163)
Capital Lease	-	343,455	(95,654)	247,801	56,653	191,148
Auto Plaza DDA - AD 19	570,000	-	(80,000)	490,000	84,000	406,000
Total	\$ 45,125,816	\$ 31,600,059	\$ (1,667,280)	\$ 75,058,595	\$ 1,178,928	\$ 73,879,667

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, 2007, of \$295,000, which is included in long-term liabilities, bears an interest rate of 5%.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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, 2006, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 145,000	\$ 14,750	\$ 159,750
2009	150,000	7,500	157,500
Total	\$ 295,000	\$ 22,250	\$ 317,250

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 \$2,410,000 as of June 30, 2007.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2007, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 305,000	\$ 100,730	\$ 405,730
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
2013-2014	765,000	51,601	816,601
Total	\$ 2,410,000	\$ 430,666	\$ 2,840,666

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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 \$23,200,000 as of June 30, 2007.

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 430,000	\$ 1,062,330	\$ 1,492,330
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
2013-2017	2,630,000	4,766,621	7,396,621
2018-2022	3,160,000	4,176,765	7,336,765
2023-2027	3,985,000	3,370,105	7,355,105
2028-2032	8,245,000	2,215,798	10,460,798
2033	2,875,000	143,750	3,018,750
Total	\$ 23,200,000	\$ 19,864,496	\$ 43,064,496

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. The outstanding balance was a debit of \$12,321 at June 30, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

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 \$18,165,000 as of June 30, 2007.

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 105,000	\$ 792,351	\$ 897,351
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
2013-2017	2,920,000	3,650,281	6,570,281
2018-2022	4,550,000	2,901,185	7,451,185
2023-2027	5,625,000	1,838,623	7,463,623
2028-2031	4,055,000	412,250	4,467,250
Total	\$ 18,165,000	\$ 12,718,007	\$ 30,883,007

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 \$4,859. The outstanding balance was a credit of \$150,616 at June 30, 2007.

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. The outstanding balance was a debit of \$1,148,546 at June 30, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

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, 2018, 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, 2017, 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 \$31,825,000 as of June 30, 2007.

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 115,000	\$ 1,479,456	\$ 1,594,456
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
2013-2017	1,280,000	5,372,245	6,652,245
2018-2022	1,555,000	6,472,656	8,027,656
2023-2027	1,870,000	6,144,550	8,014,550
2028-2031	2,195,000	5,724,781	7,919,781
2032-2037	15,430,000	5,395,888	20,825,888
2038-2039	8,520,000	579,375	9,099,375
Total	\$ 31,825,000	\$ 36,691,296	\$ 68,516,296

The bonds were issued at a discount of \$568,396 which is being amortized over the 32 years life of the bonds resulting in an annual amortization of \$17,762. The outstanding balance was a debit of \$563,955 at June 30, 2007.

The refundings were undertaken to reduce total debt service payments, consolidate issues following project area fiscal merger and to obtain an estimated net PV savings of \$4,177.

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Capital Lease

On July 20, 2006 the City entered into a Master Tax-Exempt Lease/Purchase Agreement with Key Government Finance, Inc. for VOIP phone system. At the end of the 4 year lease period the City will own the equipment. The total principal amount was \$343,455. The interest rate is 10.8%. The outstanding balance at June 30, 2007 was \$247,801.

Year Ending June 30,	Principal	Interest	Total
2008	\$ 56,654	\$ 13,793	\$ 70,447
2009	60,004	11,528	71,532
2010	63,652	7,881	71,533
2011	67,491	4,042	71,533
Total	\$ 247,801	\$ 37,244	\$ 285,045

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 \$490,000 as of June 30, 2007.

The annual debt service requirements on these bonds outstanding at June 30, 2007, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 84,000	\$ 34,407	\$ 118,407
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	\$ 490,000	\$ 99,519	\$ 589,519

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Defeased Debt

During fiscal year 2006-2007, the Commission issued Subordinate Tax Allocation Bonds Series 2007 in the amount of \$31,825,000, and defeased the outstanding principal, in the amount of \$480,000, of the 2000B Tax Allocation Refunding Bonds.

The refundings were undertaken to reduce total debt service payments, consolidate issues following project area fiscal merger and to obtain an estimated net PV savings of \$4,177.

The balance of the defeased bonds outstanding as of June 30, 2007, was \$370,000.

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, 2007, the amount of the Water revenue defeased debt outstanding, but removed from the long-term liabilities, totaled \$2,975,000.

At June 30, 2007, the amount of Redevelopment tax allocation defeased debt outstanding, but removed from the long-term liabilities, totaled \$17,445,000.

At June 30, 2007, the amount of 1993 Certificates of Participation defeased debt outstanding, but removed from the long-term liabilities, totaled \$4,410,000.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt

	Balance			Balance June 30, 2007	Classification	
	July 1, 2006	Additions	Deletions		Amounts Due Within One Year	Amounts Due in More than One Year
2003 Certificate of Participation	\$ 6,130,000	\$ -	\$ (170,000)	\$ 5,960,000	\$ 170,000	\$ 5,790,000
Unamortized Premium 2003 COP	73,687	-	(3,275)	70,412	-	70,412
2000 Waste Water Revenue Bonds	7,055,000	-	(355,000)	6,700,000	375,000	6,325,000
Unamortized Discount 2000 Revenue Bonds	(61,522)	-	4,448	(57,074)	-	(57,074)
BNP Paribas Line of Credit	10,250,000	13,350,000	(14,050,000)	9,550,000	-	9,550,000
Zion 1st National Bank Line of Credit	10,247,041	13,400,000	(13,985,241)	9,661,800	-	9,661,800
State Revolving Loan Fund	-	50,000,000	-	50,000,000	-	50,000,000
2001B Water Revenue Bonds	8,990,000	-	(235,000)	8,755,000	245,000	8,510,000
Unamortized Discount 2001B Revenue Bonds	(14,865)	-	874	(13,991)	-	(13,991)
CA Dept Boat/Waterways	4,883,219	199,136	-	5,082,355	241,748	4,840,607
CA Dept of Transportation	1,835,551	-	(138,051)	1,697,500	136,167	1,561,333
Total	\$ 49,388,111	\$ 76,949,136	\$ (28,931,245)	\$ 97,406,002	\$ 1,167,915	\$ 96,238,087

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 certificates were used to refund the 1993 Certificates which were issued to finance portions of the Petaluma Municipal Airport. The certificates 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 certificates 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. Principal and interest due with respect to the certificates will be made from the base rental payments payable by the City (the Airport Fund is the primary obligator). The outstanding balance of the certificates was \$5,960,000 as of June 30, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

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 2003 Certificate of Participation outstanding at June 30, 2007, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 170,000	\$ 264,673	\$ 434,673
2009	175,000	260,273	435,273
2010	180,000	255,388	435,388
2011	185,000	249,819	434,819
2012	190,000	243,582	433,582
2013-2017	1,085,000	1,096,426	2,181,426
2018-2022	1,370,000	827,234	2,197,234
2023-2027	1,760,000	449,950	2,209,950
2028-2030	845,000	43,946	888,946
Total	\$ 5,960,000	\$ 3,691,291	\$ 9,651,291

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 \$6,700,000 as of June 30, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

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

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

The annual debt service requirements for 2000 Waste Water Revenue Bonds outstanding at June 30, 2007, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 375,000	\$ 343,954	\$ 718,954
2009	390,000	326,704	716,704
2010	410,000	308,374	718,374
2011	435,000	288,694	723,694
2012	455,000	267,488	722,488
2013-2017	2,670,000	965,903	3,635,903
2018-2020	1,965,000	217,488	2,182,488
Total	\$ 6,700,000	\$ 2,718,604	\$ 9,418,604

Revolving Credit Line

On September 1, 2005, the City entered into a revolving credit agreement with two banking institutions. Zions First National Bank and BNP Paribas provided a revolving line of credit to the City in an amount up to \$25,000,000 and \$75,000,000, respectively.

The BNP LOC bears interest with reference to the Base Rate (the greater of prime commercial rate, or the sum of rates quoted by two or more federal funds brokers, plus 1/2 1%), or at the option of the City, with reference to an adjusted LIBOR (the LIBOR divided by the quantity of 100% less the reserve percentage rate). Interest on the outstanding balance is payable monthly. The LOC is secured by pledged revenues, and the General Fund of the City is not liable. The balance at June 30, 2007 was \$9,550,000.

The Zion LOC fixed interest rate is 3.88%, and the variable interest rate is 91.03% of the one year Seattle Federal Home Loan Bank Rate. Interest is payable semiannually. The LOC is secured by pledged revenue, and the General Fund of the City is not liable. The outstanding balance at June 30, 2007 was \$9,661,800.

The LOCs are interim financing for the construction of the Ellis Creek sewer treatment plant. They will be in place until the City receives the State of California funding from the State Revolving Loan (SRL).

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

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

State Revolving Loan Fund

In October, 2005 the City was awarded \$125,964,254 for the Ellis Creek Water Recycling Facility from the California Clean Water State Revolving Fund. The first draw was in September, 2006. The maximum draw per year is \$25,000,000. During 2006-2007, the City drew a total of \$50,000,000 for two years. Of this amount \$47,619,151 is a federal award for fiscal year 2006-2007. Upon completion of the construction of the Ellis Creek Water Recycling Facility, the State Division of Financial Assistance of the State Water Resources Control Board will prepare an appropriate SRF installment sale agreement payment schedule. The City may without penalty prepay all or any portion of the outstanding principal amount of the obligation provided that the City also pays all accrued interest on the principal amount prepaid through the date of the prepayment. This obligation is secured by the net revenues of the Waste Water Enterprise Fund. The interest rate is 2.4% The outstanding balance at June 30, 2007 was \$50,000,000.

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 \$8,755,000 as of June 30, 2007.

The annual debt service requirements for 2001 Water Revenue Bonds outstanding at June 30, 2007, were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 245,000	\$ 407,472	\$ 652,472
2009	250,000	398,190	648,190
2010	260,000	388,562	648,562
2011	275,000	378,122	653,122
2012	285,000	366,923	651,923
2013-2017	1,615,000	1,636,289	3,251,289
2018-2022	1,480,000	1,274,610	2,754,610
2023-2027	1,900,000	858,750	2,758,750
2028-2032	2,445,000	318,125	2,763,125
Total	\$ 8,755,000	\$ 6,027,043	\$ 14,782,043

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

B. Business-Type 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 2007, and the outstanding balance at June 30, 2007 was \$5,082,356. The debt is the responsibility of the Marina Fund.

The loan contract between the City and the California Department of Boating and Waterways states “the repayment of the loan is to be made from the gross revenues originating from fees and rentals charged and received by the City for services, facilities and leaseholds provided or located within the project area. Such gross revenues shall constitute security for loan repayments. However, if such gross revenues should prove insufficient to repay the loan, then the City shall pay for the operations, maintenance and dredging costs occurring within the project area from revenue sources other than those generated within the project area, and all gross revenues shall be used to repay the loan.” The City is out of compliance with this section of the loan agreement, as we are not making loan payments out of the gross revenue of the project area. Gross operating revenues usually do not cover the cost of operating expenses. Additionally, the cost of the required dredging of the Marina Fund was paid with contributions from other funds, not out of Marina Fund’s gross revenue.

In May, 2006, the City met with the Director of the California Department of Boating and Waterways in an attempt to have this loan forgiven. The State refused to forgive the debt, but agreed that the City could continue to operate the Marina, in a manner consistent with operations since inception.

Year Ending June 30,	Principal	Interest	Total
2008	\$ 241,748	\$ 178,637	\$ 420,385
2009	252,626	168,227	420,853
2010	263,995	157,349	421,344
2011	275,874	145,980	421,854
2012-2016	1,577,144	540,647	2,117,791
2017-2019	2,470,969	357,701	2,828,670
Total	\$ 5,082,356	\$ 1,548,541	\$ 6,630,897

On October 4, 1996, the California Department of Transportation issued three airport loans, in the amounts of \$975,000, \$50,000 and \$40,000, which were used to finance construction of hangars, installation of an electronic payment fueling system, and upgrading the fueling system, respectively, at the Airport. In June, 2005 an additional \$1,400,000 was loaned to finance the construction of additional hangars. At June 30, 2007 the outstanding balances of L-8 was \$409,500, L-11 was \$1,288,000.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

7. LONG-TERM DEBT, Continued

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

Notes Payable, Continued

The annual debt service requirements at June 30, 2007, were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 136,167	\$ 83,511	\$ 219,678
2009	145,054	76,443	221,497
2010	154,231	68,921	223,152
2011	163,409	60,929	224,338
2012	137,920	52,470	190,390
2013-2017	448,097	187,164	635,261
2018-2055	512,622	69,699	582,321
Total	\$ 1,697,500	\$ 599,137	\$ 2,296,637

8. COMPENSATED ABSENCES

The City records a liability to recognize the financial effect of unused vacation and other compensated leaves. The total of vacation and other compensated leaves is \$4,021,303 as of June 30, 2007. The City typically uses the General Fund to liquidate compensated absences recorded in the governmental activities. For compensated absences recorded in the business-type activities, the program that has incurred the expense is used to liquidate the liability.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due in One Year	Due in More Than One Year
Governmental activities	\$ 3,179,531	\$ 3,959,587	\$ (3,656,154)	\$ 3,482,964	\$ 447,787	\$ 3,035,177
Business type activities	481,852	522,263	(465,776)	538,339	61,391	476,948
Total	\$ 3,661,383	\$ 4,481,850	\$ (4,121,930)	\$ 4,021,303	\$ 509,178	\$ 3,512,125

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

9. 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.

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, 2007, was \$7,817,700.

Multi-Family Housing Revenue Bonds

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 \$3,750,000. 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 \$6,074,000. 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. 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 \$40,000,000 per occurrence, including the City's risk-limit. The actuarially determined liability at June 30, 2007 for general liability was \$2,802,552, 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 \$750,000 for each workers' compensation claim and \$1,000,000 from insurance per employee. The actuarially determined liability as of June 30, 2007 for workers' compensation was \$3,076,602, 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 \$5,879,154, reported in the risk funds as of June 30, 2007 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 was completed for the year ended June 30, 2007. 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, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. RISK MANAGEMENT, Continued

The following is a reconciliation of changes in the aggregate liabilities for claims for the years ended June 30, 2007, 2006 and 2005:

For the Years Ended June 30,	Claims Payable July 1	Claims Incurred	Claims Payments	Claims Payable June 30
2005	\$ 5,559,000	\$ 1,315,405	\$ (1,621,405)	\$ 5,253,000
2006	5,253,000	1,726,307	(1,739,898)	5,239,409
2007	5,239,409	1,829,795	(1,190,050)	5,879,154

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.

11. DEFICIT FUND BALANCES AND NET ASSETS

A. Fund Financial Statements

At June 30, 2007, the following funds had deficit fund balances or deficit net assets:

Funds	Deficit
Ambulance Enterprise Fund	\$ (202,105)
Development Services Enterprise Fund	(194,205)
Marina Enterprise Fund	(2,818,964)

The deficit in the Ambulance Fund will be eliminated by a direct subsidy from the General Fund during fiscal year 2007-2008. It is anticipated that the Ambulance Fund will continue to run a deficit of expenses over revenue due to the fact that the external payors such as medicare, pay less than the amount billed. In future, the subsidy required will be calculated and occur prior to year end.

The deficit in the Development Services Fund will be eliminated by reducing operating expenses below revenue by \$200,000 during fiscal year 2007-2008.

The City requested that State of California forgive outstanding loan of \$5,000,000 in the Marina Fund. Debt forgiveness would eliminate the negative net assets.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

12. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following funds:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund			
Departmental:			
Administrative Services Department	\$ 1,989,600	\$ 2,055,271	\$ (65,671)
Police Department	15,148,350	15,176,849	(28,499)
Parks and recreation	4,402,300	4,402,752	(452)
Capital outlay	270,600	11,092,189	(10,821,589)
City Capital Project Funds	9,882,100	12,615,090	(2,732,990)
Donation and Grant Funds	3,692,300	4,138,942	(446,642)
PCDC Debt Service Funds	34,056,100	34,065,031	(8,931)

Administrative Services Department budget variance is due to \$162,550 portion of unspent budget is categorized as debt or capital outlay. When these amounts are added to other appropriations, the department is not over budget.

Police Department budget variance is due to \$47,000 portion of unspent budget categorized as capital outlay. When this amount is added to other appropriations, the department is not over budget.

Parks and Recreation Department budget variance is immaterial.

Capital outlay variance is due to the recording of the developer donations of real property and infrastructure, and is offset with donation revenue.

City Capital Project Funds variance is due to timing difference between when capital projects are budgeted and when actual expenditures occur.

Donation and Grant Funds variance is due to timing difference between when grant and donation revenue and expenditures are budgeted and when they actually occur.

PCDC Debt Service Funds variance is due to additional costs of issuance for the 2007 TAB.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

13. FUND BALANCES

	General Fund Fund	Home/Begin Special Revenue Fund	Redevelopment Special Revenue Fund	Impact Fees Special Revenue Fund	City Capital Project Fund	Redevelopment Capital Project Fund	Non-Major Governmental Funds Funds	Total
Fund Balances:								
Reserved	\$ 3,038,875	\$ 6,248,290	\$ 14,207,076	\$ 6,124,651	\$ -	\$ 700,797	\$ 1,466,092	\$ 31,785,781
Unreserved, designated for:								
Microfile fees	53,559	-	-	-	-	-	-	53,559
Contingencies	5,500,000	-	-	-	-	-	-	5,500,000
CSIF earthquake education	8,004	-	-	-	-	-	-	8,004
Lucchesi soccer field	172,142	-	-	-	-	-	-	172,142
Traffic model	1,000	-	-	-	-	-	-	1,000
PCA annual grant from Comcast	60,000	-	-	-	-	-	-	60,000
Redwood Interchange	-	-	-	526,545	-	-	-	526,545
First Time Homebuyer Program	-	56,861	-	-	-	-	342,699	399,560
Total unreserved, designated	5,794,705	56,861	-	526,545	-	-	342,699	6,720,810
Unreserved, undesignated	129,604	(5,667,386)	3,566,101	5,056,919	8,481,849	30,114,020	4,194,835	45,875,942
Total fund balances	\$ 8,963,184	\$ 637,765	\$ 17,773,177	\$ 11,708,115	\$ 8,481,849	\$ 30,814,817	\$ 6,003,626	\$ 84,382,533

14. 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 \$1,941,208 for the year ended June 30, 2007.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

14. RETIREMENT PLANS, Continued

A. Pension Plan, Continued

The City employer was required to contribute for fiscal year 2006-2007 at an actuarially determined rate of 11.489% and 29.434% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost

For 2006-2007, the City's annual pension cost of \$4,636,270 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 3.00%. 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. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 years for miscellaneous employees and 30 years for safety employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 3,799,703	100%	\$ -
6/30/06	4,974,106	100%	-
6/30/07	4,636,270	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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

14. RETIREMENT PLANS, Continued

A. Pension Plan, Continued

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, 2007, the City contributed \$2,429 and the covered employees contributed \$32,650 the total of which met the requirements of the plan.

15. POST EMPLOYMENT BENEFITS

The City provides eligible employees who retire with a monthly retiree allowance. The monthly benefit allowance varies by bargaining unit labor contract. The benefit allowances have been long-standing and previously ratified by labor and the City Council through the negotiation process. The dollar amount varies by bargaining unit and by years of service. The range of the benefit is \$65 to \$156.83 per month. Currently the City's minimum benefit allowance is \$65 per month. That minimum allowance increases by \$5 per year until it reaches \$100 per month in 2014.

For the fiscal year ended June 30, 2007, the total expenditure for all post employment benefits was \$121,502. This consists of \$63,377 in direct cash payments to individuals and \$58,125 payment to the California Public Employees' Retirement System (CalPERS) for the City's health premium contribution under the Public Employees' Medical and Hospital Care Act (PEMHCA). There are a total of 61 former employees, now retirees receiving a monthly allowance.

In the 1990s, the City adopted various resolutions relating to a health benefit allowance for Council Members. There are 7 former Council Members receiving a benefit under the resolution ranging from \$100 to \$193 per month. In 1995, State law prohibited newly elected Council Members from receiving the benefit unless on a self-pay basis. The exception would be if a Council Member could retire into CalPERS and was covered under the PEMHCA.

16. 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, 2007

17. COMMITMENTS AND CONTINGENCIES

The City's governmental funds had year-end commitments at June 30, 2007 totaling \$1,398,384, for construction related contracts awarded, but not completed. The PCDC had year-end commitments, in the amount of \$7,765 for construction related contracts, awarded but not completed. The City's proprietary funds had year-end commitments of \$9,601,690 for construction related contracts, awarded but not completed.

The City's governmental funds had outstanding professional service contracts at year-end in the amount of \$1,871,569, PCDC's in the amount of \$490,020, and proprietary funds in the amount of \$11,791,988.

The City's governmental funds had outstanding purchase orders commitments at year-end of \$52,456 and the proprietary funds' commitments totaled \$5,715.

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 statutes, grant terms and regulations. The City believes no significant liabilities will result.

As of June 30, 2007, 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.

REQUIRED SUPPLEMENTARY INFORMATION

City of Petaluma
Required Supplementary Information
For the year ended June 30, 2007

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, 2007

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 8,570,320	\$ 8,570,320	\$ 8,570,320	\$ -
Resources (inflows):				
Taxes	21,340,000	21,340,000	23,015,988	1,675,988
Licenses, permits and fees	2,112,000	2,112,000	1,788,069	(323,931)
Fines, forfeitures and penalties	465,000	465,000	689,031	224,031
Use of money and property	536,000	536,000	859,277	323,277
Intergovernmental	3,051,000	3,151,000	5,052,139	1,901,139
Charges for current services	10,432,650	9,482,650	7,576,966	(1,905,684)
Other	149,000	149,000	11,827,619	11,678,619
Proceeds from sale of assets	25,000	25,000	56,414	31,414
Transfers from other funds	1,140,000	1,140,000	1,140,000	-
Total resources	39,250,650	38,400,650	52,005,503	13,604,853
Amount available for appropriation	47,820,970	46,970,970	60,575,823	13,604,853
Charges to appropriations (outflows):				
Departmental:				
General government:				
City council	286,550	286,550	264,209	22,341
City clerk	338,850	338,850	328,344	10,506
City attorney	356,300	616,300	608,720	7,580
City manager	300,950	450,950	260,607	190,343
General plan	221,750	581,750	292,466	289,284
Animal services	731,550	821,550	819,583	1,967
Administrative services	1,959,600	1,989,600	2,055,271	(65,671)
Total General government	4,195,550	5,085,550	4,629,200	456,350
Community development	1,759,650	1,839,650	1,767,479	72,171
Police	15,010,350	15,148,350	15,176,849	(28,499)
Fire	7,703,900	7,970,800	7,966,372	4,428
Parks and recreation	4,072,300	4,402,300	4,402,752	(452)
Public works	4,861,300	5,405,800	5,389,798	16,002
Capital outlay	165,500	270,600	11,092,189	(10,821,589)
Debt Service:				
Principal	67,500	67,500	-	67,500
Interest	-	-	-	-
Transfers to other funds	1,188,000	1,188,000	1,188,000	-
Total charges to appropriations	39,024,050	41,378,550	51,612,639	(10,234,089)
Fund balance at June 30,	\$ 8,796,920	\$ 5,592,420	\$ 8,963,184	\$ 3,370,764

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2007

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Home/Begin Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 583,535	\$ 583,535	\$ 583,535	\$ -
Resources (inflows):				
Use of money and property	-	-	51,044	51,044
Intergovernmental	4,000,000	4,000,000	6,120	(3,993,880)
Total resources	4,000,000	4,000,000	57,164	(3,942,836)
Amount available for appropriation	4,583,535	4,583,535	640,699	(3,942,836)
Charges to appropriations (outflows):				
Departmental:				
Community development	4,000,000	4,000,000	2,934	3,997,066
Total charges to appropriations	4,000,000	4,000,000	2,934	3,997,066
Fund balance at June 30,	\$ 583,535	\$ 583,535	\$ 637,765	\$ 54,230

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2007

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Redevelopment Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 15,382,943	\$ 15,382,943	\$ 15,382,943	\$ -
Resources (inflows):				
Taxes	2,500,000	2,500,000	3,035,021	535,021
Use of money and property	30,000	30,000	150,194	120,194
Intergovernmental	1,485,000	1,485,000	51,359	(1,433,641)
Charges for current services	18,000	18,000	23,084	5,084
Other	328,000	372,000	45,696	(326,304)
Transfers from other funds	-	44,000	62,673	18,673
Total resources	4,361,000	4,449,000	3,368,027	(1,080,973)
Amount available for appropriation	19,743,943	19,831,943	18,750,970	(1,080,973)
Charges to appropriations (outflows):				
Departmental:				
Community development	3,318,550	4,333,550	855,768	3,477,782
Capital outlay			-	-
Transfers to other funds	1,813,000	1,328,000	122,025	1,205,975
Total charges to appropriations	5,131,550	5,661,550	977,793	4,683,757
Fund balance at June 30,	\$ 14,612,393	\$ 14,170,393	\$ 17,773,177	\$ 3,602,784

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2007

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Impact Fees Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 13,399,268	\$ 13,399,268	\$ 13,399,268	\$ -
Resources (inflows):				
Licenses, permits and fees	4,309,000	4,309,000	1,986,466	(2,322,534)
Use of money and property	140,000	140,000	841,260	701,260
Intergovernmental	100,000	-	53,905	53,905
Transfers from other funds	-	872,000	872,000	-
Total resources	4,549,000	5,321,000	3,753,631	(1,567,369)
Amount available for appropriation	17,948,268	18,720,268	17,152,899	(1,567,369)
Charges to appropriations (outflows):				
Departmental:				
General government	6,000	6,000	6,000	-
Community development	1,606,650	1,506,650	1,059,569	447,081
Police	3,200	3,200	3,200	-
Fire	3,600	3,600	3,600	-
Parks and recreation	63,400	63,400	64,400	(1,000)
Public works	84,800	84,800	87,800	(3,000)
Debt Service:				
Interest	-	-	4,189	(4,189)
Transfers to other funds	3,395,800	4,219,800	4,216,026	3,774
Total charges to appropriations	5,163,450	5,887,450	5,444,784	442,666
Fund balance at June 30,	\$ 12,784,818	\$ 12,832,818	\$ 11,708,115	\$ (2,010,035)

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2007

2. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the year ended June 30, 2006, 2005 and 2004 of actuarial valuations are 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	6/30/04	\$ 42,955,590	\$ 48,624,583	\$ 5,668,993	88.3%	\$ 11,679,718	48.5%
Employees Group	6/30/05	46,674,278	53,065,461	6,391,183	88.0%	12,327,203	51.8%
	6/30/06	51,333,652	57,619,433	6,285,781	89.1%	12,764,880	49.2%
Safety	6/30/04	\$ 64,589,453	\$ 82,476,301	\$ 17,886,848	78.3%	\$ 8,518,220	210.0%
Employees Group	6/30/05	69,712,120	87,838,194	18,126,074	79.4%	9,341,368	194.0%
	6/30/06	76,262,678	95,408,077	19,145,399	79.9%	10,551,714	181.4%

* Latest information available.

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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.

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

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.

Public Safety Fund - The fund is used to account for asset seizure, supplemental law enforcement, service fund, abandoned vehicle abatement, fire hazmat, in law fees activates.

Landscape Assessment Districts Fund - This fund details revenue and maintenance costs associated with forty-seven 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.

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.

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.

Prince Park Fund - The fund details the activity of 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.

Debt Service Funds:

Redevelopment CBD/PCD 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.

Permanent Funds:

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 maintenance improvements to Wickersham Park.

City of Petaluma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	Special Revenue					
	Community Development Block Grant	Grants and Donations	Gas Tax	Public Safety	Landscape Assessment Districts	Street
ASSETS						
Cash and investments	\$ 87,007	\$ 448,742	\$ 809,395	\$ 367,609	\$ 521,893	\$ 1,502,700
Restricted cash and investments	-	-	-	-	-	-
Receivables:						
Accounts receivable	-	-	-	-	-	66,067
Intergovernmental receivable	137,596	159,510	183,548	9,738	15,350	-
Non current receivable	67,144	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deposits and other prepaid items	-	100	-	-	-	728
Notes receivable	784,000	-	-	-	-	-
Total assets	\$ 1,075,747	\$ 608,352	\$ 992,943	\$ 377,347	\$ 537,243	\$ 1,569,495
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 52,441	\$ 58,779	\$ 1,000	\$ 41,688	\$ 29,577	\$ 22,451
Wage payable	2,377	-	-	-	-	19,543
Deferred revenue	806,224	128,257	-	9,738	-	-
Due to other funds	76,000	133,500	-	-	-	-
Total liabilities	937,042	320,536	1,000	51,426	29,577	41,994
Fund Balances:						
Reserved for:						
Encumbrances	-	-	-	-	-	-
Notes receivable	784,000	-	-	-	-	-
Deposits and prepaids	-	100	-	-	-	728
Debt service	-	-	-	-	-	-
Total reserved	784,000	100	-	-	-	728
Unreserved, designated for:						
Special revenue funds	342,699	-	-	-	-	-
Unreserved, reported in:						
Special revenue funds	(987,994)	287,716	991,943	325,921	507,666	1,526,773
Permanent funds	-	-	-	-	-	-
Total unreserved	(645,295)	287,716	991,943	325,921	507,666	1,526,773
Total fund balances	138,705	287,816	991,943	325,921	507,666	1,527,501
Total liabilities and fund balances	\$ 1,075,747	\$ 608,352	\$ 992,943	\$ 377,347	\$ 537,243	\$ 1,569,495

Special Revenue		Debt		Total
Transient Occupancy Tax	Prince Park	Service Redevelopment	Permanent Wickersham Park Trust	Non-Major Governmental Funds
\$ 376,892	\$ 1,034,985	\$ 564,392	\$ 21,365	\$ 5,734,980
-	-	116,872	-	116,872
187,485	-	-	-	253,552
-	-	-	-	505,742
-	-	-	-	67,144
-	-	-	-	-
-	-	-	-	828
-	-	-	-	784,000
<u>\$ 564,377</u>	<u>\$ 1,034,985</u>	<u>\$ 681,264</u>	<u>\$ 21,365</u>	<u>\$ 7,463,118</u>

\$ 77,917	\$ -	\$ -	\$ -	\$ 283,853
-	-	-	-	21,920
-	-	-	-	944,219
-	-	-	-	209,500
<u>77,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,459,492</u>

-	-	-	-	-
-	-	-	-	784,000
-	-	-	-	828
-	-	681,264	-	681,264
-	-	681,264	-	1,466,092

-	-	-	-	342,699
486,460	1,034,985	-	-	4,173,470
-	-	-	21,365	21,365
<u>486,460</u>	<u>1,034,985</u>	<u>-</u>	<u>21,365</u>	<u>4,537,534</u>
<u>486,460</u>	<u>1,034,985</u>	<u>681,264</u>	<u>21,365</u>	<u>6,003,626</u>
<u>\$ 564,377</u>	<u>\$ 1,034,985</u>	<u>\$ 681,264</u>	<u>\$ 21,365</u>	<u>\$ 7,463,118</u>

(Concluded)

City of Petaluma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2007

	Special Revenue					
	Community Development Block Grant	Grants and Donations	Gas Tax	Public Safety	Landscape Assessment Districts	Street
	REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 329,940
Licenses, permits and fees	-	-	-	28,243	-	-
Fines, forfeitures and penalties	-	-	-	68,873	-	-
Use of money and property	4,181	15,433	45,878	11,576	18,629	51,016
Intergovernmental	510,587	3,302,378	1,529,540	142,873	-	366,933
Charges for current services	-	-	-	-	347,048	-
Other	-	506,636	-	-	5,000	-
Total revenues	514,768	3,824,447	1,575,418	251,565	370,677	747,889
EXPENDITURES:						
Current:						
Community development	324,723	143,171	-	-	-	-
Police	-	247,057	-	61,531	-	-
Fire	-	-	-	2,462	-	-
Parks and recreation	-	47,224	-	-	406,211	-
Public works	-	1,686,560	77,000	-	-	1,775,297
Capital outlay	98,664	3,332	-	-	-	41,902
Debt service:	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Cost of issuance	-	-	-	-	-	-
Total expenditures	423,387	2,127,344	77,000	63,993	406,211	1,817,199
REVENUES OVER (UNDER) EXPENDITURES	91,381	1,697,103	1,498,418	187,572	(35,534)	(1,069,310)
OTHER FINANCING SOURCES (USES):						
Debt issuance	-	-	-	-	-	-
Premium paid	-	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-	-
Transfers in	-	414,337	-	-	13,000	1,925,682
Transfers out	(2,120)	(2,025,934)	(928,000)	(130,000)	-	(367,300)
Total other financing sources (uses)	(2,120)	(1,611,597)	(928,000)	(130,000)	13,000	1,558,382
Net change in fund balances	89,261	85,506	570,418	57,572	(22,534)	489,072
FUND BALANCES:						
Beginning of year	49,444	202,310	421,525	268,349	530,200	1,038,429
End of year	\$ 138,705	\$ 287,816	\$ 991,943	\$ 325,921	\$ 507,666	\$ 1,527,501

Special Revenue		Debt Service		Permanent	Total
Transient Occupancy Tax	Prince Park	Redevelopment	Wickersham Park Trust	Non-Major Governmental Funds	
\$ 1,446,005	\$ -	\$ -	\$ -	\$ -	\$ 1,775,945
-	-	-	-	-	28,243
-	-	-	-	-	68,873
16,408	42,737	8,110	942	-	214,910
-	-	-	-	-	5,852,311
-	-	-	-	-	347,048
-	-	38	-	-	511,674
<u>1,462,413</u>	<u>42,737</u>	<u>8,148</u>	<u>942</u>		<u>8,799,004</u>
327,864	-	14,485	-	-	810,243
-	-	-	-	-	308,588
-	-	-	-	-	2,462
-	-	-	5,172	-	458,607
-	-	-	-	-	3,538,857
-	-	-	-	-	143,898
-	-	-	-	-	-
-	-	1,140,000	-	-	1,140,000
-	-	2,066,246	-	-	2,066,246
-	-	844,300	-	-	844,300
<u>327,864</u>	<u>-</u>	<u>4,065,031</u>	<u>5,172</u>		<u>9,313,201</u>
<u>1,134,549</u>	<u>42,737</u>	<u>(4,056,883)</u>	<u>(4,230)</u>		<u>(514,197)</u>
-	-	31,825,000	-	-	31,825,000
-	-	(568,396)	-	-	(568,396)
-	-	(482,364)	-	-	(482,364)
-	-	3,277,100	-	-	5,630,119
<u>(1,000,000)</u>	<u>-</u>	<u>(30,000,000)</u>	<u>-</u>		<u>(34,453,354)</u>
<u>(1,000,000)</u>	<u>-</u>	<u>4,051,340</u>	<u>-</u>		<u>1,951,005</u>
134,549	42,737	(5,543)	(4,230)	-	1,436,808
351,911	992,248	686,807	25,595	-	4,566,818
<u>\$ 486,460</u>	<u>\$ 1,034,985</u>	<u>\$ 681,264</u>	<u>\$ 21,365</u>		<u>\$ 6,003,626</u>

(Concluded)



City of Petaluma

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

City Capital Project Funds - Major Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 11,645,285	\$ 11,645,285	\$ 11,645,285	\$ -
Resources (inflows):				
Use of money and property	-	-	78,327	78,327
Intergovernmental	-	1,472,000	573,546	(898,454)
Other	10,000	10,000	-	(10,000)
Contribution from enterprise fund	-	-	269,283	269,283
Transfers from other funds	11,135,000	10,866,100	8,530,498	(2,335,602)
Total resources	11,145,000	12,348,100	9,451,654	(2,896,446)
Amount available for appropriation	22,790,285	23,993,385	21,096,939	(2,896,446)
Charges to appropriations (outflows):				
Current:				
Community Development	-	-	224,308	(224,308)
Capital outlay	7,949,000	8,840,100	11,348,782	(2,508,682)
Transfers to other funds	-	1,042,000	1,042,000	-
Total charges to appropriations	7,949,000	9,882,100	12,615,090	(2,732,990)
Fund balance at June 30,	\$ 14,841,285	\$ 14,111,285	\$ 8,481,849	\$ (5,629,436)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment Capital Project Fund - Major Fund For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 1,275,152	\$ 1,275,152	\$ 1,275,152	\$ -
Resources (inflows):				
Taxes	11,630,000	11,630,000	12,662,070	1,032,070
Use of money and property	200,000	200,000	866,188	666,188
Intergovernmental	2,000,000	2,000,000	187,289	(1,812,711)
Other	-	-	1,796	1,796
Debt issuance	10,000,000	35,000,000	-	(35,000,000)
Transfers from other funds	10,382,818	34,594,000	30,122,025	(4,471,975)
Total resources	34,212,818	83,424,000	43,839,368	(39,584,632)
Amount available for appropriation	35,487,970	84,699,152	45,114,520	(39,584,632)
Charges to appropriations (outflows):				
Departmental:				
Community development	7,347,350	12,230,250	7,398,172	4,832,078
Capital outlay	12,452,000	8,464,300	2,086,330	6,377,970
Debt service:				
Interest	-	-	18,428	(18,428)
Transfers to other funds	13,909,100	10,559,100	4,796,773	5,762,327
Total charges to appropriations	33,708,450	31,253,650	14,299,703	16,953,947
Fund balance at June 30,	\$ 1,779,520	\$ 53,445,502	\$ 30,814,817	\$ (22,630,685)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Community Development Block Grant Special Revenue Fund For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 49,444	\$ 49,444	\$ 49,444	\$ -
Resources (inflows):				
Use of money and property	-	-	4,181	4,181
Intergovernmental	482,400	675,400	510,587	(164,813)
Total resources	482,400	675,400	514,768	(160,632)
Amount available for appropriation	531,844	724,844	564,212	(160,632)
Charges to appropriations (outflows):				
Departmental:				
Community development	482,400	625,400	324,723	300,677
Capital outlay	-	50,000	98,664	(48,664)
Transfers out	-	-	2,120	(2,120)
Total charges to appropriations	482,400	675,400	425,507	249,893
Fund balance at June 30,	\$ 49,444	\$ 49,444	\$ 138,705	\$ 89,261

City of Petaluma

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

Grants and Donations Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 202,310	\$ 202,310	\$ 202,310	\$ -
Resources (inflows):				
Use of money and property	-	-	15,433	15,433
Intergovernmental	2,586,300	2,544,300	3,302,378	758,078
Other	150,000	150,000	506,636	356,636
Transfer from other funds	-	400,000	414,337	14,337
Total resources	2,736,300	3,094,300	4,238,784	1,144,484
Amount available for appropriation	2,938,610	3,296,610	4,441,094	1,144,484
Charges to appropriations (outflows):				
Departmental:				
Community Development	110,000	110,000	143,171	(33,171)
Police	219,600	235,600	247,057	(11,457)
Parks	-	-	47,224	(47,224)
Public works	-	1,500,000	1,686,560	(186,560)
Capital outlay	99,700	99,700	3,332	96,368
Transfers to other funds	2,313,000	1,747,000	2,025,934	(278,934)
Total charges to appropriations	2,742,300	3,692,300	4,153,278	(460,978)
Fund balance at June 30,	\$ 196,310	\$ (395,690)	\$ 287,816	\$ 683,506

City of Petaluma

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

Gas Tax Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 421,525	\$ 421,525	\$ 421,525	\$ -
Resources (inflows):				
Use of money and property	-	-	45,878	45,878
Intergovernmental	1,115,000	1,115,000	1,529,540	414,540
Total resources	1,115,000	1,115,000	1,575,418	460,418
Amount available for appropriation	1,536,525	1,536,525	1,996,943	460,418
Charges to appropriations (outflows):				
Departmental:				
Public works	96,000	96,000	77,000	19,000
Transfers to other funds	1,000,000	928,000	928,000	-
Total charges to appropriations	1,096,000	1,024,000	1,005,000	19,000
Fund balance at June 30,	\$ 440,525	\$ 512,525	\$ 991,943	\$ 479,418

City of Petaluma

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

Public Safety Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 268,349	\$ 268,349	\$ 268,349	\$ -
Resources (inflows):				
Licenses, permits and fees	45,500	45,500	28,243	(17,257)
Fines, forfeitures and penalties	27,000	27,000	68,873	41,873
Use of money and property	700	700	11,576	10,876
Intergovernmental	130,000	130,000	142,873	12,873
Total resources	203,200	203,200	251,565	48,365
Amount available for appropriation	471,549	471,549	519,914	48,365
Charges to appropriations (outflows):				
Departmental:				
Police	-	62,000	61,531	469
Fire	10,000	10,000	2,462	7,538
Capital Outlay	50,000	50,000	-	50,000
Transfers to other funds	130,000	130,000	130,000	-
Total charges to appropriations	190,000	252,000	193,993	58,007
Fund balance at June 30,	\$ 281,549	\$ 219,549	\$ 325,921	\$ 106,372

City of Petaluma

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

Landscape Assessment Districts Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 530,200	\$ 530,200	\$ 530,200	\$ -
Resources (inflows):				
Use of money and property	5,000	5,000	18,629	13,629
Charges for current services	330,000	330,000	347,048	17,048
Other	-	-	5,000	5,000
Transfers from other funds	13,000	13,000	13,000	-
Total resources	348,000	348,000	383,677	35,677
Amount available for appropriation	878,200	878,200	913,877	35,677
Charges to appropriations (outflows):				
Departmental:				
Parks and recreation	253,650	418,850	406,211	12,639
Total charges to appropriations	253,650	418,850	406,211	12,639
Fund balance at June 30,	\$ 624,550	\$ 459,350	\$ 507,666	\$ 48,316

City of Petaluma

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

Street Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 1,038,429	\$ 1,038,429	\$ 1,038,429	\$ -
Resources (inflows):				
Taxes	250,000	250,000	329,940	79,940
Use of money and property	14,000	24,000	51,016	27,016
Intergovernmental	275,000	275,000	366,933	91,933
Transfers from other funds	1,500,000	1,626,000	1,925,682	299,682
Total resources	2,039,000	2,175,000	2,673,571	498,571
Amount available for appropriation	3,077,429	3,213,429	3,712,000	498,571
Charges to appropriations (outflows):				
Departmental:				
Public works	2,016,950	2,716,950	1,775,297	941,653
Capital Outlay	-	-	41,902	(41,902)
Transfers to other funds	347,200	367,300	367,300	-
Total charges to appropriations	2,364,150	3,084,250	2,184,499	899,751
Fund balance at June 30,	\$ 713,279	\$ 129,179	\$ 1,527,501	\$ 1,398,322

City of Petaluma

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

Transient Occupancy Tax Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance July 1,	\$ 351,911	\$ 351,911	\$ 351,911	\$ -
Resources (inflows):				
Taxes	1,200,000	1,200,000	1,446,005	246,005
Use of money and property	5,000	5,000	16,408	11,408
Total resources	1,205,000	1,205,000	1,462,413	257,413
Amount available for appropriation	1,556,911	1,556,911	1,814,324	257,413
Charges to appropriations (outflows):				
Departmental:				
Community development	313,550	328,550	327,864	686
Transfers to other funds	1,000,000	1,000,000	1,000,000	-
Total charges to appropriations	1,313,550	1,328,550	1,327,864	686
Fund balance at June 30,	\$ 243,361	\$ 228,361	\$ 486,460	\$ 258,099

City of Petaluma

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

Prince Park Special Revenue Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 992,248	\$ 992,248	\$ 992,248	\$ -
Resources (inflows):				
Use of money and property	15,000	15,000	42,737	27,737
Total resources	15,000	15,000	42,737	27,737
Fund balance at June 30,	<u>\$ 1,007,248</u>	<u>\$ 1,007,248</u>	<u>\$ 1,034,985</u>	<u>\$ 27,737</u>

City of Petaluma

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

Redevelopment Debt Service Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 686,807	\$ 686,807	\$ 686,807	\$ -
Resources (inflows):				
Use of money and property	2,000	2,000	8,110	6,110
Debt issuance	-	-	31,825,000	31,825,000
Premium paid	-	-	(568,396)	(568,396)
Payment to escrow agent	-	-	(482,364)	(482,364)
Other	-	-	38	38
Transfers from other funds	3,277,100	3,277,100	3,277,100	-
Total resources	3,279,100	3,279,100	34,059,488	30,780,388
Amount available for appropriation	3,965,907	3,965,907	34,746,295	30,780,388
Charges to appropriations (outflows):				
Departmental:				
Community development	70,700	70,700	14,485	56,215
Debt service:				
Principal	1,140,000	1,140,000	1,140,000	-
Interest and fiscal charges	2,066,400	2,066,400	2,066,246	154
Cost of issuance	-	779,000	844,300	(65,300)
Transfers to other funds	-	30,000,000	30,000,000	-
Total charges to appropriations	3,277,100	34,056,100	34,065,031	(8,931)
Fund balance at June 30,	\$ 688,807	\$ (30,090,193)	\$ 681,264	\$ 30,771,457

City of Petaluma

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

Wickersham Park Trust Permanent Fund

For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 25,595	\$ 25,595	\$ 25,595	\$ -
Resources (inflows):				
Use of money and property	200	200	942	742
Total resources	200	200	942	742
Amount available for appropriation	25,795	25,795	26,537	742
Charges to appropriations (outflows):				
Departmental:				
Parks and recreation	-	12,500	5,172	7,328
Total charges to appropriations	-	12,500	5,172	7,328
Fund balance at June 30,	\$ 25,795	\$ 13,295	\$ 21,365	\$ (6,586)

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, 2007

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
ASSETS				
Current assets:				
Cash and investments	\$ 474,494	\$ 288,048	\$ 447,335	\$ 5,025,658
Account receivable	-	-	-	-
Inventories	-	10,368	-	-
Due from other funds	-	-	-	-
Deposits and prepaids	-	3,225	-	-
Total current assets	474,494	301,641	447,335	5,025,658
Non-current assets:				
Non-current assets	20,780	-	-	725,529
Capital assets:				
Depreciable	-	27,144	592,546	-
Less accumulated depreciation	-	(10,955)	(232,110)	-
Total capital assets	-	16,189	360,436	-
Total non-current assets	20,780	16,189	360,436	725,529
Total assets:	495,274	317,830	807,771	5,751,187
LIABILITIES				
Current liabilities:				
Accounts payable	32,544	1,315	41,327	206
Wages payable	1,215	9,079	22,786	8,267
Accrued claims	-	-	-	336,307
Compensated absences	1,796	3,600	7,932	2,293
Capital lease - due within one year	-	-	56,653	-
Total current liabilities	35,555	13,994	128,698	347,073
Non-current liabilities:				
Accrued claims	-	-	-	2,466,245
Compensated absences	563	37,937	31,634	20,625
Capital lease-due in more than one year	-	-	191,147	-
Total Non-current liabilities	563	37,937	222,781	2,486,870
Total liabilities	36,118	51,931	351,479	2,833,943
NET ASSETS				
Invested in capital assets, net of related debt	-	16,189	112,636	-
Unrestricted	459,156	249,710	343,656	2,917,244
Total net assets	\$ 459,156	\$ 265,899	\$ 456,292	\$ 2,917,244

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ 786,213	\$ 436,359	\$ 5,711,921	\$ 13,170,028
-	-	1,471	1,471
-	-	-	10,368
-	-	-	-
-	-	-	3,225
786,213	436,359	5,713,392	13,185,092
-	-	-	746,309
4,023,898	1,259,000	-	5,902,588
(944,978)	(336,065)	-	(1,524,108)
3,078,920	922,935	-	4,378,480
3,078,920	922,935	-	5,124,789
3,865,133	1,359,294	5,713,392	18,309,881
489	-	64,224	140,105
-	-	3,955	45,302
-	-	922,981	1,259,288
-	-	2,466	18,087
-	-	-	56,653
489	-	993,626	1,519,435
-	-	2,153,621	4,619,866
-	-	2,046	92,805
-	-	-	191,147
-	-	2,155,667	4,903,818
489	-	3,149,293	6,423,253
3,078,920	922,935	-	4,130,680
785,724	436,359	2,564,099	7,755,948
\$ 3,864,644	\$ 1,359,294	\$ 2,564,099	\$ 11,886,628

City of Petaluma
Combining Statement of Activities and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2007

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
OPERATING REVENUES:				
Charges for sales	\$ -	\$ 11,154	\$ -	\$ -
Charges for current services	762,603	372,500	1,572,427	1,997,022
Total operating revenues	762,603	383,654	1,572,427	1,997,022
OPERATING EXPENSES:				
Cost of services	308,918	317,691	943,540	528,875
Claims	411,306	-	-	699,355
General and administrative	77,332	37,180	361,651	328,574
Depreciation	-	2,714	91,653	-
Total operating expenses	797,556	357,585	1,396,844	1,556,804
Operating income (loss)	(34,953)	26,069	175,583	440,218
NONOPERATING REVENUES (EXPENSES):				
Investment earnings and rent	19,532	11,352	12,086	216,945
Gain or (loss) on disposal of assets	-	-	3,112	-
Total nonoperating revenues (expenses)	19,532	11,352	15,198	216,945
INCOME (LOSS) BEFORE TRANSFERS	(15,421)	37,421	190,781	657,163
Transfers in	100,000	-	-	-
Total transfers	100,000	-	-	-
Change in net assets	84,579	37,421	190,781	657,163
NET ASSETS:				
Beginning of year	374,577	228,478	265,511	2,260,081
End of year	\$ 459,156	\$ 265,899	\$ 456,292	\$ 2,917,244

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ -	\$ -	\$ -	\$ 11,154
-	-	1,975,449	6,680,001
-	-	1,975,449	6,691,155
-	-	204,985	2,304,009
-	-	778,471	1,889,132
17,218	500	296,864	1,119,319
411,410	137,848	-	643,625
428,628	138,348	1,280,320	5,956,085
(428,628)	(138,348)	695,129	735,070
60,986	30,064	272,381	623,346
(10,995)	-	-	(7,883)
49,991	30,064	272,381	615,463
(378,637)	(108,284)	967,510	1,350,533
230,000	200,000	-	530,000
230,000	200,000	-	530,000
(148,637)	91,716	967,510	1,880,533
4,013,281	1,267,578	1,596,589	10,006,095
\$ 3,864,644	\$ 1,359,294	\$ 2,564,099	\$ 11,886,628

City of Petaluma
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2007

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 761,823	\$ 380,787	\$ 1,573,833	\$ 1,869,613
Cash payments to suppliers for goods and services	(307,656)	(323,444)	(959,243)	(529,844)
Cash payments to employees for services	(76,168)	(28,592)	(349,237)	(328,092)
Claims paid	(411,306)	-	-	(61,059)
Net cash provided (used) by operating activities	(33,307)	28,751	265,353	950,618
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Due to/from other funds	-	-	-	-
Transfers in	100,000	-	-	-
Net cash provided (used) by non-capital financing activities	100,000	-	-	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	-	-	(77,723)	-
Proceeds from sale assets	-	-	3,112	-
Interest paid	-	-	(61,850)	-
Net cash provided (used) by capital and related financing activities	-	-	(136,461)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	19,532	11,352	12,086	216,945
Net cash provided (used) by investing activities	19,532	11,352	12,086	216,945
Net increase (decrease) in cash and cash equivalents	86,225	40,103	140,978	1,167,563
CASH AND CASH EQUIVALENTS:				
Beginning of year	388,269	247,945	306,357	3,858,095
End of year	<u>\$ 474,494</u>	<u>\$ 288,048</u>	<u>\$ 447,335</u>	<u>\$ 5,025,658</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (34,953)	\$ 26,069	\$ 175,583	\$ 440,218
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2,714	91,653	-
Changes in assets and liabilities:				
Account receivable	20,000	-	-	-
Inventories	-	(970)	-	-
Deposits and prepaids	(20,780)	(2,867)	1,406	(127,409)
Accounts payable	1,262	(4,783)	(15,703)	(969)
Wages payable	86	316	8,133	(1,594)
Accrued claims	-	-	-	638,296
Compensated absences	1,078	8,272	4,281	2,076
Total adjustments	<u>1,646</u>	<u>2,682</u>	<u>89,770</u>	<u>510,400</u>
Net cash provided (used) by operating activities	\$ (33,307)	\$ 28,751	\$ 265,353	\$ 950,618
NON CASH TRANSACTIONS				
Capital VOIP phone equipment	\$ -	\$ -	\$ 309,650	\$ -

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ 75,684	\$ 22,607	\$ 2,034,019	\$ 6,718,366
(27,392)	(9,796)	(190,096)	(2,347,471)
(17,218)	(500)	(295,351)	(1,095,158)
-	-	(777,022)	(1,249,387)
<u>31,074</u>	<u>12,311</u>	<u>771,550</u>	<u>2,026,350</u>
17,325	5,175	-	22,500
<u>230,000</u>	<u>200,000</u>	<u>-</u>	<u>530,000</u>
<u>247,325</u>	<u>205,175</u>	<u>-</u>	<u>552,500</u>
(1,221,960)	(308,966)	-	(1,608,649)
2,324	-	-	5,436
-	-	-	(61,850)
<u>(1,219,636)</u>	<u>(308,966)</u>	<u>-</u>	<u>(1,665,063)</u>
60,986	30,064	272,381	623,346
<u>60,986</u>	<u>30,064</u>	<u>272,381</u>	<u>623,346</u>
(880,251)	(61,416)	1,043,931	1,537,133
<u>1,666,464</u>	<u>497,775</u>	<u>4,667,990</u>	<u>11,632,895</u>
<u>\$ 786,213</u>	<u>\$ 436,359</u>	<u>\$ 5,711,921</u>	<u>\$ 13,170,028</u>
\$ (428,628)	\$ (138,348)	\$ 695,129	\$ 735,070
411,410	137,848	-	643,625
-	-	58,570	78,570
-	-	-	(970)
75,684	22,607	-	(51,359)
(27,392)	(9,796)	14,889	(42,492)
-	-	209	7,150
-	-	1,449	639,745
-	-	1,304	17,011
<u>459,702</u>	<u>150,659</u>	<u>76,421</u>	<u>1,291,280</u>
<u>\$ 31,074</u>	<u>\$ 12,311</u>	<u>\$ 771,550</u>	<u>\$ 2,026,350</u>
\$ -	\$ -	\$ -	\$ 309,650



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 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 Funds:

General Agency Funds - 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 - Private Purpose Trust Funds
June 30, 2007

	<u>Thomas Lee Charity Fund</u>	<u>Child Care Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 21,816	\$ 154,082	\$ 175,898
Total assets	<u>21,816</u>	<u>154,082</u>	<u>175,898</u>
LIABILITIES			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Held in trust	<u>\$ 21,816</u>	<u>\$ 154,082</u>	<u>\$ 175,898</u>

City of Petaluma
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2007

	Thomas Lee Charity Fund	Child Care Fund	Total
ADDITIONS:			
Investment income	\$ 880	\$ 6,401	\$ 7,281
Total revenues	880	6,401	7,281
DEDUCTIONS:			
Program costs	-	1,693	1,693
Administrative costs	15	-	15
Total expenditures	15	1,693	1,708
Change in net assets	865	4,708	5,573
NET ASSETS:			
Beginning of year	20,951	149,374	170,325
End of year	\$ 21,816	\$ 154,082	\$ 175,898

City of Petaluma
Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2007

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<u>General Agency Funds</u>				
Assets:				
Cash and investments	\$ 2,116,326	\$ 1,373,162	\$ (1,895,300)	\$ 1,594,188
Total assets	\$ 2,116,326	\$ 1,373,162	\$ (1,895,300)	\$ 1,594,188
Liabilities:				
Accrued liabilities	\$ 2,116,326	\$ 1,412,718	\$ (1,934,856)	\$ 1,594,188
Total liabilities	\$ 2,116,326	\$ 1,412,718	\$ (1,934,856)	\$ 1,594,188
 <u>Public Community Access Fund</u>				
Assets:				
Cash and investments	\$ 153,701	\$ 6,620	\$ (12,220)	\$ 148,101
Total assets	\$ 153,701	\$ 6,620	\$ (12,220)	\$ 148,101
Liabilities:				
Accrued liabilities	\$ 153,701	\$ 6,620	\$ (12,220)	\$ 148,101
Total liabilities	\$ 153,701	\$ 6,620	\$ (12,220)	\$ 148,101
 <u>Assessment District Funds</u>				
Assets:				
Cash and investments	\$ 2,104,172	\$ 1,439,059	\$ (1,390,491)	\$ 2,152,740
Intergovernmental receivable	57,226	42,042	(57,225)	42,043
Total assets	\$ 2,161,398	\$ 1,481,101	\$ (1,447,716)	\$ 2,194,783
Liabilities:				
Accrued liabilities	\$ 2,161,398	\$ 1,443,593	\$ (1,410,208)	\$ 2,194,783
Total liabilities	\$ 2,161,398	\$ 1,443,593	\$ (1,410,208)	\$ 2,194,783
 <u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 4,374,199	\$ 2,818,841	\$ (3,298,011)	\$ 3,895,029
Intergovernmental receivable	57,226	42,042	(57,225)	42,043
Total assets	\$ 4,431,425	\$ 2,860,883	\$ (3,355,236)	\$ 3,937,072
Liabilities:				
Accrued liabilities	\$ 4,431,425	\$ 2,862,931	\$ (3,357,284)	\$ 3,937,072
Total liabilities	\$ 4,431,425	\$ 2,862,931	\$ (3,357,284)	\$ 3,937,072

City of Petaluma, CA

Statistical Section

This part of the City of Petaluma's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Schedule
Financial Trends <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	1, 2, 3, 4, 5
Revenue Capacity <i>These schedules contain trend information to help the reader assess the factors affecting the City's ability to generate its property taxes.</i>	6, 7, 8, 9, 10, 11
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	12, 13, 14, 15, 16
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.</i>	17, 18
Operating Information <i>These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.</i>	19, 20, 21

Sources:

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 in 2004; schedules presenting government-wide information include information beginning in that year.

Schedule 1
City of Petaluma, CA
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Governmental Activities				
Invested in capital assets, net of related debt	\$ 47,065,517	\$ 89,920,349	\$ 103,563,697	\$ 128,149,019
Restricted:				
Special projects	33,072,502	16,289,349	33,162,999	34,938,959
Debt service	23,088,068	-	686,807	681,264
Permanent fund: non-expendable trust	-	-	16,000	16,000
Capital projects	21,003,950	40,933,275	12,635,285	7,471,666
Unrestricted	15,007,681	11,873,653	23,129,499	24,261,726
Total governmental activities net assets	139,237,718	159,016,626	173,194,287	195,518,634
Business-type activities				
Invested in capital assets, net of related debt	62,769,710	69,768,989	82,862,307	87,376,102
Restricted:				
Special projects	-	-	-	-
Debt service	10,282,748	5,126,132	1,225,327	1,290,671
Permanent fund: non-expendable trust	-	-	-	-
Capital projects	-	-	-	-
Unrestricted	7,592,853	10,713,062	3,057,840	6,189,560
Total business-type activities net assets	80,645,311	85,608,183	87,145,474	94,856,333
Primary government				
Invested in capital assets, net of related debt	109,835,227	159,689,338	186,426,004	215,525,121
Restricted:				
Special projects	33,072,502	16,289,349	33,162,999	34,938,959
Debt service	33,370,816	5,126,132	1,912,134	1,971,935
Permanent fund: non-expendable trust	-	-	16,000	16,000
Capital projects	21,003,950	40,933,275	12,635,285	7,471,666
Unrestricted	22,600,534	22,586,715	26,187,339	30,451,286
Total primary government activities net assets	\$ 219,883,029	\$ 244,624,809	\$ 260,339,761	\$ 290,374,967

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 2
City of Petaluma, CA
Changes in Net Assets, Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Expenses:				
Governmental activities:				
General government	\$ 3,591,778	\$ (116,666)	\$ 767,089	\$ 987,253
Community development	15,567,621	15,463,212	14,526,449	13,395,617
Police	12,369,227	12,731,433	14,701,135	15,327,707
Fire	5,737,850	7,086,322	7,596,507	8,425,482
Parks and recreation	4,446,122	4,541,987	4,970,013	5,388,317
Public works	4,986,792	6,284,072	7,424,386	10,840,989 (6)
Debt service	2,836,883	1,156,896	1,953,163	2,411,702
Total governmental activities net assets	<u>49,536,273</u>	<u>47,147,256</u>	<u>51,938,742</u>	<u>56,777,067</u>
Business-type activities				
Airport	1,624,216	1,150,586	1,258,864	1,437,423
Ambulance	1,964,576	2,175,271	2,511,723	2,165,665
Development Services	-	-	-	1,285,879 (5)
Marina	542,941	636,843	941,162	973,383
Public Transportation	1,340,081	1,431,130	1,637,727	2,180,198
Wastewater	7,525,048	8,593,484	10,674,274	10,168,807
Water Utility	9,814,156	9,539,452	10,048,200	11,672,040
Total business-type activities net assets	<u>22,811,018</u>	<u>23,526,766</u>	<u>27,071,950</u>	<u>29,883,395</u>
Total primary government activities net assets	<u>\$ 72,347,291</u>	<u>\$ 70,674,022</u>	<u>\$ 79,010,692</u>	<u>\$ 86,660,462</u>
Program Revenues :				
Governmental activities:				
Charges for services:				
General government	\$ 1,330,855	\$ 1,046,469	\$ 2,009,426	\$ 4,375,803
Community development	3,343,931	3,662,041	3,547,011	2,716,984
Police	619,937	1,204,915	823,226	804,138
Fire	525,101	583,811	548,681	539,327
Parks and recreation	1,166,680	1,431,244	1,481,006	1,623,461
Public works	929,151	1,545,972	259,982	999,774
Operating grants and contributions	7,657,787	2,414,691 (1)	3,392,838	7,103,208 (7)
Capital grants and contributions	469,012	11,244,101 (1)	3,816,602	11,508,822 (8)
Total government activities program revenues	<u>16,042,454</u>	<u>23,133,244</u>	<u>15,878,772</u>	<u>29,671,517</u>
Business-type activities				
Charges for services:				
Airport	984,202	1,031,176	1,272,124	1,725,886
Ambulance	1,763,361	1,799,204	1,982,093	1,959,471
Development Services	-	-	-	1,056,394 (5)
Marina	228,078	235,068	205,910	225,298
Public Transportation	158,719	186,207	170,296	185,323
Wastewater Utility	13,444,505	13,289,537	13,621,443	15,088,411
Water Utility	9,976,729	9,091,568	10,424,392	11,276,420
Operating grants and contributions	4,446,247	3,137,622 (1)	1,183,859	2,963,475
Capital grants and contributions	-	-	990,059 (1)	2,559,227
Total business-type activities program revenues	<u>31,001,841</u>	<u>28,770,382</u>	<u>29,850,176</u>	<u>37,039,905</u>
Total primary government program revenues	<u>\$ 47,044,295</u>	<u>\$ 51,903,626</u>	<u>\$ 45,728,948</u>	<u>\$ 66,711,422</u>

Schedule 2
City of Petaluma, CA
Changes in Net Assets, Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Net revenues (expenses):				
Governmental activities	\$ (33,493,819)	\$ (24,014,012)	\$ (36,059,970)	\$ (27,105,550)
Business-type activities	8,190,823	5,243,616	2,778,226	7,156,510
Total net revenues (expenses)	<u>\$ (25,302,996)</u>	<u>\$ (18,770,396)</u>	<u>\$ (33,281,744)</u>	<u>\$ (19,949,040)</u>
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 5,306,079	\$ 5,202,050	\$ 6,030,427	\$ 7,135,526
Redevelopment tax increment	11,908,633	13,358,873	14,180,658	15,697,091
Sales taxes	10,030,124	10,313,999	10,726,182	11,460,165
Franchise tax	1,813,523	1,840,187	2,418,832	2,607,627
Property transfer tax	1,407,014	1,756,647	-	(4)
Intergovernmental, unrestricted	2,557,723	4,271,413	(2) 5,999,846	(4) 5,593,600
Other taxes	6,146,504	3,460,981	5,962,328	2,345,441
Unrestricted investment earnings	1,273,166	1,816,739	2,555,420	3,721,310
Miscellaneous revenue	46,875	1,060,745	683,389	-
Internal capital contributions	-	(1,556,046)	-	-
Transfers	940,835	2,267,332	1,680,549	869,137
Total governmental activities	<u>41,430,476</u>	<u>43,792,920</u>	<u>50,237,631</u>	<u>49,429,897</u>
Business-type activities:				
Taxes:				
Unrestricted investment earnings	246,515	\$ 430,542	\$ 439,614	\$ 881,406
Miscellaneous revenue	-	\$ -	\$ -	\$ 542,080
Internal capital contributions	-	1,556,046	(3) -	-
Transfers	(940,835)	(2,267,332)	(1,680,549)	(869,137)
Total business-type activities	<u>(694,320)</u>	<u>(280,744)</u>	<u>(1,240,935)</u>	<u>554,349</u>
Total primary government	<u>\$ 40,736,156</u>	<u>\$ 43,512,176</u>	<u>\$ 48,996,696</u>	<u>\$ 49,984,246</u>
Changes in net assets:				
Governmental activities	\$ 7,936,657	\$ 19,778,908	\$ 14,177,661	\$ 22,324,347
Business-type activities	7,496,503	4,962,872	1,537,291	7,710,859
Total primary government	<u>\$ 15,433,160</u>	<u>\$ 24,741,780</u>	<u>\$ 15,714,952</u>	<u>\$ 30,035,206</u>

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

- (1) Operating grants and contributions decreased, and capital grants and contributions increased in 2005 due to a change in classification between operating and capital. Additionally, capital contributions increased \$3.8 million over 2004 from developer contributions.
- (2) Motor vehicle-in-lieu tax increased in 2005 due to increased state funding.
- (3) Internal capital contributions were recorded for the first time in 2005. This represents the transfers of capital assets from governmental activities to business-type activities.
- (4) The category of intergovernmental, unrestricted taxes was created in 2006 to include the motor vehicle-in-lieu tax and the property transfer tax previously recorded separately.
- (5) Development Services (BA fund) began operations in 2006-07
- (6) Public works expenditures increased from street maintenance, engineering activity and non-capital FEMA disaster grants
- (7) Operating grant revenues increased \$3.7 million over 2006 from non-capital FEMA disaster grants
- (8) Capital contributions increased \$7.6 million over 2006 from developer contributions

Schedule 3
City of Petaluma, CA
Fund Balances, Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
General Fund:				
Reserved	\$ 5,384,879	\$ 6,510,392	\$ 8,146,807	\$ 8,538,875
Unreserved, designated	-	184,392	202,665	294,705
Unreserved	757,793	1,968,866	220,848	129,604
Total general fund	<u>6,142,672</u>	<u>8,663,650</u>	<u>8,570,320</u>	<u>8,963,184</u>
All Other Governmental Funds				
Reserved	62,959,938	55,261,046	60,954,996	28,746,906 (1)
Unreserved, designated for:				
Special revenue funds	-	3,862,927	4,510,513	926,105
Unreserved, reported in:				
Special revenue funds	14,323,570	11,340,241	2,495,448	7,129,104
Debt service funds	-	(322,393)	-	-
Capital project funds	(5,426,454)	(20,149,590)	(21,133,551)	38,595,869 (2)
Permanent funds	1,030,321	25,450	25,595	21,365
Total all other governmental funds	<u>72,887,375</u>	<u>50,017,681</u>	<u>46,853,001</u>	<u>75,419,349</u>
Total governmental fund balances	<u>\$ 79,030,047</u>	<u>\$ 58,681,331</u>	<u>\$ 55,423,321</u>	<u>\$ 84,382,533</u>

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) Reserved fund balance decreased \$32.2 million due to the removal of the intergovernmental receivable from the fiscal merger of the two redevelopment project areas.

(2) Unreserved capital project fund balances increased \$59.7 million due to the fiscal merger of the two redevelopment project areas and the receipt of \$30 million in debt proceeds

Schedule 4
City of Petaluma, CA
Changes in Fund Balances, Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Revenues				
Taxes (see schedule 5)	\$ 32,060,862	\$ 34,115,853	\$ 37,373,918	\$ 40,489,024
Licenses, permits and fees	7,074,230	4,702,427	7,004,651	3,802,778
Fines, forfeitures and penalties	531,759	461,484	640,529	757,904
Use of money and property	1,426,738	2,410,608	2,709,507	3,061,200
Intergovernmental	10,955,677	8,667,888	8,437,421	11,776,669
Charges for current services	6,052,771	7,002,640	7,261,639	7,947,098
Other	1,800,233	12,466,301	3,549,792	12,386,785
Total revenues	59,902,270	69,827,201	66,977,457	80,221,458
Expenditures				
Current:				
General government	4,794,560	3,874,863	4,534,477	4,635,200
Community development	15,038,727	13,552,608	13,254,401	12,118,473
Police	12,225,462	12,709,603	15,148,920	15,488,637
Fire	6,163,772	7,116,641	7,825,626	7,972,434
Parks and recreation	4,149,849	4,263,778	4,809,275	4,925,759
Public works	4,414,278	4,985,813	6,207,522	9,016,455
Capital outlay	15,675,426	41,923,353	17,280,890	24,671,199
Debt service				
Principal	4,316,000	563,000	672,000	1,140,000
Interest	3,700,940	2,687,678	1,870,837	2,088,863
Cost of issuance	-	-	559,891	844,300
Total expenditures	70,479,014	91,677,337	72,163,839	82,901,320
Excess of revenues over (under) expenditures	(10,576,744)	(21,850,136)	(5,186,382)	(2,679,862)
Other Financing Sources (Uses):				
Debt issuance	-	-	568,533	31,825,000
Premium paid	-	-	-	(568,396)
Payment to escrow agent	-	-	-	(482,364)
Proceeds from the sale of assets	23,615,783	8,756	60,908	56,414
Contributions from enterprise funds	-	-	-	269,283
Transfers in	47,231,862	71,642,416	19,431,281	46,357,315
Transfers out	(47,955,862)	(70,150,553)	(18,132,350)	(45,818,178)
Total other financing sources (uses)	22,891,783	1,500,619	1,928,372	31,639,074
Net change in fund balances	\$ 12,315,039	\$ (20,349,517)	\$ (3,258,010)	\$ 28,959,212
 Debt service as a percentage of noncapital expenditures (1)	 14.33%	 6.37%	 4.55%	 5.55%

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) GASB-S44 paragraph 12b requires that the interest and principal components of debt service expenditures be presented separately and that total debt service be shown as a percentage of total noncapital expenditures. Noncapital expenditures are total expenditures less capital outlay (to the extent capitalized for the government-wide statement of net assets) and expenditures for capitalized assets included within the functional expenditure categories.

Schedule 5
City of Petaluma, CA
Tax Revenues by Source, Governmental Funds
Last Four Fiscal Years

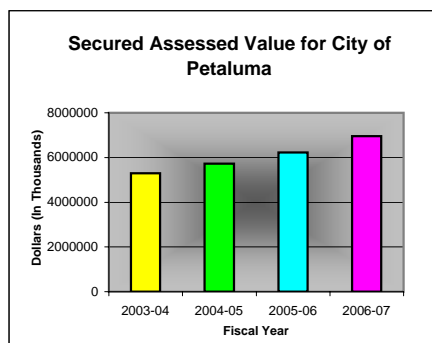
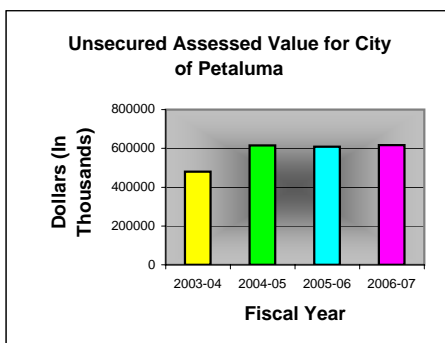
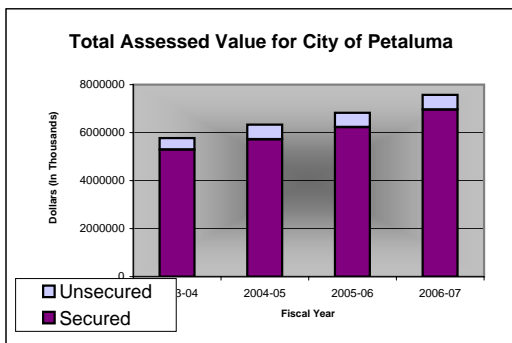
Tax type	Fiscal Year				% Change 2004-2007
	2004	2005	2006	2007	
Property	\$ 17,214,712	\$ 18,570,923	\$ 20,211,085	\$ 22,832,617	32.63%
Sales and Use	10,030,124	10,313,999	10,726,182	11,483,300	14.49%
Occupancy	1,169,119	1,182,897	1,395,574	1,446,005	23.68%
Franchise	1,813,523	1,840,187	2,418,831	2,607,627	43.79%
Property Transfer	1,407,014	1,756,647	1,936,582	1,220,039	-13.29%
Other	426,370	451,200	685,664	899,436	110.95%
Total taxes	\$ 32,060,862	\$ 34,115,853	\$ 37,373,918	\$ 40,489,024	

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 6
City of Petaluma, CA
Assessed Value and Estimated Actual Value of Taxable Property,
Last Four Fiscal Years

City						
Fiscal Year	Secured Property	Unsecured Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Estimated Actual Value (2)	Ratio of Total Assessed to Total Estimated Actual
2004	\$ 5,294,819,536	\$ 480,013,128	\$ (82,261,355)	\$ 5,692,571,309	n/a	n/a
2005	5,722,477,031	615,814,178	(83,986,218)	6,254,304,991	n/a	n/a
2006	6,225,079,545	608,213,942	(83,074,728)	6,750,218,759	n/a	n/a
2007	6,954,365,000	617,496,000	(242,659,000)	7,329,201,000	101,729,000	1.388

Redevelopment Agency						
Fiscal Year	Secured Property	Unsecured Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Estimated Actual Value (2)	Total Direct Tax Rate (1)
2004	\$ 1,058,679,795	\$ 354,068,122	\$ (6,192,118)	\$ 1,406,555,799	n/a	\$ 1.14
2005	1,123,050,779	494,438,143	(6,432,958)	1,611,055,964	n/a	\$ 1.14
2006	1,194,266,828	492,122,499	(6,330,688)	1,680,058,639	n/a	\$ 1.12
2007	1,423,411,000	458,036,000	(7,917,500)	1,802,272,000	25,016,000	\$ 1.10



Source: Sonoma County Auditor-Controller; Sonoma County Assessor; MuniServices, LLC

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

- (1) In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of the property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations above.
- (2) As of 2006-07, secured and unsecured values are gross taxable values. Exemptions include all types of exempt properties. Previous years reported homeowners' exemptions only.
- (3) As of 2006-07, Estimated Actual Value is derived from a series of calculations comparing median assessed values from 1940 to current median sales prices. Based on these calculations, a multiplier value was extrapolated and applied to current assessed values.

Schedule 7

City of Petaluma, CA

Assessed Value of Taxable Property by Use Code, Citywide

Last Four Fiscal Years (in thousands)

Category	<u>2007</u>
Residential-Single	\$ 5,231,876
Residential-Multi	1,013,303
Commercial	602,629
Manufacturing	500,786
Vacant	197,774
Rural	35,821
Professional	35,307
Recreation	31,862
Unknown	22,419
Institution	21,574
Agriculture	21,228
Industrial	14,903
Transportation	6,963
Public	1,577
Miscellaneous	<u>1,112</u>
 TOTAL	 <u>\$ 7,739,133</u>

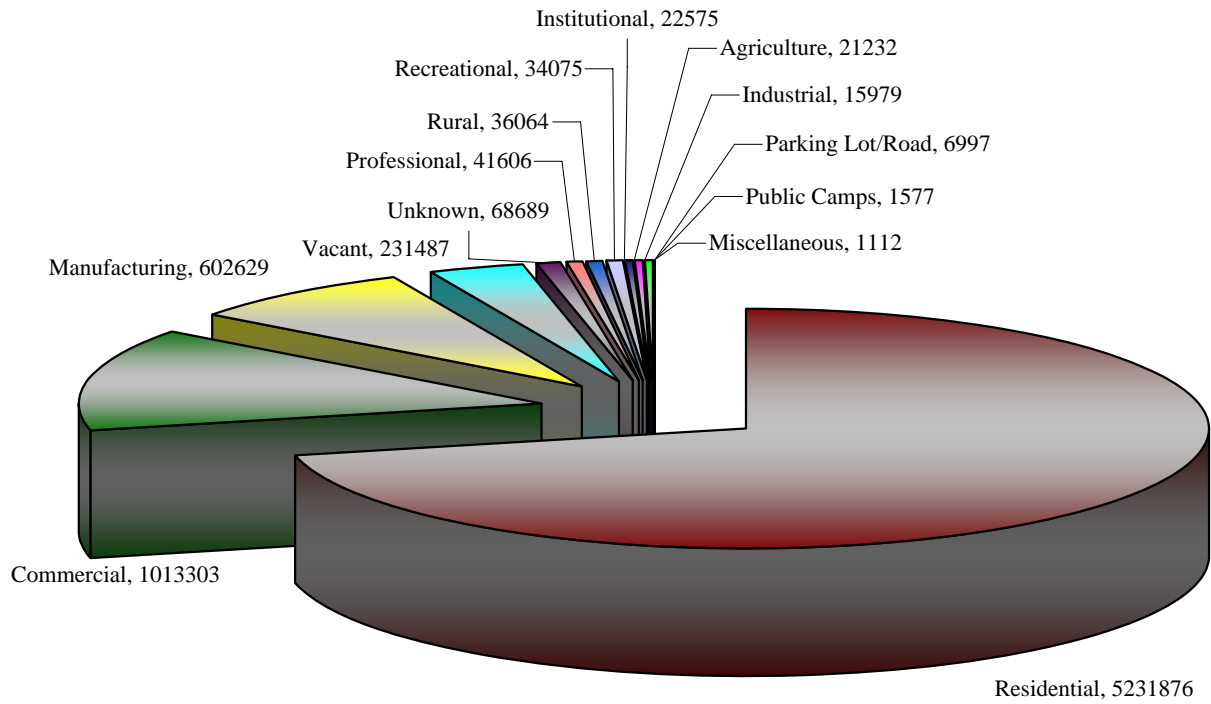
Sources:

2006-07 Use code categories provided by Sonoma County Assessor data, MuniServices, LLC
Prior years' data is unavailable.

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 8
City of Petaluma, CA
 Assessed Value of Taxable Property by Use Code, Citywide
 2006-07 Land Use Chart

Assessed Value by Land Use Code
 (In Thousands)



■ Residential	■ Commercial	■ Manufacturing	■ Vacant	■ Unknown	■ Professional	■ Rural
■ Recreational	■ Institutional	■ Agriculture	■ Industrial	■ Parking Lot/Road	■ Public Camps	■ Miscellaneous

Source: MuniServices, LLC

Schedule 9
City of Petaluma, CA
Direct and Overlapping Property Tax Rates,
(rate per \$100 of assessed value)
Last Four Fiscal Years

	2004	2005	2006	2007
Basic City and County Levy (1):				
City Direct Rate	0.1600	0.1600	0.1600	0.1600
County of Sonoma	0.8400	0.8400	0.8400	0.8400
Total Basic City and County Levy:	1.0000	1.0000	1.0000	1.0000
Override Assessments:				
WS Dam-Russian River Project	0.0070	0.0070	0.0070	0.0070
Petaluma High school bonds	0.0480	0.0480	0.0480	0.0480
Sonoma County Junior College bonds	0.0324	0.0300	0.0200	0.0200
Petaluma Elementary school bonds	0.0250	0.0250	0.0250	0.0250
Old Adobe Elementary school bonds	0.0266	0.0256	0.0220	-
Total Override Assessments:	0.1390	0.1356	0.1220	0.1000
Total Direct and Overlapping Rates:	1.1390	1.1356	1.1220	1.1000

Source: Sonoma County Auditor-Controller Office; 2006-07 County Auditor data, MuniServices LLC
Rates are not adjusted for ERAF

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1% is shared by all taxing agencies within which jurisdiction's the subject property resides. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the School District bonds.

Schedule 10
City of Petaluma, CA
Principal Property Tax Payers,
Current Year and Nine Years Ago

Taxpayer	2007			1998		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cerent Corp	\$ 103,216,280	1	1.41%	\$ -		
Fibex Systems Inc	73,089,900	2	1.00%	-		
RNM Lakeville LP	60,595,784	3	0.83%	-		
Sequoia Equities Cypress Point	49,808,320	4	0.68%	-		
Cisco Systems Inc	37,157,500	5	0.51%	-		
CRP Holdings A-1 LLC	32,250,000	6	0.44%	-		
EQR Lakeville Resort General PTP	31,685,964	7	0.43%	27,086,730	5	0.81%
Telltabs Petaluma Inc	29,878,520	8	0.41%	-		
Regency Petaluma LLC	25,738,798	9	0.35%	-		
CA-Redwood Business Park II	25,002,450	10	0.38%	-		
California Hive-Down Inc	-			37,678,265	1	1.13%
G&W Copely Redwood Business P:	-			33,452,200	2	1.00%
G&W / Redwood Associates	-			30,383,572	3	0.91%
Chelsea OCA Realty Group	-			30,057,090	4	0.90%
Minnesota Mining & Manufacturing	-			24,537,037	6	0.73%
Bedford Property Investors	-			17,677,777	7	0.53%
Friedman, Morton & Marcine	-			15,694,444	8	0.47%
Syers Properties	-			14,004,717	9	0.42%
Kaiser Foundation Health Plan	-			\$ 13,306,036	10	0.40%
	\$ 468,423,516		6.44%	\$ 243,877,868		7.30%
All Other Taxpayers	6,860,777,484		93.56%	3,104,844,948		92.70%
Total Taxable Assessed Value	\$ 7,329,201,000		100.00%	\$ 3,348,722,816		100.00%

Source: 2006-07 Sonoma County Assessor, MuniServices, LLC

Schedule 11
City of Petaluma, CA
Property Tax Levies and Collections,
Last Four Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy (1)		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount (1)	Percentage of Levy
2004	\$ 5,186,649	\$ 5,165,100	99.58%	\$ -	\$ 5,165,100	99.58%
2005	\$ 5,601,266	\$ 5,593,021	99.85%	\$ -	\$ 5,593,021	99.85%
2006	\$ 6,078,868	\$ 6,072,830	99.90%	\$ -	\$ 6,072,830	99.90%
2007	\$ 6,617,725	\$ 6,617,725	100.00%	\$ -	\$ 6,617,725	100.00%

Source: Sonoma County Auditor-Controller Office, Property Tax Division

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) 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.

Schedule 12
City of Petaluma, CA
Ratios of Outstanding Debt by Type,
Last Four Fiscal Years

Governmental Activities

Fiscal Year	General Obligation Bonds	Redevelopment Tax Allocation Bonds	Redevelopment Other	Total Governmental Activities
2004	\$ -	\$ 45,050,000	\$ 710,000	\$ 45,760,000
2005	-	44,555,000	642,000	45,197,000
2006	-	45,610,000	570,000	46,180,000
2007	-	75,895,000	490,000	76,385,000

Business-type Activities

Year	Revenue Bonds	Term Loans	Certificates of Participation	Revolving Credit Lines	Total Business-Type Activities
2004	\$ 17,160,000	\$ 5,114,639	\$ 6,295,000	\$ -	\$ 28,569,639
2005	16,615,000	6,651,649	6,295,000	-	29,561,649
2006	16,045,000	6,718,771	6,130,000	20,497,041	49,390,812
2007	15,455,000	6,779,855	5,960,000	69,211,800	97,406,655

Fiscal Year	Total Primary Government	Percentage of Personal Income	Per Capita
2004	\$ 74,329,639	7%	\$1,330
2005	74,758,649	7%	\$1,320
2006	95,570,812	9%	\$1,685
2007	173,791,655	9%	\$3,049

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 13
City of Petaluma, CA
Ratios of General Bonded Debt Outstanding
Last Four Fiscal Years

Fiscal Year	General Bonded Debt Outstanding			Total	Percentage of Actual Taxable	
	General Obligation Bonds	Redevelopment Tax Allocation Bonds			Value of Property	Per Capita
2004	\$ -	\$ 45,050,000		\$ 45,050,000	0.79%	\$ 806
2005	-	44,555,000		44,555,000	0.71%	\$ 787
2006	-	45,610,000		45,610,000	0.68%	\$ 804
2007	-	75,895,000		75,895,000	1.04%	\$ 1,332

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 14
City of Petaluma, CA
Direct and Overlapping Governmental Activities Debt
As of June 30, 2007

2006-07 Assessed Valuation:	\$ 7,329,201,000 (includes aircraft valuations)
Redevelopment Incremental Valuation:	<u>(1,430,337,357)</u>
Adjusted Assessed Valuation:	\$ 5,898,863,643

	Total Debt 6/30/2007	% Applicable (1) Debt 6/30/2007	City's Share of Debt 6/30/2007
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Sonoma County Joint Community College	\$ 134,268,312	10.620%	\$ 14,268,312
Petaluma Joint Union High School District	34,454,132	74.949%	25,823,027
Old Adobe Union School District	6,482,402	88.760%	5,753,780
Petaluma City School District	23,425,000	80.820%	18,932,085
Waugh School District Community Facilities District #1	10,300,000	100.000%	10,300,000
City of Petaluma 1915 Act Bonds	7,817,000	100.000%	7,817,000
Sonoma County Sunnyslope Assessment District	200,000	100.000%	200,000
Total Overlapping Tax and Assessment Debt			<u>\$ 83,094,204</u>
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Sonoma County General Fund Obligations	\$ 34,350,000	10.734%	\$ 3,687,129
Sonoma County Pension Obligations	286,535,000	10.734%	30,798,530
Sonoma County Office of Education COP	3,400,000	10.734%	364,956
Sonoma County Joint Community College GF Obligation	2,525,000	10.620%	268,155
Petaluma Joint Union High School District COP	8,450,000	75.762%	6,246,577
City of Petaluma General Fund Obligations	5,960,000	100.000%	5,960,000
Total Direct and Overlapping General Fund Debt:			<u>\$ 47,325,347</u>
Combined Total Debt			<u><u>\$ 130,419,551</u></u> (2)

Source:
MuniServices, LLC

Notes:
(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.12%

Ratios to Adjusted Assessed Valuation"
Combined Direct Debt (\$5,960,000) 0.10%
Combined Total Debt 2.18%

State School Building Aid Repayment as of 6/30/2007: \$0

Schedule 15
City of Petaluma, CA
Legal Debt Margin Information
Last Four Fiscal Years

Fiscal Year	Tax Increment Revenue*	Annual Debt Service**	Required Coverage (125%)	Legal Debt Margin	Debt as Percentage of Legal Debt Margin
2004	\$ 9,632,694	\$ 2,189,165	\$ 2,736,456	6,895,938	32%
2005	10,761,694	2,711,593	3,389,491	7,372,203	37%
2006	11,439,527	3,250,890	4,063,613	7,375,915	44%
2007	15,697,091	4,549,617	5,687,021	10,010,070	45%

*gross tax increment

** all bonded debt

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 16
City of Petaluma, CA
Pledged-Revenue Coverage
Last Four Fiscal Years

2001B Water Revenue Bonds								
Fiscal Year	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service		Coverage*		
				Principal	Interest			
2004	\$ 10,459,233	\$ 8,532,241	\$ 1,926,992	\$ 215,000	\$ 441,784	2.93		
2005	10,078,729	8,673,483	1,405,246	220,000	433,627	2.15		
2006	10,576,626	8,853,724	1,722,902	230,000	425,190	2.63		
2007	11,410,484	10,056,453	1,354,031	235,000	416,471	2.01		

2001B Water Revenue Bonds								
Fiscal Year	Operating Rev less Connect Fees	Operating Expenses	Net Available Revenue	Debt Service		Coverage**		
	Connect Fees			Principal	Interest			
2004	\$ 9,682,718	\$ 8,532,241	\$ 1,150,477	\$ 215,000	\$ 441,784	1.75		
2005	9,611,126	8,673,483	937,643	220,000	433,627	1.47		
2006	9,513,307	8,853,724	659,583	230,000	425,190	1.01		
2007	10,705,186	10,056,453	648,733	235,000	416,471	1.00		

2000 Waste Water Revenue Bonds								
Fiscal Year	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service		Coverage*		
				Principal	Interest			
2004	\$ 13,444,505	\$ 5,986,656	\$ 7,457,849	\$ 3,100,000	\$ 402,608	10.47		
2005	13,289,537	6,759,849	6,529,688	325,000	389,278	9.14		
2006	13,621,441	9,395,294	4,226,147	340,000	375,058	5.91		
2007	16,419,779	8,717,162	7,702,617	355,000	359,928	10.77		

2000 Waste Water Revenue Bonds								
Fiscal Year	Operating Rev less Connect Fees	Operating Expenses	Net Available Revenue	Debt Service		Coverage**		
	Connect Fees			Principal	Interest			
2004	\$ 12,037,906	\$ 5,986,656	\$ 6,051,250	\$ 3,100,000	\$ 402,608	8.49		
2005	12,542,228	6,759,849	5,782,379	325,000	389,278	8.10		
2006	12,208,399	9,395,294	2,813,105	340,000	375,058	3.93		
2007	15,477,287	8,717,162	6,760,125	355,000	359,928	9.46		

* 125% required
** 100% required

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Statement 17
City of Petaluma, CA
Demographic and Economic Statistics,
Last Four Calendar Years

Calendar Year	Population (1)	Personal Household Income (2) (in thousands of dollars)	Per Capita Personal Income (3)	Median Age	School Enrollment	Estimated Unemployment Rate % (4)
2004	55,884	\$ 61,679	\$ 17,875	36.9	16,739	3.20%
2005	56,632	\$ 61,679	\$ 18,650	37.1	16,597	4.90%
2006	56,727	\$ 63,726	\$ 18,775	37.1	16,845	3.80%
2007	56,996	\$ 1,868,215	\$ 32,778	n/a	12,290	3.60%

Sources:

Sonoma County Economic Development Board (Economic and Demographic Profile Series)
Petaluma Area Chamber of Commerce
Sonoma County Office of Education
MuniServices, LLC

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

- (1) Population projections are provided by the California Department of Finance Projections
- (2) As of 2006-07, Personal Income is total citywide income for all residents as recommended by GASB-S44. The previous years' values were an average household income per resident.
- (3) As of 2006-07, Personal Income per Capita is provided by American Community Survey Data adjusted for inflation.
- (4) Unemployment data is provided by EDD, Labor Market Information Division

Schedule 18
City of Petaluma, CA
Principal Employers
Current Year and Nine Years Ago

Employer	2007			1998 (2)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Petaluma School District	989	1	3.23%	n/a		
Petaluma Valley Hospital	627	2	2.05%	n/a		
United States Postal Service	575	3	1.88%	n/a		
Santa Rosa Junior College	495	4	1.62%	n/a		
City of Petaluma	320	5	1.05%	n/a		
Hansel Honda	300	6	0.98%	n/a		
North Bay Construction	300	7	0.98%	n/a		
Petaluma Poultry Processors	300	8	0.98%	n/a		
Advanced Fibre Communications	250	9	0.82%	n/a		
Old Adobe Union School District	200	10	0.65%	n/a		
Total Principal Employers	4,356		14.24%	n/a		
Total City Employment (1)	30,600			n/a		

Sources:

2006-07: MuniServices, LLC

Notes:

(1) Total city employment provided by EDD Labor Force Data

(2) N/A: unable to obtain the top ten employers for 1998

Schedule 19

City of Petaluma, CA

Full-time-Equivalent City Government Employees by Function/Program

Last Four Fiscal Years

	Full-time and Part-time Equivalent as of June 30,			
Function/Program	2004	2005	2006	2007
Governmental				
General government	60	60	62	49
Community development	32	37	31	28
Fire	45	48	48	48
Police	103	99	103	105
Parks and recreation	49	44	47	48
Public works	30	28	35	40
Business Activities				
Airport	2	2	2	3
Ambulance	10	10	10	11
Development Services	0	0	0	3
Transit	1	1	1	1
Water	25	23	24	24
Waste water	14	16	18	19
Total	371	368	381	379

Source: City budget, finance department

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

Schedule 20
City of Petaluma, CA
Operating Indicators by Function/Program,
Last Four Fiscal Years

Function/Program	Fiscal Year			
	2004	2005	2006	2007
Community development				
Commercial building permits issued	343	325	333	334
Residential building permits issued	970	879	948	833
Inspections performed	N/A (1)	N/A (1)	8,307	6,740
Police				
Number of police calls	58,748	55,545	58,748	68,748
Parking violations	7,784	6,122	7,000	7,834
Traffic violations	6,845	5,845	7,670	9,079
Fire				
Ambulance runs	3,333	3,323	3,484	3,723
Fire calls	1,428	1,430	1,401	1,445
Inspections	2,137	1,899	2,048	1,974
Public works				
Street resurfacing miles	1.40	16.82	2.94	2.50
Potholes repaired	3.40	3.40	3.40	3.23
Parks and recreation				
Historical library & museum visitors	8,641	7,053	8,340	7,890
Recreation class attendance	43,219	41,298	40,737	34,639
Special event attendance	17,601	22,636	25,636	24,716
Airport				
Airport movements	56,218	56,000	56,000	26,000 (2)
Annual fuel consumption (gallons)	160,860	155,618	163,866	188,000
Water				
New connections	233	86	145	174
Water main breaks	55	25	23	15
Annual water purchased in billion of gallons	4	3	3	3
Utility accounts	18,968	19,265	18,955	19,549
Wastewater				
Average dry weather flows of sewage	4.4 mgd	5.1 mgd	4.4 mgd	4.6mgd
Transit				
Number of bus routes	3	3	3	3
Annual ridership	163,775	159,690	163,775	189,500

Sources:

Various city department reports, annual budget narrative

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) N/A - Statistical information unavailable from the city department

(2) As of 2006-07, airport movements are restricted to take-offs only. Prior years' data included take-offs and landings.

Schedule 21
City of Petaluma, CA
Capital Asset Statistics by Function/Program
Last Four Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police				
Stations	1	1	1	1
Zone offices	1	1	1	1
Patrol units	40	40	59	53
Fire				
Fire stations	3	3	3	3
Ambulances	3	3	4	4
Public works				
Streets (miles)	170	170	170	185
Highways (miles)	0.80	0.80	0.80	0.80
Streetlights	5,043	5,043	4,740	4,600
Traffic Signals	45	47	48	48
Park and recreation				
Acreage	180	187	196	265
Parks	43	43	43	44
Community centers	2	2	2	2
Recreation facilities	3	3	3	4
Ball/soccer fields	40	40	43	48
Tennis court	7	7	7	9
Turning basin public dock footage	995	995	995	995
Community swimming pools	2	2	2	2
Library	1	1	1	1
Water				
Water mains (miles)	245	245	250	273
Fire hydrants	2,312	2,658	2,405	2,474
Aqueduct stations	8	8	8	8
Wells	20	18	18	18
Valves	6,864	6,799	6,965	7,118
Reservoirs, finished water (total capacity - 13.1 mg)	10	10	11	11
Wastewater				
Booster stations (24 pumps)	11	11	11	11
Sanitary sewers (miles)	N/A	N/A	192	195
Storm sewers (miles)	N/A	N/A	142	144
Treatment capacity (thousands of gallons)	1,898	1,898	1,898	1,898
Transit - buses	8	8	9	10
Airport				
Runway length	3,600	3,600	3,600	3,600
City hangars	127	127	182	181

Sources:

Various city department reports, annual budget narrative

Notes: The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information begin in that year.

(1) N/A - Statistical information unavailable from the city department

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