

City of Petaluma

Petaluma, California

Comprehensive Annual Financial Report

For the year ended June 30, 2006

Prepared By:

The City of Petaluma Finance Department

Steven Carmichael, Administrative Services Director

Cinde Rubaloff, Accounting Manager

City of Petaluma
Comprehensive Annual Financial Report
For the year ended June 30, 2006

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November 18, 2006

City of Petaluma

11 English Street • Petaluma, CA 94952

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, 2006.

For the fiscal year ended June 30, 2006, 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 fourth 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. Because the cost of internal controls should not outweigh their benefits, the City of Petaluma's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Petaluma's financial statements have been audited by Caporicci & Larsen, Certified Public Accountants, 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, 2006, 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, 2006, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

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

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 that are home to the Telecom industry. It is also home to 45 parks, 2 community centers, 3 recreational facilities and 40 ball fields.

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

FACTORS AFFECTING ECONOMIC CONDITION

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

LOCAL ECONOMY. The micro economy of Petaluma is dependent on the macro economies of both the State of California and the Nation. The San Francisco Bay Area caught up with the State, rebounding from its heavy dependency on the "high technology" market. Even though there are recent signs of recovery, the backlog in investment in capital infrastructure will take many years at the current slow growth pace.

Sonoma County has experienced recessionary conditions for several years. Employment has taken a turn downward during that time with major lay-offs in the high-tech manufacturing industries. Wineries and vineyards also contributed to the weakness due to expanded global supply and downward pressure on prices. The City was significantly affected by the downturn in the "high-tech" environment. Petaluma is home to numerous "telecom" industries, which were hit hard by the downturn in the economy. Local economic relief is becoming evident in the vineyards, with price stability and increased sales. New investment in technology has been the brightest sign in the City's economy.

Sonoma County business executives remain positive about the local economy as the Sonoma County Business Confidence Index scored 6.41 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.

Nearly twice as many executives expect to be adding employees as expect to be reducing employees. However, nearly 60% of executives expect to maintain the same level of employees in the next six months as they have currently. Executives also feel optimistic about their companies' bottom line, with more than 40% of respondents expecting net profits to increase over the next six months. The strength of up-start firms is reliant on business investment. Investment is improving nationwide, especially in the telecom industry.

Overall, business executives reported their industry confidence at 6.15, with the highest confidence being reported by the education sector, with a level of 8.00. Similarly, hospitality business leaders are bullish, as reported industry confidence continues to increase. The health services sector ranked the lowest, with a confidence of 4.33.

The economy is continuing to improve with estimates of increased salary and wages, as well as an increase in business profits. The housing market has weakened over the last six months. Health care is on the rise due to the aging population and increased availability of medical facilities in the County.

Employment growth has seen a major upturn in the past twelve months. Sonoma County will see a modest job growth, with increases across a broad spectrum of industries, starting with manufacturing, professional business services, construction, health care, hospitality and food services. Even the technology and wine making industries are seeing stronger demands in 2006.

Retail sales in Petaluma increased slightly in FY 2006 over FY 2005 results. Total sales tax received in FY 2006 was \$10.7 million, a 4% increase over FY 2005. Other areas of increased tax revenue were property taxes (14% increase for City and RDA combined) and other taxes (44% increase). A 3% increase in revenues is projected for 2006.

While the City remains heavily reliant on sales tax revenues from the sale of new and used vehicles (34% of total sales tax), a renewed emphasis on diversification of this resource is taking place. With the increase in the tourism industry, the City should realize additional transient occupancy taxes, which will provide funds for the General Fund.

Although the economy is showing signs of rebounding, caution will continue to be exercised regarding revenue improvements.

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.

CASH MANAGEMENT, POLICIES AND PRACTICES. The City adopts an annual Investment Policy intended to provide specific criteria for the prudent investment of City funds. This policy is in conformance with all Federal, State and local laws governing the investment of City monies. Cash temporarily idle during the year was invested in various securities, as permitted in the City's Investment Policy and State laws, governing the deposit of public funds. The City's 2006 Investment Policy was adopted by the City Council in January 2006.

The City ended the year with cash and investments of \$58 million, of which \$56.7 million is directly managed by the City Treasurer. Fiscal agents, at the direction of the City Treasurer, managed bond related funds of \$1.3 million. Total annual accrued investment earnings were \$ 2.995 million.

DEBT ADMINISTRATION. As of June 30, 2006, 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. The Redevelopment Agency's 2001A bonds were refunded with a net present value savings of approximately \$1 million over next ten years. The total outstanding debt is shown in detail in the Notes to the Basic Financial Statements presented within the financial section of this report.

RISK MANAGEMENT. The City uses a combination of insured and 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, 2005. This was the tenth 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, 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

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, 2005

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.



A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

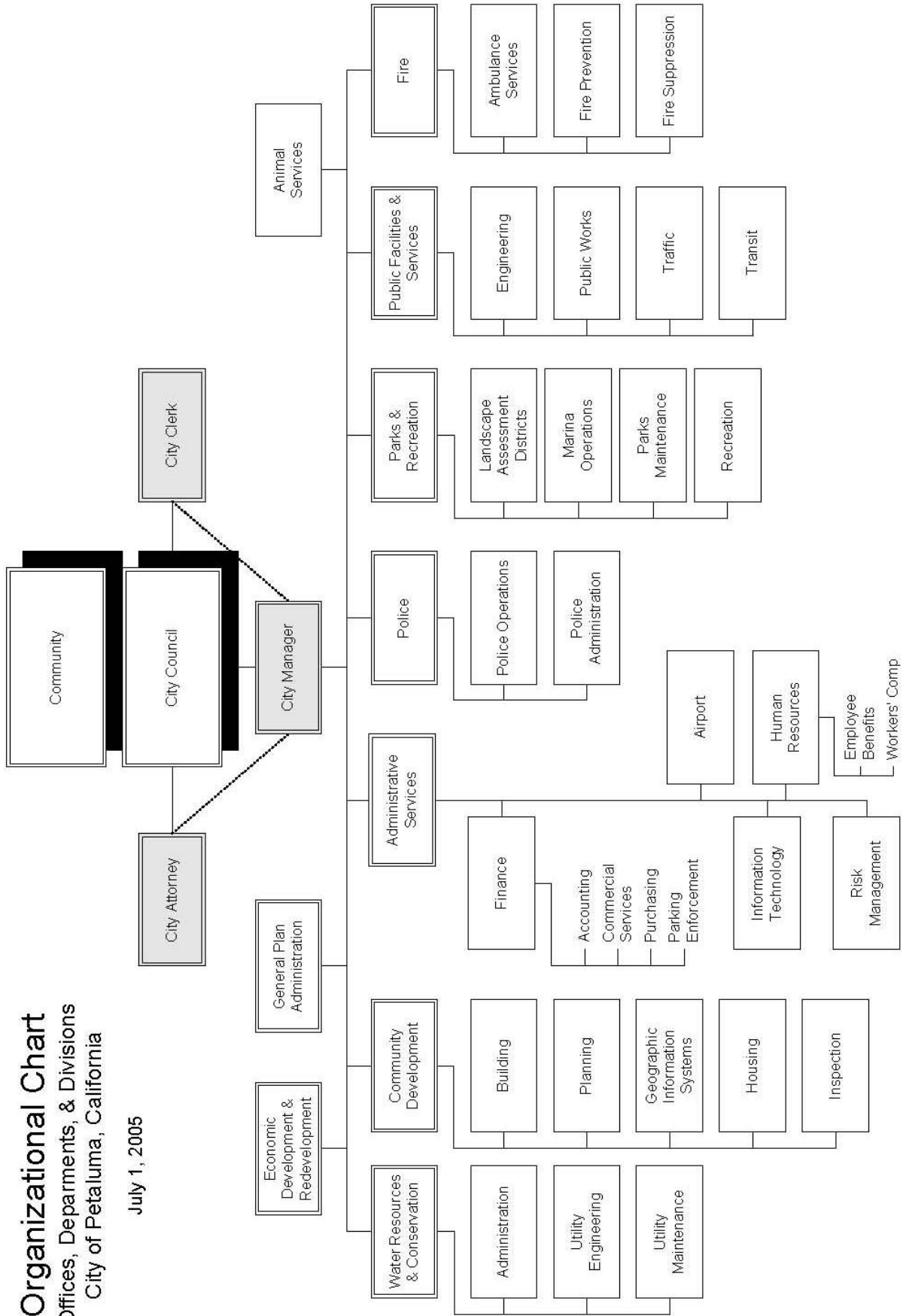
Executive Director

Organizational Chart

Offices, Departments, & Divisions

City of Petaluma, California

July 1, 2005



CITY OF PETALUMA OFFICIALS



DAVID GLASS
Mayor



KEITH CANEVARO
Vice-Mayor



MICHAEL HARRIS
Councilmember



MICHAEL HEALY
Councilmember



KAREN NAU
Councilmember



MIKE O'BRIEN
Councilmember



PAMELA TORLIATT
Councilmember

CITY MANAGER
Michael A. Bierman

ADMINISTRATIVE SERVICES DIRECTOR/TREASURER
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, 2006, 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, 2006, 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.

As described in Note 1 to the basic financial statements, the City adopted the Governmental Accounting Standards Board Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, No. 44, *Economic Conditions Reporting: The Statistical Section (an amendment of NCGA Statement 1)*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2006 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.

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Orange County

9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento

777 Campus Commons Rd., Suite 200
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

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.

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 & Carlson

Oakland, California
November 17, 2006

CITY OF PETALUMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Petaluma (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

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 \$260.3 million (Net Assets). Of this amount, \$186.4 million was invested in capital assets, net of related debt. The balance was restricted for capital projects, \$12.6 million, debt service, non-expendable trusts and special projects, \$35.1 million, and unrestricted, \$26.2 million. This included all City funds and Redevelopment Agency funds.
- The City's total net assets increased by \$15.7 million, comprised of a \$14.2 million, increase in governmental net assets and \$1.5 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 \$55.4 million, a decrease of \$3.3 million from the prior year. The 2006 fund balance was comprised of \$69.1 million reserved balances, and \$4.7 million designated balances, producing an unreserved fund balance of (\$18.4) million.
- At the end of the fiscal year, the total General Fund fund balance was \$8.6 million, equal to the prior year. Of this amount, \$8.1 million was reserved, including \$5.1 million reserved for contingencies, approximately 12% of annual expenditures. The unreserved portion was \$220,848, approximately .5% 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.

Overview of the Financial Statements, Continued

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, marina, and transit operations, and 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 23-27 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 Central Business District Project Area Cap Project Fund, Redevelopment Agency Petaluma Community Development Project Area Cap Project Fund

Overview of the Financial Statements, Continued

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 31-38 of this report.

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, 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 airport, ambulance, marina and transit operations, and waste water and water utilities funds. 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 39-45 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 51 through page 92 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 2006 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 93 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, the Net Assets (the amount by which total assets exceeded total liabilities) equaled \$260.3 million at the close of the fiscal year.

The largest portion of the City's net assets (71%) 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 (19%) represents resources that are subject to external restrictions. The remaining balance (10%), 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 \$15.7 million during the fiscal year. This increase is due in part to the \$3.6 million net increase in unrestricted assets. The balance of the increase is the net result of fiscal year activity and cannot be attributed to any specific items.

Governmental Activities - Governmental activities contributed \$17.3 million to the City's net assets, an increase of \$14.2 million over the prior year.

**Summary of Net Assets
Governmental Activities
As of June 30, 2006 and 2005
(in thousands)**

	Governmental Activities 2006	Governmental Activities 2005	Governmental Activities Change
Assets:			
Current and other assets	\$ 83,932	\$ 84,584	\$ (652)
Capital Assets, net of depreciation	<u>148,689</u>	<u>135,104</u>	<u>13,585</u>
Total assets	<u>232,621</u>	<u>219,688</u>	<u>12,933</u>
Liabilities:			
Long-term liabilities	50,874	51,958	(1,084)
Other Liabilities	<u>8,553</u>	<u>8,713</u>	<u>(160)</u>
Total liabilities	<u>59,427</u>	<u>60,671</u>	<u>(1,244)</u>
Net Assets:			
Invested in capital assets, net of related debt	103,564	89,920	13,644
Restricted	46,501	57,223	(10,722)
Unrestricted	<u>23,129</u>	<u>11,873</u>	<u>11,256</u>
Total net assets	<u>\$ 173,194</u>	<u>\$ 159,016</u>	<u>\$ 14,178</u>

Government-Wide Financial Statement Analysis, continued

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,
- Fines and penalties,
- Various fees and license charges,
- Parking permits,
- 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, development impact fees 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 building engineering, inspection, permit, planning, as well as GIS and housing 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:

- Decrease in capital grants and contributions are due to decrease in donations and developer contributions related to capital projects during 2006.
- General property taxes and Redevelopment Agency tax increment 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 2006, and are consistent with 2005.
- Other taxes increased due to an increase in impact fee collections over the prior year.
- General government expenses increased due to increase in Police function, which resulted from increased staffing.
- General government expenses also increased as a result of the growth of Public Works costs related to increased street maintenance, reconstruction activity.
- General government expenses also increased due to Parks and Recreation increased maintenance costs resulting from the addition of new City parks.

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, 2006 and 2005
(In thousands)**

	Governmental Activities		Percentage Change
	2006	2005	
Revenues:			
Program Revenues			
Charges for service	\$ 8,669	\$ 9,474	-8.5%
Operating grants and contributions	3,393	2,415	40.5%
Capital grants and contributions	<u>3,817</u>	<u>11,244</u>	-66.1%
Total program revenue	<u>15,879</u>	<u>23,133</u>	-31.4%
General Revenues:			
Taxes:			
Property Tax	6,030	5,202	15.9%
Redevelopment Tax Increment	14,181	13,359	6.2%
Sales Tax	10,726	10,314	4.0%
Franchise Tax	2,419	1,840	31.5%
Intergovernmental/Unrestricted	5,999	6,028	-0.5%
Other Taxes	<u>5,962</u>	<u>3,461</u>	72.3%
Total Taxes	45,317	40,204	12.7%
Unrestricted Investment Earnings	2,555	1,817	40.6%
Miscellaneous Revenue	683	1,061	-35.6%
Total Revenue	<u>64,434</u>	<u>66,215</u>	-2.7%
Expenses:			
General government	767	(117)	-755.6%
Community development	14,526	15,463	-6.1%
Police	14,701	12,732	15.5%
Fire	7,597	7,086	7.2%
Parks and recreation	4,970	4,542	9.4%
Public works	7,424	6,284	18.1%
Interest on long-term debt	<u>1,953</u>	<u>1,157</u>	68.8%
Total Expenses	<u>51,938</u>	<u>47,147</u>	10.2%
Revenues Over (Under) Expenses	12,496	19,068	-34.5%
Internal Capital Contributions	-	(1,556)	
Transfers	<u>1,681</u>	<u>2,267</u>	-25.8%
Change in Net Assets	14,177	19,779	-28.3%
Net assets-beginning of year	<u>159,017</u>	<u>139,238</u>	14.2%
Net assets-end of year	<u>\$ 173,194</u>	<u>\$ 159,017</u>	8.9%

Government-Wide Financial Statement Analysis, continued

Business-Type Activities - Business-type activities net assets contributed \$87.1 million to the City's net assets, an increase of \$1.5 million over the prior year. All business-type activities are fully supported by fees. Their expenses include indirect costs and in-lieu fees of \$3.6 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, 2006 and 2005

(in thousands)

	Business-type Activities		
	2006	2005	Change
Assets:			
Current and other assets	\$ 14,575	\$ 19,290	\$ (4,715)
Capital Assets, net of depreciation	132,250	99,326	32,924
Total assets	146,825	118,616	28,209
Liabilities:			
Long-term liabilities	48,703	28,890	19,813
Other Liabilities	10,976	4,118	6,858
Total liabilities	59,679	33,008	26,671
Net Assets:			
Invested in capital assets, net of related debt	82,862	69,769	13,093
Restricted	1,225	5,126	(3,901)
Unrestricted	3,058	10,713	(7,655)
Total net assets	\$ 87,145	\$ 85,608	\$ 1,537

Charges for services include:

- Charges for waste water and 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

Operating and capital grants and contributions include amounts received from federal, state and county governments, as well as private grantors, developers and other donors.

Government-Wide Financial Statement Analysis, continued

Business-type Activities Changes:

- Business-type activity capital grants and contributions decreased from 2005, because in 2005 grants were received related to waste water capital projects (incorrectly classified as operating grants in 2005). Capital grants and contributions increased in 2006 due to grant funding received for the airport capital projects.
- Business-type activity expenses have increased due to increase in waste water utility fund's contractor costs and repairs related to the sewer treatment plant.

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, 2006 and 2005			
(In thousands)			
	Business-type Activities 2006	Business-type Activities 2005	Percentage Change
Revenues:			
Program Revenues			
Charges for service	\$ 27,676	\$ 25,633	8.0%
Operating grants and contributions	1,184	3,138	-62.3%
Capital grants and contributions	<u>990</u>	<u>-</u>	0.0%
Total program revenue	29,850	28,771	3.8%
General Revenues:			
Unrestricted Investment Earnings	<u>440</u>	<u>430</u>	2.3%
Total Revenue	30,290	29,201	3.7%
Expenses:			
Business-type Activities			
Airport	1,259	1,151	9.4%
Ambulance	2,512	2,175	15.5%
Marina	941	637	47.7%
Public Transportation	1,638	1,431	14.5%
Waste Water	10,674	8,594	24.2%
Water Utility	<u>10,048</u>	<u>9,539</u>	5.3%
Total Expenses	<u>27,072</u>	<u>23,527</u>	15.1%
Revenues Over (Under) Expenses	3,218	5,674	-43.3%
Internal Capital Contributions	-	1,556	0.0%
Transfers	<u>(1,681)</u>	<u>(2,267)</u>	-25.8%
Change in Net Assets	1,537	4,963	-69.0%
Net assets-beginning of year	<u>85,608</u>	<u>80,645</u>	6.2%
Net assets-end of year	<u>\$ 87,145</u>	<u>\$ 85,608</u>	1.8%

Government-Wide Financial Statement Analysis, continued

Summary Statement of Net Assets			
Total Primary Government			
As of June 30, 2006 and 2005			
(in thousands)			
	Total Activities 2006	Total Activities 2005	Total Activities Change
Assets:			
Current and other assets	\$ 98,507	\$ 103,874	\$ (5,367)
Capital Assets, net of depreciation	<u>280,939</u>	<u>234,430</u>	<u>46,509</u>
Total assets	<u>379,446</u>	<u>338,304</u>	<u>41,142</u>
Liabilities:			
Long-term liabilities	99,577	80,848	18,729
Other Liabilities	<u>19,529</u>	<u>12,831</u>	<u>6,698</u>
Total liabilities	<u>119,106</u>	<u>93,679</u>	<u>25,427</u>
Net Assets:			
Invested in capital assets, net of related debt	186,426	159,689	26,737
Restricted	47,726	62,349	(14,623)
Unrestricted	<u>26,187</u>	<u>22,586</u>	<u>3,601</u>
Total net assets	<u>\$ 260,339</u>	<u>\$ 244,624</u>	<u>\$ 15,715</u>

Fund Financial Statements Analysis

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

Fund Financial Statements Analysis, continued

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

Redevelopment Special Revenue Funds, and Capital Project Funds

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 August 2006, the CBD and PCD were merged fiscally. This will allow for projects to be done in the CBD where tax increment is less than needed to complete additional projects. 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.

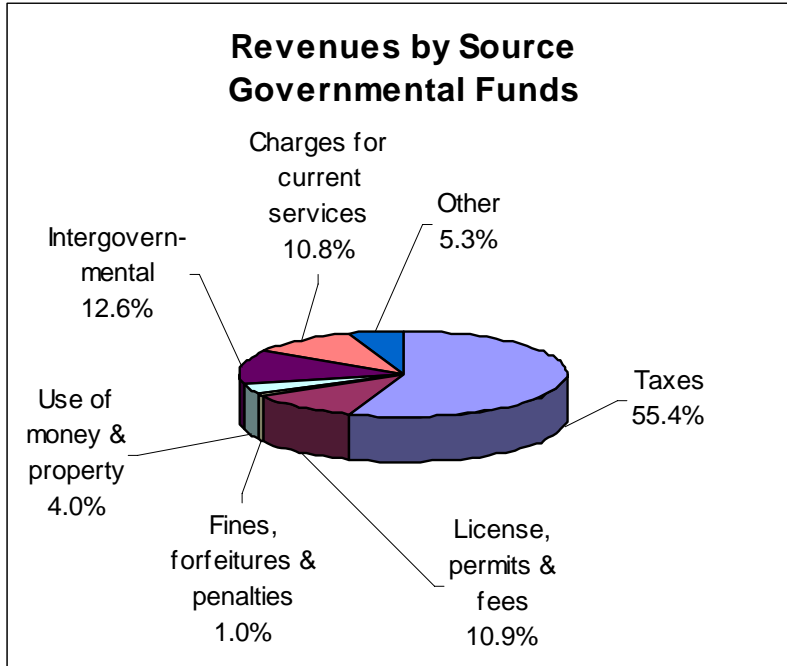
This Commission includes three major funds:

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

**Revenues Classified by Source
Governmental Funds
For the Years ending June 30, 2006 and 2005
(in millions of dollars)**

Revenue by Source	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Taxes	\$ 37.10	55.4%	\$ 34.12	48.9%	\$ 2.98	8.7%
License, permits & fees	7.28	10.9%	4.70	6.7%	2.58	54.9%
Fines, forfeitures & penalties	0.64	1.0%	0.46	0.7%	0.18	39.1%
Use of money & property	2.71	4.0%	2.41	3.5%	0.30	12.4%
Intergovernmental	8.44	12.6%	8.67	12.4%	(0.23)	-2.7%
Charges for current services	7.26	10.8%	7.00	10.0%	0.26	3.7%
Other	3.55	5.3%	12.47	17.9%	(8.92)	-71.5%
Totals	<u>\$ 66.98</u>	<u>100.0%</u>	<u>\$ 69.83</u>	<u>100.0%</u>	<u>\$ (2.85)</u>	<u>-4.1%</u>

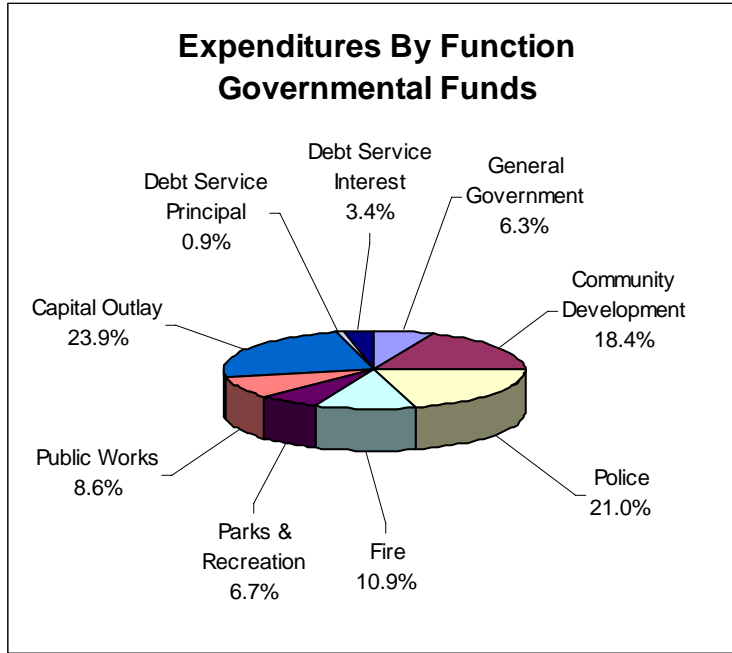
Fund Financial Statements Analysis, continued



**Expenditures Classified by Function
Governmental Funds
For the Years ending June 30, 2006 and 2005
(in millions of dollars)**

Expenditures by Function	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Current:						
General Government	4.53	6%	3.88	4%	0.65	17%
Community Development	13.25	18%	13.55	15%	(0.30)	-2%
Police	15.15	21%	12.71	14%	2.44	19%
Fire	7.83	11%	7.12	8%	0.71	10%
Parks & Recreation	4.81	7%	4.26	5%	0.55	13%
Public Works	6.21	9%	4.99	5%	1.22	24%
Capital Outlay	17.28	24%	41.92	46%	(24.64)	-59%
Debt Service:						
Principal	0.67	1%	0.56	1%	0.11	20%
Interest	1.87	3%	2.69	3%	(0.82)	-30%
Cost of issuance	0.56	1%	-	0%	0.56	0%
Totals	72.16	100%	91.68	100%	(19.51)	-27%

Fund Financial Statements Analysis, continued



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.

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.

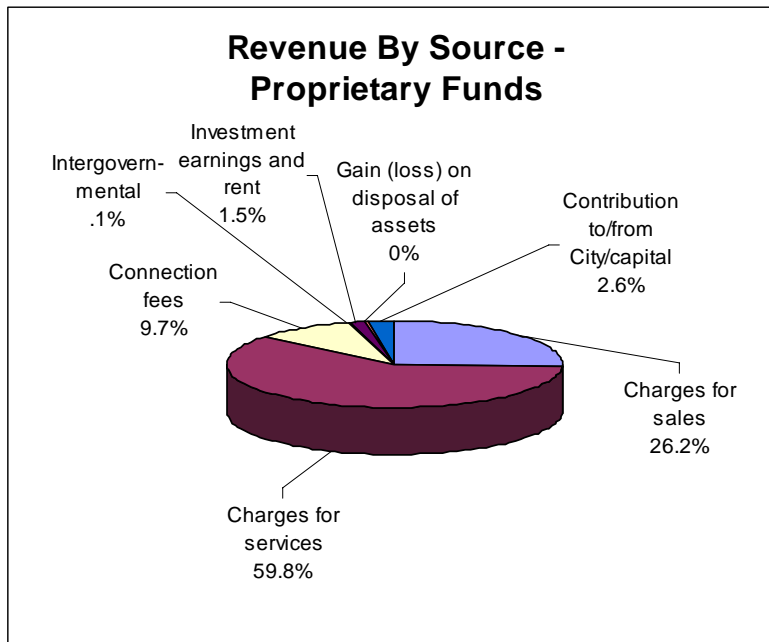
Water Utility Fund

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.

Fund Financial Statements Analysis, continued

**Revenues Classified by Source
Proprietary Funds
For the Years ending June 30, 2006 and 2005
(in millions of dollars)**

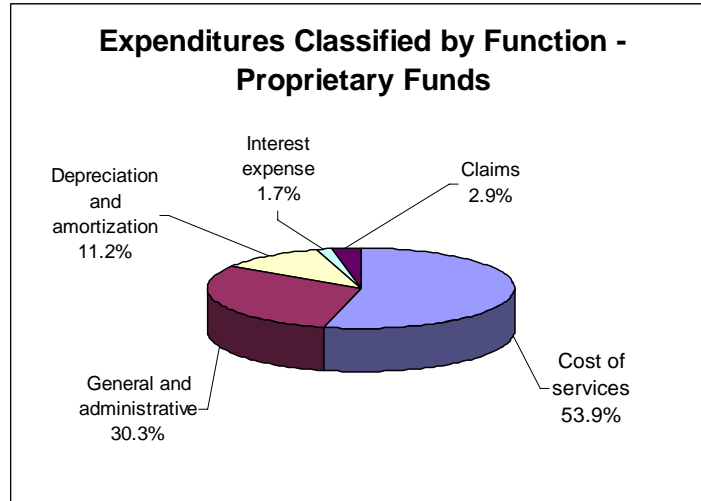
Revenue by Source	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Charges for sales	\$ 9.93	26.2%	\$ 9.45	25.9%	\$ 0.48	5.1%
Charges for services	22.64	59.8%	21.17	58.0%	1.47	7.0%
Connection Fees	3.66	9.7%	1.19	3.3%	2.47	207.6%
Intergovernmental	0.05	0.1%	3.14	8.6%	(3.09)	-98.4%
Investment earnings and rent	0.59	1.5%	0.59	1.6%	(0.00)	-0.5%
Gain (loss) on disposal of assets	(0.01)	0.0%	(0.56)	-1.5%	0.54	0.0%
Contribution to/from City/Capital	<u>0.99</u>	<u>2.6%</u>	<u>1.53</u>	<u>4.2%</u>	<u>(0.54)</u>	<u>0.0%</u>
Totals	<u>\$ 37.84</u>	<u>100.0%</u>	<u>\$ 36.51</u>	<u>100.0%</u>	<u>\$ 1.33</u>	<u>3.7%</u>



**Expenditures Classified by Function
Proprietary Funds
For the Years ending June 30, 2006 and 2005
(in millions of dollars)**

	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percentage
Cost of services	\$ 17.63	54%	\$ 16.10	57%	\$ 1.53	9%
Claims	0.96	3%	1.47	5%	(0.51)	-35%
General and administrative	9.89	30%	6.77	24%	3.12	46%
Depreciation and amortization	<u>3.65</u>	<u>11%</u>	<u>3.53</u>	<u>12%</u>	<u>0.13</u>	<u>4%</u>
Interest expense	<u>\$ 0.56</u>	<u>2%</u>	<u>\$ 0.49</u>	<u>2%</u>	<u>\$ 0.08</u>	<u>16%</u>
Totals	\$ 32.69	100%	\$ 28.35	100%	\$ 4.34	13%

Fund Financial Statements Analysis, continued



Financial Analysis of the Government's 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 \$55.4 million, a decrease of \$3.3 million from the prior year. \$69.1 million is total reserved. Encumbrances are (\$3.0 million), notes receivable (\$26.4 million) long term advances and due from other funds (\$33.4 million), contingencies (\$5.2 million) and miscellaneous (\$1.2 million). An addition \$4.5 million is designated for special projects. This produces a negative unreserved fund balance of \$18.4 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 \$220.848, while total fund balance was \$8.6 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 .5% of total General Fund expenditures, while total fund balance represents 21% of that same amount.

The General Fund balance decreased by \$93,330 during the current fiscal year.

The Redevelopment Agency had a total fund balance of \$15.4 million:

- Special Revenue Funds \$15.4 million
- CBD Capital Project Fund (\$31.70) million
- PCD Capital Project Fund \$33.0 million
- CBD/PCD Debt Service Funds \$.7 million

Financial Analysis of the Government's Funds, continued

Most of the fund balance is reserved for notes receivable, long-term advances and due from other funds, and capital projects. The net decrease in fund balance during the current year in the RDA was \$5.1 million, primarily due to the planned use of funds for the capital projects.

**Summary of Balance Sheet
Governmental Funds
As of June 30, 2006 and 2005
(in thousands)**

	Governmental Funds		
	2006	2005	Change
Assets:			
Current assets	\$ 72,679	\$ 48,497	\$ 24,182
Non-current assets	<u>31,310</u>	<u>61,573</u>	<u>(30,263)</u>
Total assets	<u><u>103,989</u></u>	<u><u>110,070</u></u>	<u><u>(6,081)</u></u>
Liabilities:			
Current liabilities	4,594	9,336	(4,742)
Non-current liabilities	<u>43,972</u>	<u>42,053</u>	<u>1,919</u>
Total liabilities	<u><u>48,566</u></u>	<u><u>51,389</u></u>	<u><u>(2,823)</u></u>
Fund Balance:			
Reserved	69,102	61,771	7,331
Unreserved, designated	4,712	4,047	665
Unreserved, undesignated	<u>(18,391)</u>	<u>(7,137)</u>	<u>(11,254)</u>
Total fund balance	<u><u>55,423</u></u>	<u><u>58,681</u></u>	<u><u>(3,258)</u></u>
Total liabilities and fund balances	<u><u>\$ 103,989</u></u>	<u><u>\$ 110,070</u></u>	<u><u>\$ (6,081)</u></u>

Financial Analysis of the Proprietary Funds

Proprietary Funds – Enterprise Funds activity was comparable to the prior year. Total increase in net assets was \$1.1 million, substantially all of which was generated by the waste water utility fund. Internal Service Funds activity was comparable to the prior year. Total increase in net asset was \$2.97 million, substantially all of which was generated in the Worker’s Compensation Fund, for the purpose of reducing the negative net asset balance carried forward from prior years.

**Summary of Statement of Net Assets
Proprietary Funds
As of June 30, 2006 and 2005
(in thousands)**

	Proprietary Funds		
	2006	2005	Change
Assets:			
Current assets	\$ 26,306	\$ 29,023	\$ (2,717)
Non-current assets	<u>136,065</u>	<u>101,961</u>	<u>34,104</u>
Total assets	<u><u>162,371</u></u>	<u><u>130,984</u></u>	<u><u>31,387</u></u>
Liabilities:			
Current liabilities	12,903	5,474	7,429
Non-current liabilities	<u>54,117</u>	<u>34,263</u>	<u>19,854</u>
Total liabilities	<u><u>67,020</u></u>	<u><u>39,737</u></u>	<u><u>27,283</u></u>
Net Assets:			
Invested in capital assets, net of related debt	85,227	71,631	13,596
Restricted for debt service	1,225	5,126	(3,901)
Unrestricted	<u>8,899</u>	<u>14,490</u>	<u>(5,591)</u>
Total net assets	<u><u>\$ 95,351</u></u>	<u><u>\$ 91,247</u></u>	<u><u>\$ 4,104</u></u>

General Fund Budgetary Highlights

The General Fund total revenues were above the adopted budget estimates by \$4.2 million, due to: unbudgeted developer contributions of \$1.3 million, tax revenues in excess of budgeted amounts including, \$0.6 million property tax, \$0.4 million franchise tax, \$0.5 million property transfer tax, and intergovernmental revenue in excess of budgeted amounts of \$1.4 million motor vehicle in-lieu.

The General Fund expenditures were over the budget by \$.8 million. The majority of this variance was caused by the accounting for donated real property and infrastructure 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 2006.

Amendments to the General Fund appropriations for 2006 totaled \$4.6 million.

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, 2006, amounts to \$281 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 \$46.5 million or a 20% increase (this represents an increase of 10% in Governmental Activities and a 33% increase for Business-type Activities).

Capital asset balances as of June 30, 2005 and 2006 were:

Capital Assets (net of depreciation, in millions) as of June 30, 2006 and 2005

	Governmental Activities		Increase (Decrease)	Business-type Activities		Increase (Decrease)
	2006	2005	% Change	2006	2005	% Change
Land	\$ 34.6	\$ 33.4	4%	\$ 10.7	\$ 10.6	1%
Const in Proc	41.4	39.6	4%	48.6	21.7	124%
Bldg and Improv	11.7	12.0	-2%	15.6	10.8	45%
Vehicle and Equip	4.4	4.3	1%	2.0	1.8	9%
Infrastructure	56.6	45.8	24%	55.3	54.4	2%
Totals	<u>\$ 148.7</u>	<u>\$ 135.1</u>	10%	<u>\$ 132.3</u>	<u>\$ 99.3</u>	33%

Long Term Debt – At the end of the current fiscal year, the City had total long term debt of \$94.5 million, of which \$44.6 was bonded debt of the Redevelopment Agency (secured by future tax increment revenue), \$42.7 million bonded debt of the enterprise funds (\$6.3 certificate of participation and \$36.4 secured by water and waste water revenue.) and the balance of \$7.2 million other loans.

- The Redevelopment debt increased with the issuance of the 2005A TAB, which refunded a portion of the 2000A TAB.
- The Waste Water Fund’s debt increased from new revolving lines of credit with BNP Paribas and Zion 1st National Bank, interim financing for the waste water treatment plant capital project.
- Marina loan to California Dept of Boatings and Waterways increased by \$.2 million, as unpaid interest and penalties were added to the principal due.

The City maintained its A rating from Standard & Poor’s Corporation and A1 rating from Moody’s for general obligation debt. The Moody’s rating for the Redevelopment Agency is A1 (uninsured).

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 \$1,103 million and at June 30, 2006, 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

Business-Type Activities Long-Term Debt
As of June 30, 2006 and 2005
(in millions)

	Balance June 30, 2006	Balance June 30, 2005	Increase (Decrease)
California Airport Loan	\$ 1,835	\$ 1,978	\$ (143)
2003 Certificates of Participation	6,130	6,295	(165)
Unamortized Bonds Issuance Premium for 2003 Certificates of Participation	74 -	77 -	(3) -
2000 Wastewater Revenue Bonds	7,055	7,395	(340)
Unamortized Bonds Issuance Discount for 2000 Wastewater Revenue Bonds	(61)	(66)	5
BNP Paribas Revolving Line of Credit	10,250	-	10,250
Zion 1st National Bank Revolving Line of Credit	10,247	-	10,247
2001B Water Revenue Bonds	8,990	9,220	(230)
Unamortized Bonds Issuance Discount for 2001B Water Revenue Bonds	(15) -	(16) -	1 -
California Dept of Boating & Waterways	4,883	4,674	209
Total	<u>\$ 49,388</u>	<u>\$ 29,557</u>	<u>\$ 19,831</u>

Economic Factors and Next Year's Budget

The economy at both the national and State level continue to grow at a sluggish rate. The local economy is further impacted by the slow rebound in the Petaluma high tech industry. 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 sales and hotel taxes have decreased, the property and property transfer taxes increased, mitigating the impact of the economic slowdown.

We have adopted a balanced budget for FY 2006-07, 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, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 46,181,485	\$ 10,525,280	\$ 56,706,765
Restricted cash and investments	151,121	1,225,327	1,376,448
Receivables:			
Accounts receivable, net	1,248,708	2,795,925	4,044,633
Interest receivable	357,841	-	357,841
Intergovernmental	3,255,140	94,180	3,349,320
Short-term internal balances	516,125	(516,125)	-
Internal services balances	(532,168)	532,168	-
Inventories	22,332	289,818	312,150
Deposits and prepaid items	138,502	50,661	189,163
Total current assets	51,339,086	14,997,234	66,336,320
Noncurrent assets:			
Long-term internal balances	1,274,686	(1,274,686)	-
Non-current assets	598,120	10,393	608,513
Non-current receivables	3,198,646	-	3,198,646
Notes receivable	26,436,402	-	26,436,402
Land held for resale	402,053	-	402,053
Deferred charges	683,130	841,278	1,524,408
Capital assets:			
Non-depreciable	75,976,741	59,363,874	135,340,615
Depreciable, net	72,712,772	72,886,544	145,599,316
Total capital assets	148,689,513	132,250,418	280,939,931
Total noncurrent assets	181,282,550	131,827,403	313,109,953
Total assets	232,621,636	146,824,637	379,446,273
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	3,606,506	8,801,845	12,408,351
Wages payable	894,311	135,091	1,029,402
Interest payable	366,141	615,616	981,757
Unearned revenue	712,292	7,319	719,611
Refundable deposits	303,343	224,319	527,662
Claims payable - due within one year	1,182,257	-	1,182,257
Compensated absences - due within one year	394,140	62,573	456,713
Long-term debt - due within one year	1,094,448	1,127,341	2,221,789
Total current liabilities	8,553,438	10,974,104	19,527,542
Noncurrent liabilities:			
Noncurrent deposits	-	25,010	25,010
Claims payable - due in more than one year	4,057,152	-	4,057,152
Compensated absences - due in more than one year	2,785,391	419,279	3,204,670
Long-term debt - due in more than one year	44,031,368	48,260,770	92,292,138
Total noncurrent liabilities	50,873,911	48,705,059	99,578,970
Total liabilities	59,427,349	59,679,163	119,106,512
NET ASSETS			
Invested in capital assets, net of related debt	103,563,697	82,862,307	186,426,004
Restricted for:			
Special projects	33,162,999	-	33,162,999
Debt service	686,807	1,225,327	1,912,134
Permanent fund: Non-expandable trust	16,000	-	16,000
Capital projects	12,635,285	-	12,635,285
Total restricted	46,501,091	1,225,327	47,726,418
Unrestricted	23,129,499	3,057,840	26,187,339
Total net assets	\$ 173,194,287	\$ 87,145,474	\$ 260,339,761

See accompanying Notes to Basic Financial Statements.

City of Petaluma
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

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	\$ 4,531,428	\$ (3,764,339)	\$ 2,009,426	\$ 885	\$ -
Community development	13,936,356	590,093	3,547,011	1,049,349	1,792,920
Police	14,699,977	1,158	823,226	820,644	29,418
Fire	7,591,287	5,220	548,681	-	24,440
Parks and recreation	4,536,718	433,295	1,481,006	5,200	650,620
Public works	7,302,992	121,394	259,982	1,516,760	1,319,204
Interest on long-term debt	2,143,505	(190,342)	-	-	-
Total governmental activities	54,742,263	(2,803,521)	8,669,332	3,392,838	3,816,602
Business-type activities:					
Airport	1,191,259	67,605	1,272,124	-	797,813
Ambulance	1,994,992	516,731	1,982,093	-	-
Marina	862,185	78,977	205,910	-	-
Public transportation	1,506,871	130,856	170,296	1,183,859	67,191
Waste water utility	9,632,917	1,041,357	13,621,443	-	125,055
Water utility	9,080,205	967,995	10,424,392	-	-
Total business-type activities	24,268,429	2,803,521	27,676,258	1,183,859	990,059
Total primary government	\$ 79,010,692	\$ -	\$ 36,345,590	\$ 4,576,697	\$ 4,806,661

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
\$ 2,010,311	\$ 1,243,222	\$ -	\$ 1,243,222
6,389,280	(8,137,169)	-	(8,137,169)
1,673,288	(13,027,847)	-	(13,027,847)
573,121	(7,023,386)	-	(7,023,386)
2,136,826	(2,833,187)	-	(2,833,187)
3,095,946	(4,328,440)	-	(4,328,440)
-	(1,953,163)	-	(1,953,163)
<u>15,878,772</u>	<u>(36,059,970)</u>	<u>-</u>	<u>(36,059,970)</u>
2,069,937	-	811,073	811,073
1,982,093	-	(529,630)	(529,630)
205,910	-	(735,252)	(735,252)
1,421,346	-	(216,381)	(216,381)
13,746,498	-	3,072,224	3,072,224
10,424,392	-	376,192	376,192
<u>29,850,176</u>	<u>-</u>	<u>2,778,226</u>	<u>2,778,226</u>
<u>\$ 45,728,948</u>	<u>(36,059,970)</u>	<u>2,778,226</u>	<u>(33,281,744)</u>
	6,030,427	-	6,030,427
	14,180,658	-	14,180,658
	10,726,182	-	10,726,182
	2,418,832	-	2,418,832
	5,999,846	-	5,999,846
	5,962,328	-	5,962,328
	<u>45,318,273</u>	<u>-</u>	<u>45,318,273</u>
	2,555,420	439,614	2,995,034
	683,389	-	683,389
	1,680,549	(1,680,549)	-
	<u>50,237,631</u>	<u>(1,240,935)</u>	<u>48,996,696</u>
	14,177,661	1,537,291	15,714,952
	159,016,626	85,608,183	244,624,809
	<u>\$ 173,194,287</u>	<u>\$ 87,145,474</u>	<u>\$ 260,339,761</u>



FUND FINANCIAL STATEMENTS



Governmental Fund Financial Statements

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

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

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

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

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

City of Petaluma
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			
	General Fund	Home/Begin Special Revenue	Redevelopment Special Revenue	Impact Fees Special Revenue
ASSETS				
Cash and investments	\$ 6,318,285	\$ 589,655	\$ 3,324,566	\$ 8,335,566
Restricted cash and investments	-	-	-	-
Receivables:				
Accounts receivable, net	484,613	-	461,707	5,424
Interest receivable	357,841	-	-	-
Intergovernmental receivable	2,295,044	-	110,680	3,526
Due from other funds	2,241,444	-	-	41,000
Inventories	12,934	-	-	-
Deposits and prepaid items	61,054	-	-	-
Advances to other funds	-	-	-	-
Non-current receivables	24,814	918,101	1,411,530	570,560
Notes receivable	49,375	6,248,290	12,238,980	5,102,821
Land held for resale	-	-	-	-
Total assets	11,845,404	7,756,046	17,547,463	14,058,897
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	1,506,964	-	259,727	154,408
Wages payable	804,851	-	5,751	-
Deferred revenue	712,426	7,172,511	1,899,042	397,421
Refundable deposits	228,343	-	-	-
Due to other funds	22,500	-	-	107,800
Total liabilities	3,275,084	7,172,511	2,164,520	659,629
Fund Balances:				
Reserved for:				
Encumbrances	632,000	-	1,009,000	-
Notes receivable	49,375	6,248,290	12,238,980	5,102,821
Land held for resale	-	-	-	-
Long-term advances and due from other funds	2,241,444	-	-	41,000
Inventories	12,934	-	-	-
Contingencies	5,150,000	-	-	-
Deposits and prepaids	61,054	-	-	-
Total reserved	8,146,807	6,248,290	13,247,890	5,143,821
Unreserved, designated for:				
General fund	202,665	-	-	-
Special revenue funds	-	214,565	-	3,980,600
Unreserved, reported in:				
General fund	220,848	-	-	-
Special revenue funds	-	(5,879,320)	2,135,053	4,274,847
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
Total unreserved, undesignated	220,848	(5,879,320)	2,135,053	4,274,847
Total fund balances	8,570,320	583,535	15,382,943	13,399,268
Total liabilities and fund balances	\$ 11,845,404	\$ 7,756,046	\$ 17,547,463	\$ 14,058,897

See accompanying Notes to Basic Financial Statements.

City Capital Project	Major Funds		Non-Major Governmental Funds	Total Governmental Funds
	Redevelopment CBD Capital Project	Redevelopment PCD Capital Project		
\$ 11,905,232	\$ 1,434	\$ 1,396	\$ 4,570,231	\$ 35,046,365
-	-	-	151,121	151,121
7,480	-	3,632	205,811	1,168,667
-	-	-	-	357,841
30,301	96,016	218,294	501,279	3,255,140
-	-	30,341,999	-	32,624,443
-	-	-	-	12,934
-	-	-	-	61,054
-	-	1,274,686	-	1,274,686
41,610	-	172,550	59,481	3,198,646
-	60,956	1,871,780	864,200	26,436,402
-	-	402,053	-	402,053
<u>11,984,623</u>	<u>158,406</u>	<u>34,286,390</u>	<u>6,352,123</u>	<u>103,989,352</u>
121,820	580,137	487,854	322,795	3,433,705
6,274	17,629	3,295	18,359	856,159
30,301	-	463,029	1,172,451	11,847,181
-	-	75,000	-	303,343
180,943	31,310,700	232,000	271,700	32,125,643
<u>339,338</u>	<u>31,908,466</u>	<u>1,261,178</u>	<u>1,785,305</u>	<u>48,566,031</u>
-	-	621,200	710,000	2,972,200
-	60,956	1,871,780	864,200	26,436,312
-	-	402,053	-	402,053
-	-	31,097,999	-	33,380,443
-	-	-	-	12,934
-	-	-	-	5,150,000
-	-	-	686,807	747,861
<u>-</u>	<u>60,956</u>	<u>33,993,032</u>	<u>2,261,007</u>	<u>69,101,803</u>
-	-	-	-	202,665
-	-	-	315,348	4,510,513
-	-	-	-	220,848
-	-	-	1,964,868	2,495,448
11,645,285	(31,811,016)	(967,820)	-	(21,133,551)
-	-	-	25,595	25,595
<u>11,645,285</u>	<u>(31,811,016)</u>	<u>(967,820)</u>	<u>1,990,463</u>	<u>(18,391,660)</u>
<u>11,645,285</u>	<u>(31,750,060)</u>	<u>33,025,212</u>	<u>4,566,818</u>	<u>55,423,321</u>
<u>\$ 11,984,623</u>	<u>\$ 158,406</u>	<u>\$ 34,286,390</u>	<u>\$ 6,352,123</u>	<u>\$ 103,989,352</u>



City of Petaluma
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balances - Total Governmental Funds \$ 55,423,321

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	75,976,741	
Depreciable, net	70,347,463	
Total capital assets		146,324,204

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. 11,134,889

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. 8,206,349

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. 683,130

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. (366,141)

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	(382,053)	
Compensated absences - due in more than one year	(2,703,596)	
Long-term liabilities - due within one year	(1,094,448)	
Long-term liabilities - due in more than one year	(44,031,368)	
Total long-term liabilities		(48,211,465)

Net Assets of Governmental Activities \$ 173,194,287

City of Petaluma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds			
	General Fund	Home/Begin Special Revenue	Redevelopment Special Revenue	Impact Fees Special Revenue
REVENUES:				
Taxes	\$ 21,526,372	\$ -	\$ 2,741,130	\$ -
Licenses, permits and fees	3,108,562	-	-	3,881,090
Fines, forfeitures and penalties	500,722	-	-	-
Use of money and property	1,256,908	45,837	31,549	691,594
Intergovernmental	4,679,068	6,985	104,995	64,833
Charges for current services	6,961,780	-	10,923	-
Other	1,914,327	-	324,132	11
Total revenues	39,947,739	52,822	3,212,729	4,637,528
EXPENDITURES:				
Current:				
General government	4,534,477	-	-	-
Community development	2,534,720	1,045	886,139	1,557,573
Police	14,863,668	-	-	98
Fire	7,822,325	-	-	86
Parks and recreation	4,497,685	-	-	5,113
Public works	5,210,438	-	-	10,164
Capital outlay	1,695,248	-	-	387,162
Debt service:				
Principal	-	-	-	-
Interest	1,916	-	-	-
Cost of issuance	-	-	-	-
Total expenditures	41,160,477	1,045	886,139	1,960,196
REVENUES OVER (UNDER) EXPENDITURES	(1,212,738)	51,777	2,326,590	2,677,332
OTHER FINANCING SOURCES (USES):				
Debt issuance	-	-	-	-
Premium paid	-	-	-	-
Payment to escrow agent	-	-	-	-
Proceeds from sale of asset	60,908	-	-	-
Transfers in	1,378,000	-	-	699,000
Transfers out	(319,500)	-	(442,829)	(2,123,914)
Total other financing sources (uses)	1,119,408	-	(442,829)	(1,424,914)
Net change in fund balances	(93,330)	51,777	1,883,761	1,252,418
FUND BALANCES:				
Beginning of year	8,663,650	531,758	13,499,182	12,146,850
End of year	\$ 8,570,320	\$ 583,535	\$ 15,382,943	\$ 13,399,268

See accompanying Notes to Basic Financial Statements.

Major Funds				
City	Redevelopment	Redevelopment	Non-Major	Total
Capital Project	CBD	PCD	Governmental	Governmental
Capital Project	Capital Project	Capital Project	Funds	Funds
\$ -	\$ 1,018,606	\$ 10,420,921	\$ 1,666,889	\$ 37,373,918
-	787	-	14,212	7,004,651
-	-	-	139,807	640,529
4,001	44,086	373,444	262,088	2,709,507
1,828	-	-	3,579,712	8,437,421
-	-	-	288,936	7,261,639
-	720	5,988	1,304,614	3,549,792
5,829	1,064,199	10,800,353	7,256,258	66,977,457
-	-	-	-	4,534,477
-	540,665	5,865,822	1,868,437	13,254,401
-	-	-	285,154	15,148,920
-	-	-	3,215	7,825,626
-	-	-	306,477	4,809,275
-	-	-	986,920	6,207,522
3,569,042	9,139,824	2,432,804	56,810	17,280,890
-	-	-	672,000	672,000
11,041	87,804	17,077	1,752,999	1,870,837
-	-	-	559,891	559,891
3,580,083	9,768,293	8,315,703	6,491,903	72,163,839
(3,574,254)	(8,704,094)	2,484,650	764,355	(5,186,382)
-	-	-	18,355,000	18,355,000
-	-	-	161,953	161,953
-	-	-	(17,948,420)	(17,948,420)
-	-	-	-	60,908
9,149,519	1,980,733	1,231,697	4,992,332	19,431,281
-	(140,500)	(4,628,000)	(10,477,607)	(18,132,350)
9,149,519	1,840,233	(3,396,303)	(4,916,742)	1,928,372
5,575,265	(6,863,861)	(911,653)	(4,152,387)	(3,258,010)
6,070,020	(24,886,199)	33,936,865	8,719,205	58,681,331
\$ 11,645,285	\$ (31,750,060)	\$ 33,025,212	\$ 4,566,818	\$ 55,423,321

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (3,258,010)

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 16,260,483

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. (3,105,779)

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 (60,908)

Loss on disposal of capital assets (11,099)

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 1,077,622

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. 2,567,213

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. 21,881

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 559,891

Current year amortization of bond issuance costs (104,207)

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 (45,552)

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. 172,659

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 (18,355,000)

Financial Statements, these costs are capitalized and reported as part of long-term debt and amortized over the life of the debt. (161,953)

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 17,948,420

Long-term debt repayments 672,000

Change in Net Assets of Governmental Activities \$ 14,177,661

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.

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

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

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

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

Internal Service Funds - These funds are used to 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, 2006

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
ASSETS				
Current assets:				
Cash and investments	\$ 258,341	\$ 519	\$ 338	\$ 359,295
Restricted cash and investment	490,685	-	-	-
Receivables:				
Accounts receivable, net	87,136	315,332	17,247	-
Intergovernmental receivable	2,768	-	-	84,093
Due from other funds	-	-	-	-
Inventories	31,079	-	621	23,698
Deposits and prepaids	-	-	7,573	10,080
Total current assets	870,009	315,851	25,779	477,166
Non-current assets:				
Non-current assets	10,393	-	-	-
Deferred Debt Charges	413,291	-	-	-
Capital assets:	-	-	-	-
Nondepreciable	10,375,320	-	-	965,052
Depreciable	9,685,335	510,134	4,823,560	1,644,414
Less accumulated depreciation	(7,431,495)	(340,097)	(2,171,393)	(680,165)
Total capital assets	12,629,160	170,037	2,652,167	1,929,301
Total non-current assets	13,052,844	170,037	2,652,167	1,929,301
Total assets	13,922,853	485,888	2,677,946	2,406,467
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	124,325	27,465	1,395	227,901
Wages payable	2,976	16,808	326	5,521
Interest payable	133,283	-	199,136	-
Due to other funds	-	407,400	113,900	-
Refundable deposits	131,806	-	15,250	-
Deferred Revenue	-	-	-	-
Claims payable - due within one year	-	-	-	-
Compensated absences - due within one year	819	4,885	-	-
Long-term debt - due within one year	311,326	-	231,337	-
Total current liabilities	704,535	456,558	561,344	233,422
Non-current liabilities:				
Non-current deposits	10,393	-	14,617	-
Claims payable- due in more than one year	-	-	-	-
Compensated absences - due in more than one year	3,783	77,813	-	35,123
Advances from other funds - due in more than one year	-	-	1,274,686	-
Long-term debt - due in more than one year	7,727,912	-	4,651,882	-
Total non-current liabilities	7,742,088	77,813	5,941,185	35,123
Total liabilities	8,446,623	534,371	6,502,529	268,545
NET ASSETS				
Invested in capital assets, net of related debt	4,589,922	170,037	(2,231,052)	1,929,301
Restricted for debt service	490,685	-	-	-
Unrestricted	395,623	(218,520)	(1,593,531)	208,621
Total net assets	\$ 5,476,230	\$ (48,483)	\$ (3,824,583)	\$ 2,137,922

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

Net assets of business-type activities

See accompanying Notes to Basic Financial Statements.

Major Funds			Governmental
Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ 7,346,728	\$ 2,062,284	\$ 10,027,505	\$ 11,632,895
253	734,389	1,225,327	-
1,608,364	767,846	2,795,925	80,041
7,319	-	94,180	-
-	-	-	22,500
-	234,420	289,818	9,398
4,628	5,773	28,054	100,055
<u>8,967,292</u>	<u>3,804,712</u>	<u>14,460,809</u>	<u>11,844,889</u>
-	-	10,393	598,120
197,304	230,683	841,278	-
46,371,338	1,652,164	59,363,874	-
59,396,962	56,572,365	132,632,770	4,037,992
(25,517,658)	(24,357,235)	(60,498,043)	(920,866)
<u>80,250,642</u>	<u>33,867,294</u>	<u>131,498,601</u>	<u>3,117,126</u>
<u>80,447,946</u>	<u>34,097,977</u>	<u>132,350,272</u>	<u>3,715,246</u>
<u>89,415,238</u>	<u>37,902,689</u>	<u>146,811,081</u>	<u>15,560,135</u>
7,768,892	642,071	8,792,049	182,597
46,737	62,723	135,091	38,152
213,051	70,146	615,616	-
-	-	521,300	-
-	77,263	224,319	-
7,319	-	7,319	-
-	-	-	1,182,257
22,895	33,974	62,573	12,087
350,552	234,126	1,127,341	-
<u>8,409,446</u>	<u>1,120,303</u>	<u>11,485,608</u>	<u>1,415,093</u>
-	-	25,010	-
-	-	-	4,057,152
94,833	207,727	419,279	81,795
-	-	1,274,686	-
27,139,967	8,741,009	48,260,770	-
<u>27,234,800</u>	<u>8,948,736</u>	<u>49,979,745</u>	<u>4,138,947</u>
<u>35,644,246</u>	<u>10,069,039</u>	<u>61,465,353</u>	<u>5,554,040</u>
52,760,123	24,892,159	82,110,490	3,117,126
253	734,389	1,225,327	-
1,010,616	2,207,102	2,009,911	6,888,969
<u>\$ 53,770,992</u>	<u>\$ 27,833,650</u>	<u>85,345,728</u>	<u>\$ 10,006,095</u>
		532,168	
		1,267,578	
		<u>\$ 87,145,474</u>	

City of Petaluma
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2006

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
OPERATING REVENUES:				
Charges for sales	\$ 623,069	\$ 181	\$ 13,382	\$ -
Charges for services	594,138	1,981,912	192,528	170,296
Connection fees	-	-	-	-
Intergovernmental operating	54,917	-	-	1,183,859
Total operating revenues	1,272,124	1,982,093	205,910	1,354,155
OPERATING EXPENSES:				
Cost of services	619,479	1,576,387	418,677	1,244,672
Claims	-	-	-	-
General and administrative	92,999	882,450	145,963	279,447
Depreciation and amortization	330,579	45,355	131,935	112,202
Total operating expenses	1,043,057	2,504,192	696,575	1,636,321
Operating income (loss)	229,067	(522,099)	(490,665)	(282,166)
NONOPERATING REVENUES (EXPENSES):				
Investment earnings and rent	167,333	(4,833)	6,679	41,476
Interest expense	(215,807)	(7,531)	(244,587)	(1,406)
Gain or (loss) on disposal of assets	-	-	-	-
Total nonoperating revenues (expenses)	(48,474)	(12,364)	(237,908)	40,070
Capital contribution	797,813	-	-	67,191
Income (loss) before operating transfers	978,406	(534,463)	(728,573)	(174,905)
OPERATING TRANSFERS:				
Transfers in	4,869	-	43,000	201,800
Transfers out	-	-	-	-
Total transfers	4,869	-	43,000	201,800
Change in net assets	983,275	(534,463)	(685,573)	26,895
NET ASSETS:				
Beginning of year	4,492,955	485,980	(3,139,010)	2,111,027
End of year	\$ 5,476,230	\$ (48,483)	\$ (3,824,583)	\$ 2,137,922

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

Change in net assets of business-type activities

Major Funds			Governmental
Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ 357	\$ 9,277,022	\$ 9,914,011	\$ 17,782
12,208,044	84,051	15,230,969	7,408,195
1,413,042	1,063,319	2,476,361	-
-	-	1,238,776	-
13,621,443	10,424,392	28,860,117	7,425,977
4,968,070	7,055,739	15,883,024	1,748,079
-	-	-	957,635
4,427,224	1,797,984	7,626,067	2,014,127
1,393,049	1,236,675	3,249,795	402,672
10,788,343	10,090,398	26,758,886	5,122,513
2,833,100	333,994	2,101,231	2,303,464
65,766	152,233	428,654	156,074
(24,227)	(68,317)	(561,875)	-
4,516	-	4,516	(18,688)
46,055	83,916	(128,705)	137,386
125,055	-	990,059	-
3,004,210	417,910	2,962,585	2,440,850
-	-	249,669	530,000
(630,000)	(1,448,600)	(2,078,600)	-
(630,000)	(1,448,600)	(1,828,931)	530,000
2,374,210	(1,030,690)	1,133,654	2,970,850
51,396,782	28,864,340		7,035,245
\$ 53,770,992	\$ 27,833,650		\$ 10,006,095
		319,348	
		84,289	
		\$ 1,537,291	

City of Petaluma
Combining Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2006

	Major Funds			
	Airport Fund	Ambulance Fund	Marina Fund	Public Transportation Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,201,694	\$ 2,027,832	\$ 220,327	\$ 120,851
Cash payments to suppliers for goods and services	(811,572)	(1,562,226)	(436,846)	(1,097,281)
Cash payments to employees for services	(62,073)	(894,209)	(146,014)	(281,391)
Claims paid	-	-	-	-
Intergovernmental operating	54,917	-	-	1,183,859
Net cash provided (used) by operating activities	382,966	(428,603)	(362,533)	(73,962)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Due to other funds	-	407,400	113,900	-
Transfers in	4,869	-	43,000	201,800
Transfers out	-	-	-	-
Net cash provided (used) by noncapital financing activities	4,869	407,400	156,900	201,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash receipts from grants	804,166	-	-	34,723
Acquisition of capital assets	(5,158,059)	(15,019)	-	(31,096)
Proceeds of long term debt	-	-	209,097	-
Payments of long term debt	(310,253)	-	-	-
Interest paid	(351,412)	(7,531)	(254,637)	(1,406)
Net cash provided (used) by capital and related financing activities	(5,015,558)	(22,550)	(45,540)	2,221
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received from investments and rent	167,333	(4,833)	6,679	41,476
Net cash provided (used) by investing activities	167,333	(4,833)	6,679	41,476
Net increase (decrease) in cash and cash equivalents	(4,460,390)	(48,586)	(244,494)	171,535
CASH AND CASH EQUIVALENTS:				
Beginning of year	5,209,416	49,105	244,832	187,760
End of year	\$ 749,026	\$ 519	\$ 338	\$ 359,295
Operating income (loss)	\$ 229,067	\$ (522,099)	\$ (490,665)	\$ (282,166)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	330,579	45,355	131,935	112,202
Changes in:				
Accounts receivable	(15,513)	45,547	(2,856)	-
Inventories	6,850	-	1,490	152
Deposits and prepaids	2,647	192	81	555
Noncurrent assets	(10,393)	-	-	-
Accounts payable and accrued liabilities	(201,590)	14,161	(19,659)	147,239
Wage payable	1,424	(8,184)	(51)	650
Refundable deposits	27,651	-	2,575	-
Deferred revenue	-	-	-	(50,000)
Noncurrent deposits	10,393	-	14,617	-
Claims payable	-	-	-	-
Accrued compensated absences	1,851	(3,575)	-	(2,594)
Total adjustments	153,899	93,496	128,132	208,204
Net cash provided (used) by operating activities	\$ 382,966	\$ (428,603)	\$ (362,533)	\$ (73,962)

See accompanying Notes to Basic Financial Statements.

Major Funds			Governmental
Waste Water Utility Fund	Water Utility Fund	Total	Activities Internal Service Funds
\$ 13,981,019	\$ 10,741,990	\$ 28,293,713	\$ 7,489,745
1,743,922	(7,067,339)	(9,231,342)	(2,558,742)
(4,426,083)	(1,776,138)	(7,585,908)	(2,049,841)
-	-	-	(13,591)
-	-	1,238,776	-
<u>11,298,858</u>	<u>1,898,513</u>	<u>12,715,239</u>	<u>2,867,571</u>
-	-	521,300	90,000
-	-	249,669	530,000
<u>(630,000)</u>	<u>(1,448,600)</u>	<u>(2,078,600)</u>	<u>-</u>
<u>(630,000)</u>	<u>(1,448,600)</u>	<u>(1,307,631)</u>	<u>620,000</u>
217,736	-	1,056,625	-
(29,012,439)	(1,651,770)	(35,868,383)	(1,281,298)
20,497,041	-	20,706,138	-
(335,552)	(229,913)	(875,718)	-
126,314	(69,755)	(558,427)	-
<u>(8,506,900)</u>	<u>(1,951,438)</u>	<u>(15,539,765)</u>	<u>(1,281,298)</u>
65,766	152,233	428,654	156,074
<u>65,766</u>	<u>152,233</u>	<u>428,654</u>	<u>156,074</u>
2,227,724	(1,349,292)	(3,703,503)	2,362,347
<u>5,119,257</u>	<u>4,145,965</u>	<u>14,956,335</u>	<u>9,270,548</u>
<u>\$ 7,346,981</u>	<u>\$ 2,796,673</u>	<u>\$ 11,252,832</u>	<u>\$ 11,632,895</u>
\$ 2,833,100	\$ 333,994	\$ 2,101,231	\$ 2,303,464
1,393,049	1,236,675	3,249,795	402,672
209,736	309,885	546,799	(80,041)
-	(22,992)	(14,500)	(1,593)
142,521	(5,650)	140,346	741,929
-	-	(10,393)	(598,120)
6,711,992	11,392	6,663,535	148,565
7,238	12,631	13,708	2,597
-	13,363	43,589	-
7,319	-	(42,681)	-
-	-	25,010	-
-	-	-	(13,591)
<u>(6,097)</u>	<u>9,215</u>	<u>(1,200)</u>	<u>(38,311)</u>
<u>8,465,758</u>	<u>1,564,519</u>	<u>10,614,008</u>	<u>564,107</u>
<u>\$ 11,298,858</u>	<u>\$ 1,898,513</u>	<u>\$ 12,715,239</u>	<u>\$ 2,867,571</u>



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
For the year ended June 30, 2006

	Private Purpose Trusts Funds	Agency Funds
ASSETS		
Cash and investments	\$ 170,397	\$ 4,374,202
Intergovernmental receivable	-	57,225
Total assets	170,397	\$ 4,431,427
LIABILITIES		
Accrued liabilities	72	\$ 4,431,427
Total liabilities	72	\$ 4,431,427
NET ASSETS		
Held in trust	\$ 170,325	

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, 2006

	Private- Purpose Trusts
ADDITIONS:	
Investment income	\$ 4,496
Total additions	<u>4,496</u>
DEDUCTIONS:	
Program costs	
Administrative costs	2,445
Total deductions	<u>2,445</u>
CHANGES IN NET ASSETS	2,051
NET ASSETS:	
Beginning of year	168,274
End of year	<u>\$ 170,325</u>

See accompanying Notes to Basic Financial Statements.



City of Petaluma
Notes to Basic Financial Statements
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Petaluma Community Development Commission

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

City of Petaluma Public Financing Corporation

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

Petaluma Public Financing Authority

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

B. Basis of Accounting and Measurement Focus

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

Government - Wide Financial Statements

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

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

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

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

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements, Continued

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

Governmental Fund Financial Statements

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

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for that revenues subject to accrual (generally 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.

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

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements

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

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets 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.

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.

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments

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

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

In accordance with GASB Statement No. 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 of market. All inventories use the first-in, first-out method and the items are recorded as expenditures/expenses when consumed. The General Fund inventory, which consists primarily of supplies and parts, is offset by a reserved fund balance to indicate that this asset is not available for appropriation.

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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, 2006, 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	270,000
Marina Fund	2,000
Waste Water Utility Fund	20,000
Water Utility Fund	16,000

G. Interfund Transactions

Advances to and advances from other funds/City/Redevelopment Agency represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation in the applicable governmental funds to indicate that they are not expendable available financial resources.

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

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

H. Capital Assets and Depreciation

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

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

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, 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, 2006

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 \$153,762 Airport Fund, \$878,231 Waste Water Fund, \$382,369 in Water Fund was capitalized during the year ended June 30, 2006.

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, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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, 2006

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

Program Revenue

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

Operating and Non-Operating Revenues of Proprietary Funds

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. New Pronouncements

In 2006, the City adopted a new accounting standard in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* - The Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.
- Statement No. 44, *Economic Condition Reporting: The Statistical Section (Amendment of NCGA Statement 1)* - The Statement establishes the objectives of the statistical section and the five categories of information it contains; financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* - The Statement addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specifies accounting and financial reporting requirements for restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits* - The Statement provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

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 \$33,215 at June 30, 2006. Bank balances before reconciling items were \$969,900. 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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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, 2006, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

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

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

As of June 30, 2006, the City had \$6,458,180 invested in LAIF, which had invested 2.567% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The City valued its investments in LAIF as of June 30, 2006, 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 0.998185821.

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, 2006, the City had \$892,818 invested in the bond.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

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 \$1,376,448 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, 2006:

	Government-Wide Statement of Net Assets			
	Governmental	Business-Type	Fiduciary	Total
	Activities	Activities	Funds	
Cash and investments	\$ 46,431,486	\$ 10,275,280	\$ 4,544,599	\$ 61,251,365
Restricted cash and investments	\$ 151,121	\$ 1,225,327	\$ -	\$ 1,376,448
Total cash and investments				\$ 62,627,813

Cash and investments held in the City Treasury grouped by maturity date at June 30, 2006, 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	\$ 33,215	\$ 33,215	\$ -	\$ -	\$ -	\$ -	\$ -
Securities of U.S. Government Agencies							
FNMA	7,029,660	1,510,644	2,008,547	3,510,469	-	-	-
FFCB	1,463,438	-	-	1,463,438	-	-	-
FHLB	9,378,247	5,105,359	4,272,888	-	-	-	-
FHLMC	6,262,295	-	4,265,451	1,996,844	-	-	-
Corporate Note	481,934	-	481,934	-	-	-	-
US Treasury Notes	6,912,881	1,031,348	3,162,550	2,718,983	-	-	-
Total Securities of U.S.							
Government Agencies	31,528,455	7,647,351	14,191,370	9,689,734	-	-	-
Local Agency Investments Funds	6,458,180	-	-	-	-	-	-
California Asset Management Program	21,788,488	-	-	-	-	-	-
Investments in Authority Refunding							
Revenue Bond	550,209	550,209	-	-	-	-	-
Investments in Assessment Dist. Bond	892,818	87,579	87,579	87,579	87,579	87,579	454,924
Total	\$ 61,251,365	\$ 8,318,354	\$ 14,278,949	\$ 9,777,313	\$ 87,579	\$ 87,579	\$ 454,924

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

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:

<u>Maturity</u>	<u>% of Portfolio</u>
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.

At June 30, 2006, the City had the following deposits and investments:

	<u>Credit Quality Ratings</u>	
	<u>Moody's</u>	<u>S&P</u>
Investments:		
Securities of U.S. Government Agencies:		
FNMA	Aaa	AAA
FFCB	Aaa	AAA
FHLB	Aaa	AAA
FHLMC	Aaa	AAA
Corporate Notes	Aaa	AAA
US Treasury Notes	Aaa	AAA
Local Agency Investment Funds		Not Rated
California Asset Management Program		Not Rated
Investments in Authority Refunding Revenue Bond		Not Rated
Investments in Assessment Dist. 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 \$434,875.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

3. NOTES RECEIVABLE

As of June 30, 2006, the City had the following notes receivables:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Housing Loans to				
Not-For-Profit Agencies	\$ 19,357,243	\$ 583,063	\$ (29,383)	\$ 19,910,923
First-Time Home Buyers Loans	4,482,824	935,000	(764,125)	4,653,699
Eligible Construction Cost Loan and Tax increment Loan	1,472,838	398,942	-	1,871,780
Total	\$ 25,312,905	\$ 1,917,005	\$ (793,508)	\$ 26,436,402

An adjustment was made to record interest accruals that were not previously accounted for.

As of June 30, 2006, the City had the following loans receivable:

Description	Balance at June 30, 2006
Housing Loans to Nonprofit Agencies:	
Buckelew Project	\$ 444,151
Capri Creek Assoc LLC	97,500
Casa Grande	1,240,918
Caulfield Land St. Housing Assoc	182,999
Downtown River Assoc LP	7,062,836
Eden Housing Inc - Washington Creek	320,000
Old Elm Partners	2,504,336
575 Vallejo St. Assoc.	851,184
579 Vallejo St. Assoc.	990,000
Edith St. Apt. Inc	1,217,884
Lieb Sr. Apt. Inc.	1,593,886
Madrone Village Assoc	289,947
Parklane Apt. Corp	172,500
Roundwalk Village Partners	1,863,800
Salishan Apt. Inc	388,380
Wood Sorrel	629,646
Lind Storefront Program	60,956
Total Housing Loans to Nonprofit Agencies	<u>19,910,923</u>
First Time Home Buyers Loans	<u>4,653,699</u>
Eligible Construction Cost Loan and Tax Increment Loan:	
Sheraton Marina Hotel OPA	750,000
Sheraton Marina Hotel TOT OPA	1,121,780
Total Eligible Construction Cost Loan and Tax Increment Loan	<u>1,871,780</u>
Total Notes Receivables	<u>\$ 26,436,402</u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

3. NOTES RECEIVABLE, Continued

Housing Loans to Not-for-Agencies

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

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

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.

Eligible Construction Cost Loan and Tax Increment Loan

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

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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

4. UNEARNED REVENUE

A. Government-Wide Financial Statements

Unearned revenues in Government-Wide Financial Statements represent amounts which have been received but not earned. At June 30, 2006, unearned revenues in the Government-Wide Financial Statements were as follows:

	<u>Unearned Revenues</u>
Governmental Activities:	
Developer's fees	\$ 485,235
FEMA	227,057
Business-Type Activities:	
FEMA	7,319
Total	<u><u>\$ 719,611</u></u>

B. Fund Financial Statements

At June 30, 2006, the following unearned revenues were recorded in the fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

Governmental Funds:	
Interest receivable on:	
Notes receivable:	
575 Vallejo St Associate	\$ 330,178
Parklane Apartment Corp	1,636
579 Vallejo St Associate	245,888
Salishan Apartments, Inc.	93,212
Edith St Apartment	152,486
Old Elm Partner, LP.	213,080
Boulevard Apartment	14,687
Downtown River	308,597
Lieb Senior Apartment	51,767
Sheraton Marina Hotel (Owners Participation Agreement)	415,491
Sheraton Marina Hotel (TOT Owners Participation Agreement)	47,538
Total interest on Notes receivable	1,874,560
Housing loans	8,491,003
Developers fees	485,235
FEMA	227,057
Miscellaneous	769,326
Total Governmental Funds	<u>11,847,181</u>
Waste Water Utility Enterprise Fund	<u>7,319</u>
Total deferred revenue	<u><u>\$ 11,854,500</u></u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

5. INTERFUND BALANCES AND TRANSACTIONS

A. Due to/from Other Funds

Due to/from other funds for the year ended June 30, 2006 were as follows:

		Due from other funds				
		Major Funds			Internal	
		General	Impact Fees	Redevelopment	Service	
		Fund	Special Revenue	PCD Capital	Fund	Total
			Funds	Projects Fund		
Due to other funds	Governmental funds:					
	Major funds:					
	General Fund	\$ -	\$ -	\$ -	\$ 22,500	\$ 22,500
	Impact Fees	107,800	-	-	-	107,800
	Capital Project Fund:					
	City capital projects	180,943	-	-	-	180,943
	Redevelopment - CBD	1,200,701	-	30,109,999	-	31,310,700
	Redevelopment - PCD	-	-	232,000	-	232,000
	Non-Major funds	230,700	41,000	-	-	271,700
	Enterprise Fund					
Ambulance	407,400	-	-	-	407,400	
Marina	113,900	-	-	-	113,900	
		<u>\$ 2,241,444</u>	<u>\$ 41,000</u>	<u>\$ 30,341,999</u>	<u>\$ 22,500</u>	<u>\$ 32,646,943</u>

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

The Due to/from the Redevelopment CBD Capital Project Fund was to cover cash flow deficit related to funding of redevelopment projects in the CBD project Area.

The Due to Internal Service Fund/ due from General Fund is to cover cost of traffic enforcement vehicle.

B. Advances to/from Other Funds

Advances to/from other funds for the year ended June 30, 2006 were as follows:

		Advances to other funds
		Redevelopment
		PCD
		Capital Project
Advances from other funds	Enterprise funds:	
	Marina fund	\$ 1,274,686
	Total	<u>\$ 1,274,686</u>

The advance to the Marina fund was for debt service payments.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

5. INTERFUND BALANCES AND TRANSACTIONS, Continued

C. Transfers In/Out

Transfers in/out for the year ended June 30, 2006 were as follows:

	Transfers In											
	Governmental Funds						Enterprise Funds					Total
	General Fund	Impact Fee Special Revenue	City Capital Project	Redevelopment CBD Capital Project	Redevelopment PCD Capital Project	Non-Major Governmental Funds	Airport Fund	Marina Fund	Public Transportation Fund	Internal Service Funds		
Governmental Funds:												
Major Funds:												
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 6,500	\$ 13,000	\$ -	\$ -	\$ -	\$ 300,000	\$ 319,500	
Redevelopment Special Revenue Fund	-	-	-	300,133	142,696	-	-	-	-	-	442,829	
Impact Fees Special Revenue Fund	194,000	-	1,756,914	130,000	-	-	-	43,000	-	-	2,123,914	
Redevelopment CBD Capital Project Fund	-	-	-	-	7,500	133,000	-	-	-	-	140,500	
Redevelopment PCD Capital Project Fund	-	-	305,800	197,000	-	4,125,200	-	-	-	-	4,628,000	
Non-Major Funds	1,184,000	699,000	7,036,805	-	600,001	721,132	4,869	-	201,800	30,000	10,477,607	
Proprietary Funds:												
Waster Water Fund	-	-	20,000	385,000	125,000	-	-	-	-	100,000	630,000	
Water Utility Fund	-	-	30,000	968,600	350,000	-	-	-	-	100,000	1,448,600	
Total	<u>\$ 1,378,000</u>	<u>\$ 699,000</u>	<u>\$ 9,149,519</u>	<u>\$ 1,980,733</u>	<u>\$ 1,231,697</u>	<u>\$ 4,992,332</u>	<u>\$ 4,869</u>	<u>\$ 43,000</u>	<u>\$ 201,800</u>	<u>\$ 530,000</u>	<u>\$ 20,210,950</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, 2006

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2006 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-Depreciable Assets:			
Land	\$ 34,611,019	\$ 10,731,231	\$ 45,342,250
Construction in progress	41,365,722	48,632,643	89,998,365
	<u>75,976,741</u>	<u>59,363,874</u>	<u>135,340,615</u>
Depreciable Assets:			
Buildings and improvements	19,357,508	22,102,689	41,460,197
Vehicles and Equipment	7,870,263	5,331,996	13,202,259
Infrastructure	98,971,909	106,148,118	205,120,027
	<u>126,199,680</u>	<u>133,582,803</u>	<u>259,782,483</u>
Less accumulated depreciation	(53,486,908)	(60,696,259)	(114,183,167)
Total depreciable assets, net	<u>72,712,772</u>	<u>72,886,544</u>	<u>145,599,316</u>
Total capital assets	<u><u>\$ 148,689,513</u></u>	<u><u>\$ 132,250,418</u></u>	<u><u>\$ 280,939,931</u></u>

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

	Balance July 1, 2005	Additions	Deletions	Reclassification	Balance June 30, 2006
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 33,445,433	\$ 1,165,586	\$ -	\$ -	\$ 34,611,019
Construction in process	39,578,299	13,687,857	(28,078)	(11,872,356)	41,365,722
Total capital assets, not being depreciated	<u>73,023,732</u>	<u>14,853,443</u>	<u>(28,078)</u>	<u>(11,872,356)</u>	<u>75,976,741</u>
Capital assets, being depreciated:					
Buildings and improvements	19,054,806	192,287	-	110,415	19,357,508
Vehicles and equipment	7,186,785	975,727	(292,249)	-	7,870,263
Infrastructure	87,063,109	1,086,844	(939,985)	11,761,941	98,971,909
Total capital assets, being depreciated	<u>113,304,700</u>	<u>2,254,858</u>	<u>(1,232,234)</u>	<u>11,872,356</u>	<u>126,199,680</u>
Accumulated depreciation:					
Buildings and improvements	(7,140,879)	(497,171)	-	-	(7,638,050)
Vehicles and equipment	(2,950,683)	(784,863)	229,632	-	(3,505,914)
Infrastructure	(41,132,790)	(2,150,139)	939,985	-	(42,342,944)
Total accumulated depreciation	<u>(51,224,352)</u>	<u>(3,432,173)</u>	<u>1,169,617</u>	<u>-</u>	<u>(53,486,908)</u>
Total capital assets, being depreciated, net	<u>62,080,348</u>	<u>(1,177,315)</u>	<u>(62,617)</u>	<u>11,872,356</u>	<u>72,712,772</u>
Total governmental activities	<u><u>\$ 135,104,080</u></u>	<u><u>\$ 13,676,128</u></u>	<u><u>\$ (90,695)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 148,689,513</u></u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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, 2005	Additions	Deletions	Reclassification	Balance June 30, 2006
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 10,603,885	\$ 127,346	\$ -	\$ -	\$ 10,731,231
Construction in process	21,742,763	35,551,429	-	(8,661,549)	48,632,643
Total capital assets, not being depreciated	<u>32,346,648</u>	<u>35,678,775</u>	-	<u>(8,661,549)</u>	<u>59,363,874</u>
Capital assets, being depreciated:					
Buildings and improvements	16,811,596	-	-	5,291,093	22,102,689
Vehicles and equipment	4,760,171	571,825	-	-	5,331,996
Infrastructure	102,777,662	-	-	3,370,456	106,148,118
Total capital assets, being depreciated	124,349,429	571,825	-	8,661,549	133,582,803
Less accumulated depreciation for:					
Buildings and improvements	(5,992,020)	(464,487)	-	-	(6,456,507)
Vehicles and equipment	(2,960,500)	(404,669)	-	-	(3,365,169)
Infrastructure	(48,417,666)	(2,456,917)	-	-	(50,874,583)
Total accumulated depreciation	<u>(57,370,186)</u>	<u>(3,326,073)</u>	-	-	<u>(60,696,259)</u>
Total capital assets, being depreciated, net	<u>66,979,243</u>	<u>(2,754,248)</u>	-	8,661,549	<u>72,886,544</u>
Total business-type activities	<u>\$ 99,325,891</u>	<u>\$ 32,924,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,250,418</u>

Depreciation expense was charged to various governmental functions as follows:

General government	\$ 267,958
Community development	589,865
Police	380,882
Fire	162,062
Parks and recreation	448,103
Public works	1,583,303
Total depreciation expense - governmental functions	<u>\$ 3,432,173</u>

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

Airport	\$ 330,579
Ambulance	45,355
Marina	131,935
Transit	112,202
Waste Water Utility	1,413,487
Water Utility	1,292,515
Total depreciation expense - business-type functions	<u>\$ 3,326,073</u>

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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 June 30, 2006	Classification	
	July 1, 2005	Additions	Deletions		Amounts Due Within One Year	Amounts Due in More than One Year
2000A Tax Allocation Bonds	\$ 17,265,000	\$ -	\$ (16,835,000)	\$ 430,000	\$ 135,000	\$ 295,000
2000B Tax Allocation Bonds	685,000	-	(100,000)	585,000	105,000	480,000
2001A Tax Allocation Bonds	2,975,000	-	(275,000)	2,700,000	290,000	2,410,000
2003A Tax Allocation Bonds	23,630,000	-	-	23,630,000	430,000	23,200,000
Unamortized Bonds Issuance Discount for 2003 A Tax Allocation Bonds	(13,269)	-	474	(12,795)	(474)	(12,321)
2005A Tax Allocation Bonds	-	18,355,000	(90,000)	18,265,000	100,000	18,165,000
Deferred amount on refunding for 2005 A Tax Allocation Bonds	-	(1,248,420)	49,937	(1,198,483)	(49,937)	(1,148,546)
Unamortized Bonds Issuance Premium for 2005 A Tax Allocation Bonds	-	161,953	(4,859)	157,094	4,859	152,235
Auto Plaza DDA - AD 19	642,000	-	(72,000)	570,000	80,000	490,000
Total	\$ 45,183,731	\$ 17,268,533	\$ (17,326,448)	\$ 45,125,816	\$ 1,094,448	\$ 44,031,368

2000A Tax Allocation Bonds

On June 15, 2000, the Petaluma Community Development Commission issued Tax Allocation Bonds, Series 2000A in the amount of \$18,000,000. The proceeds of the bonds were to finance the flood control project, and to fund new and continuing improvement projects in the Petaluma Community Development Project Area. The Bonds mature annually each May 1 from 2001 to 2030, in amounts ranging from \$115,000 to \$7,635,000 and bear interest at rates ranging from 5.00% to 5.75%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2009, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after May 1, 2008, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$ 430,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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
2007	\$ 135,000	\$ 21,500	\$ 156,500
2008	145,000	14,750	159,750
2009	150,000	7,500	157,500
Total	\$ 430,000	\$ 43,750	\$ 473,750

2000B Tax Allocation Bonds

On October 1, 2000, the Commission issued Tax Allocation Bonds, Series 2000B in the amount of \$965,000. The proceeds of the bonds were used to refund the 1984 Tax Allocation Bonds and to finance off-street parking and the construction of the City's downtown parking garages, located in the Central Business District Project Area. The Bonds mature annually each September 1 from 2002 to 2010, in amounts ranging from \$85,000 to \$130,000 and bear interest at rates ranging from 4.30% to 4.90%. Interest is payable semiannually on March 1 and September 1. The Bonds maturing on or after September 1, 2006, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after September 1, 2005, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$585,000 as of June 30, 2006.

The annual debt service requirements for the 2000B Tax Allocation Bonds outstanding at June 30, 2006, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 105,000	\$ 25,475	\$ 130,475
2008	110,000	20,475	130,475
2009	115,000	15,130	130,130
2010	125,000	9,370	134,370
2011	130,000	3,185	133,185
Total	\$ 585,000	\$ 73,635	\$ 658,635

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2001A Tax Allocation Bonds

On June 4, 2001, the Commission issued Refunding Tax Allocation Bonds, Series 2001A in the amount of \$4,025,000. The proceeds of the bonds were used to refund the 1992 Tax Allocation Bonds and to fund the development of the auto plaza located in the Petaluma Community Development Project Area. The Bonds mature annually each May 1 from 2002 to 2014, in amounts ranging from \$250,000 to \$390,000 and bear interest at rates ranging from 3.50% to 4.50%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2010, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2009, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$2,700,000 as of June 30, 2006.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2006, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 290,000	\$ 111,460	\$ 401,460
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
2012-2014	1,120,000	100,916	1,220,916
Total	\$ 2,700,000	\$ 542,126	\$ 3,242,126

2003A Tax Allocation Bonds

On October 28, 2003, the Commission issued Tax Allocation Bonds, Series 2003A in the amount of \$23,630,000. The proceeds of the bonds will be used to finance redevelopment projects within the Petaluma Community Development Project area. The Bonds mature annually each May 1 from 2007 to 2033, in amounts ranging from \$430,000 to \$8,215,000 and bear interest at rates ranging from 2.25% to 5.00%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2014, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2013, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$23,630,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2003A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2006 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 430,000	\$ 1,072,005	\$ 1,502,005
2008	430,000	1,062,330	1,492,330
2009	445,000	1,052,655	1,497,655
2010	460,000	1,040,418	1,500,418
2011	475,000	1,026,043	1,501,043
2012-2016	2,570,000	4,868,937	7,438,937
2017-2021	3,025,000	4,309,470	7,334,470
2022-2026	3,795,000	3,551,869	7,346,869
2027-2031	6,390,000	2,532,527	8,922,527
2032-2033	5,610,000	424,250	6,034,250
Total	\$ 23,630,000	\$ 20,940,504	\$ 44,570,504

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

2005A Tax Allocation Bonds

On September 21, 2005, the Commission issued Refunding Tax Allocation Bonds, Series 2005A Tax Allocation Bonds in the amount of \$18,355,000. The proceeds of the bonds will be used to refund the 2000A Tax Allocation Bonds and finance the issuance of the 2005A Refunding Tax Allocation Bonds. The Bonds mature annually each May 1 from 2006 to 2030, in amounts ranging from \$90,000 to \$1,420,000 and bear interest at rates ranging from 5.00% to 5.75%. Interest is payable semiannually on March 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 \$18,265,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2005A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2006 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 100,000	\$ 795,351	\$ 895,351
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
2012-2016	2,385,000	3,735,725	6,120,725
2017-2021	4,375,000	3,081,455	7,456,455
2022-2026	5,385,000	2,078,723	7,463,723
2027-2030	5,280,000	676,250	5,956,250
Total	\$ 18,265,000	\$ 13,513,358	\$ 31,778,358

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.

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.

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 \$570,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Auto Plaza DDA- AD 19, Continued

The annual debt service requirements on these bonds outstanding at June 30, 2006, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 80,000	\$ 40,456	\$ 120,456
2008	84,000	34,407	118,407
2009	92,000	27,782	119,782
2010	100,000	20,436	120,436
2011	214,000	16,895	230,895
Total	<u>\$ 570,000</u>	<u>\$ 139,976</u>	<u>\$ 709,976</u>

Defeased Debt

During fiscal year 2005-2006, the Commission issued Refunding Tax Allocation Bonds, Series 2005A, in the amount of \$18,355,000, and defeased part of outstanding principal, in the amount of \$16,700,000, of the 2000A Tax Allocation Refunding Bonds.

The refundings were undertaken to reduce total debt service payments over the next 25 years and to obtain an estimated net PV savings of over \$1,114,396 over the life of the bonds.

The balance of the defeased bonds outstanding as of June 30, 2006, was \$16,700,000.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt

				Classification		
	Balance	Additions	Deletions	Balance	Amounts	Amounts
	July 1, 2005			June 30, 2006	Due Within	Due in More
				One Year	than One Year	
2003 Certificate of Participation	\$ 6,295,000	\$ -	\$ (165,000)	\$ 6,130,000	\$ 170,000	\$ 5,960,000
Unamortized Bonds Issuance Premium for 2003 Certificates of Participation	76,962	-	(3,275)	73,687	3,275	70,412
2000 Waste Water Revenue Bonds	7,395,000	-	(340,000)	7,055,000	355,000	6,700,000
Unamortized Bonds Issuance Discount for 2000 Waste Water Revenue Bonds	(65,970)	-	4,448	(61,522)	(4,448)	(57,074)
BNP Paribas Line of Credit	-	10,250,000	-	10,250,000	-	10,250,000
Zion 1st National Bank Line of Credit	-	10,247,041	-	10,247,041	-	10,247,041
2001B Water Revenue Bonds	9,220,000	-	(230,000)	8,990,000	235,000	8,755,000
Unamortized Bonds Issuance Discount for 2001B Water Revenue Bonds	(15,739)	-	874	(14,865)	(874)	(13,991)
California Dept of Boatings and Waterways	4,674,121	209,098	-	4,883,219	231,337	4,651,882
California Dept of Transportation	1,977,529	-	(141,978)	1,835,551	138,051	1,697,500
Total	\$ 29,556,903	\$ 20,706,139	\$ (874,931)	\$ 49,388,111	\$ 1,127,341	\$ 48,260,770

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 \$6,130,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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, 2006, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 170,000	\$ 268,923	\$ 438,923
2008	170,000	264,673	434,673
2009	175,000	260,273	435,273
2010	180,000	255,388	435,388
2011	185,000	249,818	434,818
2012-2016	1,040,000	1,139,192	2,179,192
2017-2021	1,305,000	888,960	2,193,960
2022-2026	1,670,000	535,734	2,205,734
2027-2030	1,235,000	97,247	1,332,247
Total	\$ 6,130,000	\$ 3,960,208	\$ 10,090,208

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

On May 1, 2000, the City issued Waterwater Revenue Bonds, Series 2000 in the amount of \$8,895,000. The proceeds of the bonds were used to finance improvements to the Waste Water System. The Bonds mature annually each May 1 from 2001 to 2020, in amounts ranging from \$280,000 to \$690,000 and bear interest at rates ranging from 4.25% to 5.50%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2010, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity dates, on any date on or after May 1, 2009, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable solely from a pledge of and lien upon the net revenues received by the City from the ownership and operation of its Waste Water Utility Fund. The outstanding balance of the bonds was \$7,055,000 as of June 30, 2006.

The annual debt service requirements for 2000 Waste Water Revenue Bonds outstanding at June 30, 2006, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$ 355,000	\$ 359,928	\$ 714,928
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
2012-2016	2,530,000	1,095,366	3,625,366
2017-2020	2,560,000	355,510	2,915,510
Total	\$ 7,055,000	\$ 3,078,530	\$ 10,133,530

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

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

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, 2006 was \$10,250,000.

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, 2006 was \$10,247,041.

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).

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 \$8,990,000 as of June 30, 2006.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

B. Business Activities Long-Term Debt, Continued

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

The annual debt service requirements for 2001 Water Revenue Bonds outstanding at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 235,000	\$ 416,472	\$ 651,472
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
2012-2016	1,545,000	1,705,817	3,250,817
2017-2021	1,510,000	1,346,628	2,856,628
2022-2026	1,805,000	951,375	2,756,375
2026-2031	2,325,000	437,375	2,762,375
2032	540,000	13,500	553,500
Total	\$ 8,990,000	\$ 6,443,513	\$ 15,433,513

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 2005. The debt is the responsibility of the Marina Fund.

Year Ending June 30,	Principal	Interest	Total
2007	\$ 231,338	\$ 188,599	\$ 419,937
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	2,040,494	357,701	2,398,195
Total	\$ 4,883,219	\$ 1,737,140	\$ 6,620,359

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM DEBT, Continued

B. Business Activities Long-Term Debt, Continued

Notes Payable, Continued

The annual debt service requirements at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 138,051	\$ 90,630	\$ 228,681
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
2012-2016	486,709	210,682	697,391
2017-2021	544,983	95,484	640,467
2022	66,947	3,167	70,114
Total	\$ 1,835,551	\$ 689,767	\$ 2,525,318

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 \$3,661,383 as of June 30, 2006. 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, 2005	Additions	Deletions	Balance June 30, 2006	Due in One Year	Due in More Than One Year
Governmental activities	\$ 3,390,501	\$ 1,085,041	\$ (1,296,011)	\$ 3,179,531	\$ 394,140	\$ 2,785,391
Business type activities	483,052	297,372	(298,572)	481,852	62,573	419,279
Total	\$ 3,873,553	\$ 1,382,413	\$ (1,594,583)	\$ 3,661,383	\$ 456,713	\$ 3,204,670

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

9. NON-CITY OBLIGATION, Continued

Assessment Bonds

The 1915 Act bonds have been issued to finance improvements in various special assessment districts in the City. The bonds are a liability of the property owners, and are secured by liens against the assessed properties. The City acts merely as the fiscal agent for the collection of the assessment to be used for the principal and interest payments from the property owners, disbursements of such monies to the bondholders, and if appropriate, beginning foreclosures. The principal amount of bonds outstanding at June 30, 2006, was \$8,519,900.

Defeased Bonds

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, 2006, the amount of the Water revenue defeased debt outstanding, but removed from the long-term liabilities, totaled \$3,270,000.

At June 30, 2006, the amount of Redevelopment tax allocation defeased debt outstanding, but removed from the long-term liabilities, totaled \$2,719,000.

At June 30, 2006, the amount of 1993 Certificates of Participation defeased debt outstanding, but removed from the long-term liabilities, totaled \$4,910,000.

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 \$3,850,000. 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. 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, 2006

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, 2006 for general liability was \$2,164,256, 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, 2006 for workers' compensation was \$3,075,153, 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 \$5,239,409, reported in the risk funds as of June 30, 2006 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, 2006. 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, 2006.

The following is a reconciliation of changes in the aggregate liabilities for claims for the years ended June 30, 2006, 2005 and 2004:

For the Years Ended June 30,	Claims Payable July 1	Claims Incurred	Claims Payments	Claims Payable June 30
2004	\$ 5,024,599	\$ 2,113,556	\$ (1,579,155)	\$ 5,559,000
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

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

10. RISK MANAGEMENT, Continued

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, 2006, the following funds had deficit fund balances or deficit net assets:

Funds	Deficit
Redevelopment CBD Capital Projects Fund	\$ (31,750,060)
Ambulance Enterprise Fund	(48,483)
Marina Enterprise Fund	(3,824,583)

The deficit in the Redevelopment CBD admin/program Fund will be combined with \$30,000,000 positive fund balance of RDA PCD once project area merger is completed in 2006.

The deficit in the Redevelopment CBD Capital Project Fund and PCD Capital Project Fund will be eliminated by the new PCDC debt proceeds from 2007 TAB.

The deficit in the Ambulance Enterprise Fund will be eliminated by reducing interfund charges to produce net income in this fund.

The City will request that State of California forgive outstanding loan of \$3,800,000 in the Marina Enterprise Fund.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

12. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following funds:

Fund	Appropriation	Expenditure	Variance
General Fund			
Departmental:			
Animal services	\$ 752,350	\$ 792,943	\$ (40,593)
Fire	7,797,050	7,822,325	(25,275)
Parks and recreation	4,378,550	4,497,685	(119,135)
Capital outlay	222,000	1,695,248	(1,473,248)
Debt service Interest	-	1,916	(1,916)
Impact Fees Special Revenue Fund	1,504,200	1,960,196	(455,996)
Redevelopment CBD Capital Projects Fund	2,151,850	9,768,293	(7,616,443)
Gas Tax Special Revenue Fund	21,000	21,580	(580)
Landscape Assessment Districts Special Revenue Fund	264,600	305,937	(41,337)
Wickersham Park Trust Permanent Fund	-	540	(540)

Other General Fund department budget variances were due to unanticipated, excess, operating expenditures at year end.

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

Impact Fees Special Revenue Fund variance was due to first time homebuyer program house that was purchased in the amount of \$387,000 was "rehabbed" and place back into the program and onto the market. The property was sold to outside party during 06-07. Additionally, the underground tank monitoring costs were accounted for in this fund, but not budgeted. The overage in the amount of \$63,000 was offset with state reimbursement income.

Redevelopment CBD Capital Projects Fund variance was due to timing difference between when capital projects are budgeted and when actual expenditures occur.

Gas Tax Special Revenue Fund variance was due to excess operating expenditures not included in the budget.

Landscape Assessment Districts Special Revenue Fund variance was due to excess operating expenditures not included in the budget.

Wickersham Park Trust Permanent Fund variance was due to excess operating expenditures not included in the budget.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

13. FUND BALANCES

	General Fund Fund	Home/Begin Special Revenue Fund	Redevelopment Special Revenue Fund	Impact Fees Special Revenue Fund	City Capital Project Fund	Low and Redevelopment CBD Capital Project Fund	Redevelopment PCD Capital Project Fund	Non-Major Governmental Funds	Total
Fund Balances:									
Reserved for:									
Encumbrances	\$ 632,000	\$ -	\$ 1,009,000	\$ -	\$ -	\$ -	\$ 621,200	\$ 710,000	\$ 2,972,200
Notes receivable	49,375	6,248,290	12,238,890	5,102,821	-	60,956	1,871,780	864,200	26,436,312
Land held for resale	-	-	-	-	-	-	402,053	-	402,053
Long-term advances and due from other funds	2,241,444	-	-	41,000	-	-	31,097,999	-	33,380,443
Inventories	12,934	-	-	-	-	-	-	-	12,934
Contingencies	5,150,000	-	-	-	-	-	-	-	5,150,000
Deposits and prepaids	61,054	-	-	-	-	-	-	686,807	747,861
Unreserved, designated for:									
Microfile fees	45,555	-	-	-	-	-	-	-	45,555
CSIF earthquake education	8,595	-	-	-	-	-	-	-	8,595
Lucchesi soccer field	147,515	-	-	-	-	-	-	-	147,515
Traffic model	1,000	-	-	-	-	-	-	-	1,000
First Time homebuyers program	-	214,565	-	3,454,055	-	-	-	315,348	3,983,968
Redwood interchange	-	-	-	526,545	-	-	-	-	526,545
Unreserved, undesignated for:									
General fund	220,848	-	-	-	-	-	-	-	220,848
Special revenue funds	-	(5,879,320)	2,135,053	4,274,847	-	-	-	1,964,868	2,495,448
Capital project funds	-	-	-	-	11,645,285	(31,811,016)	(967,820)	-	(21,133,551)
Permanent funds	-	-	-	-	-	-	-	25,595	25,595
Total fund balances	\$ 8,570,320	\$ 583,535	\$ 15,382,943	\$ 13,399,268	\$ 11,645,285	\$ (31,750,060)	\$ 33,025,212	\$ 4,566,818	\$ 55,423,321

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.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

14. RETIREMENT PLANS, Continued

A. Pension Plan, Continued

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 \$1,814,767 for the year ended June 30, 2006.

The City employer was required to contribute for fiscal year 2005-2006 at an actuarially determined rate of 12.537% and 34.910% of annual covered payroll for miscellaneous and safety employees, respectively.

Annual Pension Cost

For 2005-2006, the City's annual pension cost of \$4,974,106 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 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. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period for current service unfunded liability at June 30, 2006 was 25 years for miscellaneous employees and 31 years for safety employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	2,094,599	100%	\$ -
6/30/05	3,799,703	100%	-
6/30/06	4,974,106	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, 2006

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, 2006, the City contributed \$2,435 and the covered employees contributed \$31,476 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 \$60 to \$156.83 per month. Currently the City's minimum benefit allowance is \$60 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, 2006, the total expenditure for all post employment benefits was \$113,853. This consists of \$62,743 in direct cash payments to individuals and \$51,110 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 74 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 6 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, 2006

17. COMMITMENTS AND CONTINGENCIES

The City had year-end commitments at June 30, 2006 totaling \$21,062,969, for construction related contracts awarded, but not completed. The PCDC had year-end commitments, in the amount of \$3,695,347 for construction related contracts, awarded but not completed, as of June 30, 2006.

The City had outstanding professional service contracts at year-end in the amount of \$3,273,073 and the PCDC in the amount of \$96,154.

The City had outstanding purchase orders commitments at year-end, totaling \$1,204,115.

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, 2006, 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.

**18. FINANCIAL REPORTING OF CAPITAL ASSET IMPAIRMENT AND INSURANCE RECOVERIES
(PER GASB 42)**

In March, 2006 the Waste Water Fund suffered casualty loss to the 12kV equipment at the sewer treatment plant. The equipment was 30 years old, fully depreciated, and thus there was no capital asset impairment amount to report on the face of the financial statements. The estimated total cost of the casualty loss claim is \$1,367,620.

The cost of temporary generator and fuel, which were required between March, 2006 and June, 2006, will be covered by the City's insurance carriers. Partial payments of these costs were made during 2005-2006 directly to the City's vendors who incurred the costs. Thus the insurance recoveries for non-capital expenses were netted with the related extra operating expenses. The total insurance payments made during fiscal year 2005-2006 were \$391,825.

The cost of replacement equipment, which will be placed in service during 2006-2007, will be paid by the City's insurance carriers, directly to the vendors. Approximately \$200,000 of the total claim is still under discussion as to whether it is the City's responsibility to pay for the equipment upgrade or the insurance carrier's.

City of Petaluma
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

19. SUBSEQUENT EVENT

On October 16, 2006 the City Council passed a resolution to write off the interfund advance between Redevelopment PCD Capital Projects Fund and the Marina Enterprise Fund. Beginning in 1992, through 2001, the PCDC loaned funds, in the amount of \$966,700 principal and \$307,985 unpaid accrued interest, to the Marina Enterprise Fund, with the intention of being repaid when Marina Enterprise Fund's cash flow permitted. It was subsequently determined that the Marina Enterprise Fund did not have the intention or ability to repay the advance. Therefore, the continuance of the interfund advance on PCDC's financial statement is contrary to governmental accounting principals, because there is not the intention or ability to repay by the Marina Enterprise Fund. As a result the interfund advance in the amount of \$1,274,685 was written off as uncollectible.

On August 29, 2006, the State Water Resources Control Board executed agreement number 05-803-550-0, awarding \$125,964,000 from the State Revolving Fund to the City to finance the construction of the Ellis Creek Waste Water Treatment Plant. Initial loan amount was used to repay outstanding balances on the Revolving Lines of Credit to the Zion's First National Bank, in the amount of \$14,047,000 and to BNP Paribas, in the amount of \$14,050,000. Subsequent monthly loan amounts will be used to pay construction costs as incurred.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Petaluma
Required Supplementary Information
For the year ended June 30, 2006

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, 2006

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 8,663,650	\$ 8,663,650	\$ 8,663,650	\$ -
Resources (inflows):				
Taxes	19,888,000	19,878,000	21,526,372	1,648,372
Licenses, permits and fees	3,247,500	3,957,500	3,108,562	(848,938)
Fines, forfeitures and penalties	521,000	521,000	500,722	(20,278)
Use of money and property	490,300	499,150	1,256,908	757,758
Intergovernmental	3,266,000	3,298,000	4,679,068	1,381,068
Charges for current services	7,334,000	7,284,000	6,961,780	(322,220)
Other	270,000	270,000	1,914,327	1,644,327
Proceeds from sale of assets	-	-	60,908	60,908
Transfers from other funds	1,164,000	1,378,000	1,378,000	-
Total resources	36,180,800	37,085,650	41,386,647	4,300,997
Amount available for appropriation	44,844,450	45,749,300	50,050,297	4,300,997
Charges to appropriations (outflows):				
Departmental:				
General government:				
City council	282,350	284,450	264,075	20,375
City clerk	338,700	338,700	291,488	47,212
City attorney	357,250	557,250	493,591	63,659
City manager	334,800	334,800	313,210	21,590
General plan	330,450	985,450	589,879	395,571
Animal services	674,850	752,350	792,943	(40,593)
Administrative services	1,835,050	1,791,207	1,789,291	1,916
Total General government	4,153,450	5,044,207	4,534,477	509,730
Community development	2,183,900	2,725,180	2,534,720	190,460
Police	13,815,400	14,896,800	14,863,668	33,132
Fire	7,264,950	7,797,050	7,822,325	(25,275)
Parks and recreation	3,903,550	4,378,550	4,497,685	(119,135)
Public works	4,439,350	5,231,620	5,210,438	21,182
Capital outlay	-	222,000	1,695,248	(1,473,248)
Debt Service:				
Principal	-	67,500	-	67,500
Interest	-	-	1,916	(1,916)
Transfers to other funds	313,000	313,000	319,500	(6,500)
Total charges to appropriations	36,073,600	40,675,907	41,479,977	(804,070)
Excess of resources over (under) charges to appropriations	8,770,850	5,073,393	8,570,320	3,496,927
FUND BALANCES:	\$ 8,770,850	\$ 5,073,393	\$ 8,570,320	\$ 3,496,927

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2006

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Home/Begin Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 531,758	\$ 531,758	\$ 531,758	\$ -
Resources (inflows):				
Use of money and property	-	-	45,837	45,837
Intergovernmental	66,000	66,000	6,985	(59,015)
Total resources	66,000	66,000	52,822	(13,178)
Amount available for appropriation	597,758	597,758	584,580	(13,178)
Charges to appropriations (outflows):				
Departmental:				
Community development	66,000	66,000	1,045	64,955
Total charges to appropriations	66,000	66,000	1,045	64,955
Excess of resources over (under) charges to appropriations	531,758	531,758	583,535	51,777
FUND BALANCES:	\$ 531,758	\$ 531,758	\$ 583,535	\$ 51,777

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2006

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Redevelopment Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 13,499,182	\$ 13,499,182	\$ 13,499,182	\$ -
Resources (inflows):				
Taxes	2,610,300	2,610,300	2,741,130	130,830
Use of money and property	41,000	41,000	31,549	(9,451)
Intergovernmental	-	472,000	104,995	(367,005)
Charges for current services	12,350	12,350	10,923	(1,427)
Other	1,525,000	2,229,000	324,132	(1,904,868)
Total resources	4,188,650	5,364,650	3,212,729	(2,151,921)
Amount available for appropriation	17,687,832	18,863,832	16,711,911	(2,151,921)
Charges to appropriations (outflows):				
Departmental:				
Community development	2,277,600	2,486,450	886,139	1,600,311
Capital outlay	200,000	-	-	-
Transfers to other funds	1,515,000	2,419,000	442,829	1,976,171
Total charges to appropriations	3,992,600	4,905,450	1,328,968	3,576,482
Excess of resources over (under) charges to appropriations	13,695,232	13,958,382	15,382,943	1,424,561
FUND BALANCES:	\$ 13,695,232	\$ 13,958,382	\$ 15,382,943	\$ 1,424,561

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2006

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Impact Fees Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 12,146,850	\$ 12,146,850	\$ 12,146,850	\$ -
Resources (inflows):				
Licenses, permits and fees	9,685,000	8,790,000	3,881,090	(4,908,910)
Use of money and property	160,000	160,000	691,594	531,594
Intergovernmental	-	100,000	64,833	(35,167)
Other	-	-	11	11
Transfers from other funds	310,484	286,466	699,000	412,534
Total resources	10,155,484	9,336,466	5,336,528	(3,999,938)
Amount available for appropriation	22,302,334	21,483,316	17,483,378	(3,999,938)
Charges to appropriations (outflows):				
Departmental:				
Community development	1,390,050	1,491,100	1,557,573	(66,473)
Police	-	-	98	(98)
Fire	-	-	86	(86)
Parks and recreation	1,000	4,850	5,113	(263)
Public works	3,000	-	10,164	(10,164)
Capital outlay	-	8,250	387,162	(378,912)
Transfers to other funds	4,407,484	4,474,566	2,123,914	2,350,652
Total charges to appropriations	5,801,534	5,978,766	4,084,110	1,894,656
Excess of resources over (under) charges to appropriations	16,500,800	15,504,550	13,399,268	(5,894,594)
FUND BALANCES:	\$ 16,500,800	\$ 15,504,550	\$ 13,399,268	\$ (5,894,594)

City of Petaluma
Required Supplementary Information, Continued
For the year ended June 30, 2005

2. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the year ended June 30, 2005, 2004 and 2003 of actuarial valuations are presented below.

	Actuarial	Actual	Entry Age	Underfunded	Funded	Covered	Underfunded
	Valuation	Asset	Actuarial	(Overfunded)	Ratio	Payroll	(Overfunded)
	Date*	Value	Accrued	Actuarial			Actuarial
			Liability	Liability			Liability as
							Percentage of
							Covered
							Payroll
Miscellaneous	6/30/03	\$ 40,495,418	\$ 44,821,819	\$ 4,326,401	90.3%	\$ 11,014,623	39.3%
Employees Group	6/30/04	42,955,590	48,624,583	5,668,993	88.3%	11,679,718	48.5%
	6/30/05	46,674,278	53,065,461	6,391,183	88.0%	12,327,203	51.8%
Safety	6/30/03	\$ 60,670,405	\$ 74,914,612	\$ 14,244,207	81.0%	\$ 8,593,074	165.8%
Employees Group	6/30/04	64,589,453	82,476,301	17,886,848	78.3%	8,518,220	210.0%
	6/30/05	69,712,120	87,838,194	18,126,074	79.4%	9,341,368	194.0%

* Latest information available.



SUPPLEMENTARY INFORMATION



Non-Major Governmental Funds

Special Revenue Funds:

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

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, 2006

	Special Revenue					
	Community Development Block Grant	Grants and Donations	Gas Tax	Public Safety	Landscape Assessment Districts	Street
ASSETS						
Cash and investments	\$ 1,347	\$ 514,867	\$ 321,383	\$ 306,415	\$ 555,883	\$ 1,068,813
Restricted cash and investments	-	-	-	-	-	-
Receivables:						
Accounts receivable	-	-	-	-	-	30,653
Intergovernmental receivable	101,453	283,447	100,142	8,242	7,995	-
Non current receivable	59,481	-	-	-	-	-
Other assets	-	-	-	-	-	-
Deposits and other prepaid items	-	-	-	-	-	-
Notes receivable	864,200	-	-	-	-	-
Total assets	\$ 1,026,481	\$ 798,314	\$ 421,525	\$ 314,657	\$ 563,878	\$ 1,099,466
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 53,736	\$ 81,857	\$ -	\$ 38,066	\$ 33,678	\$ 44,217
Wage payable	1,539	-	-	-	-	16,820
Deferred revenue	880,762	283,447	-	8,242	-	-
Due to other funds	41,000	230,700	-	-	-	-
Total liabilities	977,037	596,004	-	46,308	33,678	61,037
Fund Balances:						
Reserved for:						
Encumbrances	-	-	-	-	-	700,000
Notes receivable	864,200	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total reserved	864,200	-	-	-	-	700,000
Unreserved, designated for:						
First Time homebuyers program	315,348	-	-	-	-	-
Unreserved, reported in:						
Special revenue funds	(1,130,104)	202,310	421,525	268,349	530,200	338,429
Permanent funds	-	-	-	-	-	-
Total unreserved	(1,130,104)	202,310	421,525	268,349	530,200	338,429
Total fund balances	49,444	202,310	421,525	268,349	530,200	1,038,429
Total liabilities and fund balances	\$ 1,026,481	\$ 798,314	\$ 421,525	\$ 314,657	\$ 563,878	\$ 1,099,466

(Continued)

City of Petaluma
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2006

	Special Revenue		Debt Service		Permanent	Total
	Transient Occupancy Tax	Prince Park	Redevelopment CBD/PCD	Wickersham Park Trust		Non-Major Governmental Funds
ASSETS						
Cash and investments	\$ 247,455	\$ 992,248	\$ 535,686	\$ 26,134	\$	4,570,231
Restricted cash and investments	-	-	151,121			151,121
Receivables:						
Accounts receivable	175,158	-	-	-		205,811
Intergovernmental receivable	-	-	-	-		501,279
Non current receivable	-	-	-	-		59,481
Other assets	-	-	-	-		-
Deposits and other prepaid items	-	-	-	-		-
Notes receivable	-	-	-	-		864,200
Total assets	\$ 422,613	\$ 992,248	\$ 686,807	\$ 26,134	\$	6,352,123
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 70,702	\$ -	\$ -	\$ 539	\$	322,795
Wage payable	-	-	-	-		18,359
Deferred revenue	-	-	-	-		1,172,451
Due to other funds	-	-	-	-		271,700
Total liabilities	70,702	-	-	539		1,785,305
Fund balances:						
Reserved:						
Encumbrances	10,000	-	-	-		710,000
Notes receivable	-	-	-	-		864,200
Debt service	-	-	686,807	-		686,807
Total reserved	10,000	-	686,807	-		2,261,007
Unreserved, designated for:						
First Time homebuyers program	-	-	-	-		315,348
Unreserved, reported in:						
Special revenue funds	341,911	992,248	-	-		1,964,868
Permanent funds	-	-	-	25,595		25,595
Total unreserved	341,911	992,248	-	25,595		2,305,811
Total fund balances	351,911	992,248	686,807	25,595		4,566,818
Total liabilities and fund balances	\$ 422,613	\$ 992,248	\$ 686,807	\$ 26,134	\$	6,352,123

(Concluded)

City of Petaluma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2006

	Special Revenue					
	Community Development Block Grant	Grants and Donations	Gas Tax	Public Safety	Landscape Assessment Districts	Street
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 271,315
Licenses, permits and fees	-	-	-	14,212	-	-
Fines, forfeitures and penalties	-	-	-	139,807	-	-
Use of money and property	73,760	45,821	216	4,362	12,744	94,989
Intergovernmental	446,359	1,476,539	1,242,079	140,054	-	274,681
Charges for current services	-	-	-	-	288,936	-
Other	-	1,299,104	-	-	5,000	510
Total revenues	520,119	2,821,464	1,242,295	298,435	306,680	641,495
EXPENDITURES:						
Current:						
Community development	631,587	85,535	-	-	-	-
Police	-	265,736	-	19,418	-	-
Fire	-	483	-	2,732	-	-
Parks and recreation	-	-	-	-	305,937	-
Public works	-	196,755	21,580	-	-	768,585
Capital outlay	-	56,810	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Cost of issuance	-	-	-	-	-	-
Total expenditures	631,587	605,319	21,580	22,150	305,937	768,585
REVENUES OVER (UNDER) EXPENDITURES	(111,468)	2,216,145	1,220,715	276,285	743	(127,090)
OTHER FINANCING SOURCES (USES):						
Debt issuance	-	-	-	-	-	-
Premium paid	-	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-	-
Transfers in	-	-	-	-	13,000	721,132
Transfers out	-	(4,099,807)	(930,000)	(130,000)	-	(4,293,800)
Total other financing sources (uses)	-	(4,099,807)	(930,000)	(130,000)	13,000	(3,572,668)
Net change in fund balances	(111,468)	(1,883,662)	290,715	146,285	13,743	(3,699,758)
FUND BALANCES:						
Beginning of year	160,912	2,085,972	130,810	122,064	516,457	4,738,187
End of year	\$ 49,444	\$ 202,310	\$ 421,525	\$ 268,349	\$ 530,200	\$ 1,038,429

(Continued)

City of Petaluma

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2006

	Special Revenue		Debt Service	Permanent	Total
	Transient	Prince	Redevelopment	Wickersham	Non-Major
	Occupancy	Park	CBD/PCD	Park Trust	Governmental
	Tax				Funds
REVENUES:					
Taxes	\$ 1,395,574	\$ -	\$ -	\$ -	\$ 1,666,889
Licenses, permits and fees	-	-	-	-	14,212
Fines, forfeitures and penalties	-	-	-	-	139,807
Use of money and property	4,011	18,291	7,209	685	262,088
Intergovernmental	-	-	-	-	3,579,712
Charges for current services	-	-	-	-	288,936
Other	-	-	-	-	1,304,614
Total revenues	1,399,585	18,291	7,209	685	7,256,258
EXPENDITURES:					
Current:					
Community development	311,285	-	840,030	-	1,868,437
Police	-	-	-	-	285,154
Fire	-	-	-	-	3,215
Parks and recreation	-	-	-	540	306,477
Public works	-	-	-	-	986,920
Capital outlay	-	-	-	-	56,810
Debt service:					
Principal	-	-	672,000	-	672,000
Interest	178	-	1,752,821	-	1,752,999
Cost of issuance	-	-	559,891	-	559,891
Total expenditures	311,463	-	3,824,742	540	6,491,903
REVENUES OVER (UNDER) EXPENDITURES	1,088,122	18,291	(3,817,533)	145	764,355
OTHER FINANCING SOURCES (USES):					
Debt issuance	-	-	18,355,000	-	18,355,000
Premium paid	-	-	161,953	-	161,953
Payment to escrow agent	-	-	(17,948,420)	-	(17,948,420)
Transfers in	-	-	4,258,200	-	4,992,332
Transfers out	(1,000,000)	(24,000)	-	-	(10,477,607)
Total other financing sources (uses)	(1,000,000)	(24,000)	4,826,733	-	(4,916,742)
Net change in fund balances	88,122	(5,709)	1,009,200	145	(4,152,387)
FUND BALANCES:					
Beginning of year	263,789	997,957	(322,393)	25,450	8,719,205
End of year	\$ 351,911	\$ 992,248	\$ 686,807	\$ 25,595	\$ 4,566,818

(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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ 6,070,020	\$ 6,070,020
Resources (inflows):				
Use of money and property	-	-	4,001	4,001
Intergovernmental	-	-	1,828	1,828
Charges for current services	-	-	-	-
Other	-	-	-	-
Transfers from other funds	8,754,000	18,169,700	9,149,519	(9,020,181)
Total resources	8,754,000	18,169,700	9,155,348	(9,014,352)
Amount available for appropriation	8,754,000	18,169,700	15,225,368	(2,944,332)
Charges to appropriations (outflows):				
Debt Service:				
Interest	-	-	11,041	(11,041)
Capital outlay	11,196,000	14,369,780	3,569,042	10,800,738
Transfers to other funds	-	23,000	-	23,000
Total charges to appropriations	11,196,000	14,392,780	3,580,083	10,812,697
Excess of resources over (under) charges to appropriations	(2,442,000)	3,776,920	11,645,285	7,868,365
FUND BALANCES:	\$ (2,442,000)	\$ 3,776,920	\$ 11,645,285	\$ 7,868,365

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment CBD Capital Project Fund - Major Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ (24,886,199)	\$ (24,886,199)	\$ (24,886,199)	\$ -
Resources (inflows):				
Taxes	676,900	676,900	1,018,606	341,706
Licenses, permits and fees	-	-	787	787
Use of money and property	3,500	3,500	44,086	40,586
Other	-	-	720	720
Transfers from other funds	1,737,600	2,244,100	1,980,733	(263,367)
Total resources	2,418,000	2,924,500	3,044,932	120,432
Amount available for appropriation	(22,468,199)	(21,961,699)	(21,841,267)	120,432
Charges to appropriations (outflows):				
Departmental:				
Community development	683,200	744,000	540,665	203,335
Capital outlay	1,737,600	1,107,850	9,139,824	(8,031,974)
Debt service:				
Interest and fiscal charges	300,000	300,000	87,804	212,196
Transfers to other funds	971,000	-	140,500	(140,500)
Total charges to appropriations	3,691,800	2,151,850	9,908,793	(7,756,943)
Excess of resources over (under) charges to appropriations	(26,159,999)	(24,113,549)	(31,750,060)	(7,636,511)
FUND BALANCES:	\$ (26,159,999)	\$ (24,113,549)	\$ (31,750,060)	\$ (7,636,511)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment PCD Capital Project Fund - Major Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 33,936,865	\$ 33,936,865	\$ 33,936,865	\$ -
Resources (inflows):				
Taxes	10,054,900	10,054,900	10,420,921	366,021
Use of money and property	92,900	92,900	373,444	280,544
Intergovernmental	-	200,000	-	(200,000)
Other	-	-	5,988	5,988
Debt issuance	23,006,650	23,006,650	-	(23,006,650)
Transfers from other funds	2,507,000	2,853,500	1,231,697	(1,621,803)
Total resources	35,661,450	36,207,950	12,032,050	(24,175,900)
Amount available for appropriation	69,598,315	70,144,815	45,968,915	(24,175,900)
Charges to appropriations (outflows):				
Departmental:				
Community development	6,399,400	6,431,400	5,865,822	565,578
Capital outlay	2,507,000	2,563,000	2,432,804	130,196
Debt service:				
Interest	-	-	17,077	(17,077)
Transfers to other funds	3,219,800	4,684,000	4,628,000	56,000
Total charges to appropriations	12,126,200	13,678,400	12,943,703	734,697
Excess of resources over (under) charges to appropriations	57,472,115	56,466,415	33,025,212	(23,441,203)
FUND BALANCES:	\$ 57,472,115	\$ 56,466,415	\$ 33,025,212	\$ (23,441,203)

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ 160,912	\$ 160,912
Resources (inflows):				
Use of money and property	-	-	73,760	73,760
Intergovernmental	402,000	784,500	446,359	(338,141)
Total resources	402,000	784,500	520,119	(264,381)
Amount available for appropriation	402,000	784,500	681,031	(103,469)
Charges to appropriations (outflows):				
Departmental:				
Community development	402,000	799,500	631,587	167,913
Total charges to appropriations	402,000	799,500	631,587	167,913
Excess of resources over (under) charges to appropriations	-	(15,000)	49,444	(96,468)
FUND BALANCES:	\$ -	\$ (15,000)	\$ 49,444	\$ (96,468)

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,085,972	\$ 2,085,972	\$ 2,085,972	\$ -
Resources (inflows):				
Use of money and property	-	-	45,821	45,821
Intergovernmental	1,835,400	2,130,400	1,476,539	(653,861)
Other	1,932,500	2,122,800	1,299,104	(823,696)
Total resources	3,767,900	4,253,200	2,821,464	(1,477,557)
Amount available for appropriation	5,853,872	6,339,172	4,907,436	(1,477,557)
Charges to appropriations (outflows):				
Departmental:				
Community Development	96,500	96,500	85,535	10,965
Police	147,400	147,400	265,736	(118,336)
Fire	-	-	483	(483)
Public works	-	-	196,755	(196,755)
Capital outlay	-	24,500	56,810	(32,310)
Transfers to other funds	3,526,000	10,306,800	4,099,807	6,206,993
Total charges to appropriations	3,769,900	10,575,200	4,705,126	5,870,074
Excess of resources over (under) charges to appropriations	2,083,972	(4,236,028)	202,310	4,392,517
FUND BALANCES:	\$ 2,083,972	\$ (4,236,028)	\$ 202,310	\$ 4,392,517

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 130,810	\$ 130,810	\$ 130,810	\$ -
Resources (inflows):				
Use of money and property	4,000	4,000	216	(3,784)
Intergovernmental	1,050,000	1,070,000	1,242,079	172,079
Total resources	1,054,000	1,074,000	1,242,295	168,295
Amount available for appropriation	1,184,810	1,204,810	1,373,105	168,295
Charges to appropriations (outflows):				
Departmental:				
Public works	1,000	21,000	21,580	(580)
Transfers to other funds	934,000	930,000	930,000	-
Total charges to appropriations	935,000	951,000	951,580	(580)
Excess of resources over (under) charges to appropriations	249,810	253,810	421,525	167,715
	\$ 249,810	\$ 253,810	\$ 421,525	\$ 167,715

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 122,064	\$ 122,064	\$ 122,064	\$ -
Resources (inflows):				
Licenses, permits and fees	18,000	18,000	14,212	(3,788)
Fines, forfeitures and penalties	10,000	30,000	139,807	109,807
Use of money and property	-	-	4,362	4,362
Intergovernmental	130,000	130,000	140,054	10,054
Total resources	158,000	178,000	298,435	120,435
Amount available for appropriation	280,064	300,064	420,499	120,435
Charges to appropriations (outflows):				
Departmental:				
Police	-	20,000	19,418	582
Fire	10,000	10,000	2,732	7,268
Transfers to other funds	130,000	130,000	130,000	-
Total charges to appropriations	140,000	160,000	152,150	7,850
Excess of resources over (under) charges to appropriations	140,064	140,064	268,349	128,285
FUND BALANCES:	\$ 140,064	\$ 140,064	\$ 268,349	\$ 128,285

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 516,457	\$ 516,457	\$ 516,457	\$ -
Resources (inflows):				
Use of money and property	6,000	6,000	12,744	6,744
Charges for current services	245,800	245,800	288,936	43,136
Other	-	-	5,000	5,000
Transfers from other funds	13,000	13,000	13,000	-
Total resources	264,800	264,800	319,680	54,880
Amount available for appropriation	781,257	781,257	836,137	54,880
Charges to appropriations (outflows):				
Departmental:				
Parks and recreation	252,100	264,600	305,937	(41,337)
Total charges to appropriations	252,100	264,600	305,937	(41,337)
Excess of resources over (under) charges to appropriations	529,157	516,657	530,200	13,543
	\$ 529,157	\$ 516,657	\$ 530,200	\$ 13,543

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 4,738,187	\$ 4,738,187	\$ 4,738,187	\$ -
Resources (inflows):				
Taxes	265,300	265,300	271,315	6,015
Use of money and property	104,000	104,000	94,989	(9,011)
Intergovernmental	301,000	301,000	274,681	(26,319)
Other	-	-	510	510
Transfers from other funds	699,000	699,000	721,132	22,132
Total resources	1,369,300	1,369,300	1,362,627	(6,673)
Amount available for appropriation	6,107,487	6,107,487	6,100,814	(6,673)
Charges to appropriations (outflows):				
Departmental:				
Public works	2,000,500	2,071,500	768,585	1,302,915
Transfers to other funds	1,201,800	4,293,800	4,293,800	-
Total charges to appropriations	3,202,300	6,365,300	5,062,385	1,302,915
Excess of resources over (under) charges to appropriations	2,905,187	(257,813)	1,038,429	1,296,242
FUND BALANCES:	\$ 2,905,187	\$ (257,813)	\$ 1,038,429	\$ 1,296,242

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 263,789	\$ 263,789	\$ 263,789	\$ -
Resources (inflows):				
Taxes	1,130,000	1,130,000	1,395,574	265,574
Use of money and property	4,000	4,000	4,011	11
Total resources	1,134,000	1,134,000	1,399,585	265,585
Amount available for appropriation	1,397,789	1,397,789	1,663,374	265,585
Charges to appropriations (outflows):				
Departmental:				
Community development	311,050	321,050	311,285	9,765
Debt service:				
Interest	-	-	178	(178)
Transfers to other funds	1,000,000	1,000,000	1,000,000	-
Total charges to appropriations	1,311,050	1,321,050	1,311,463	9,587
Excess of resources over (under) charges to appropriations	86,739	76,739	351,911	275,172
FUND BALANCES:	\$ 86,739	\$ 76,739	\$ 351,911	\$ 275,172

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 997,957	\$ 997,957	\$ 997,957	\$ -
Resources (inflows):				
Use of money and property	24,000	24,000	18,291	(5,709)
Total resources	24,000	24,000	18,291	(5,709)
Amount available for appropriation	1,021,957	1,021,957	1,016,248	(5,709)
Charges to appropriations (outflows):				
Transfers out	24,000	24,000	24,000	-
Total charges to appropriations	24,000	24,000	24,000	-
Excess of resources over (under) charges to appropriations	997,957	997,957	992,248	(5,709)
FUND BALANCES:	\$ 997,957	\$ 997,957	\$ 992,248	\$ (5,709)

City of Petaluma

Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment CBD/PCD Debt Service Fund For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ (322,393)	\$ (322,393)	\$ (322,393)	\$ -
Resources (inflows):				
Use of money and property	-	-	7,209	7,209
Debt issuance	(23,006,650)	565,000	18,355,000	17,790,000
Premium paid	-	-	161,953	161,953
Transfers from other funds	2,836,800	4,258,200	4,258,200	-
Total resources	(20,169,850)	4,823,200	22,782,362	17,959,162
Amount available for appropriation	(20,492,243)	4,500,807	22,459,969	17,959,162
Charges to appropriations (outflows):				
Departmental:				
Community development	2,400	1,394,550	840,030	554,520
Debt service:				
Principal	100,000	672,000	672,000	-
Interest and fiscal charges	30,200	2,244,950	1,752,821	492,129
Cost of issuance	-	-	559,891	(559,891)
Payment to escrow agent	-	-	17,948,420	(17,948,420)
Total charges to appropriations	132,600	4,311,500	21,773,162	(17,461,662)
Excess of resources over (under) charges to appropriations	(20,624,843)	189,307	686,807	497,500
FUND BALANCES:	\$ (20,624,843)	\$ 189,307	\$ 686,807	\$ 497,500

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 25,450	\$ 25,450	\$ 25,450	\$ -
Resources (inflows):				
Use of money and property	4,000	-	685	685
Total resources	4,000	-	685	685
Amount available for appropriation	29,450	25,450	26,135	685
Charges to appropriations (outflows):				
Departmental:				
Parks and recreation	-	-	540	(540)
Total charges to appropriations	-	-	540	(540)
Excess of resources over (under) charges to appropriations	29,450	25,450	25,595	1,225
FUND BALANCES:	\$ 29,450	\$ 25,450	\$ 25,595	\$ 1,225



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, 2006

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
ASSETS				
Current assets:				
Cash and investments	\$ 388,269	\$ 247,945	\$ 306,357	\$ 3,858,095
Account receivable	20,000	-	-	-
Inventories	-	9,398	-	-
Due from other funds	-	-	-	-
Deposits and prepaids	-	358	1,406	-
Total current assets	408,269	257,701	307,763	3,858,095
Non-current assets:				
Non-current assets	-	-	-	598,120
Capital assets:				
Depreciable	-	27,144	228,559	-
Less accumulated depreciation	-	(8,240)	(163,843)	-
Total capital assets	-	18,904	64,716	-
Total non-current assets	-	18,904	64,716	598,120
Total assets:	408,269	276,605	372,479	4,456,215
LIABILITIES				
Current liabilities:				
Accounts payable	31,282	6,098	57,030	1,175
Wages payable	1,129	8,763	14,653	9,861
Accrued claims	-	-	-	259,711
Compensated absences	160	3,296	5,242	2,980
Total current liabilities	32,571	18,157	76,925	273,727
Non-current liabilities:				
Accrued claims	-	-	-	1,904,545
Compensated absences	1,121	29,970	30,043	17,862
Total Non-current liabilities	1,121	29,970	30,043	1,922,407
Total liabilities	33,692	48,127	106,968	2,196,134
NET ASSETS				
Invested in capital assets, net of related debt	-	18,904	64,716	-
Unrestricted	374,577	209,574	200,795	2,260,081
Total net assets	\$ 374,577	\$ 228,478	\$ 265,511	\$ 2,260,081

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ 1,666,464	\$ 497,775	\$ 4,667,990	\$ 11,632,895
-	-	60,041	80,041
-	-	-	9,398
17,325	5,175	-	22,500
75,684	22,607	-	100,055
<u>1,759,473</u>	<u>525,557</u>	<u>4,728,031</u>	<u>11,844,889</u>
-	-	-	598,120
2,832,256	950,033	-	4,037,992
(550,567)	(198,216)	-	(920,866)
<u>2,281,689</u>	<u>751,817</u>	<u>-</u>	<u>3,117,126</u>
<u>2,281,689</u>	<u>751,817</u>	<u>-</u>	<u>3,715,246</u>
<u>4,041,162</u>	<u>1,277,374</u>	<u>4,728,031</u>	<u>15,560,135</u>
27,881	9,796	49,335	182,597
-	-	3,746	38,152
-	-	922,546	1,182,257
-	-	409	12,087
<u>27,881</u>	<u>9,796</u>	<u>976,036</u>	<u>1,415,093</u>
-	-	2,152,607	4,057,152
-	-	2,799	81,795
-	-	2,155,406	4,138,947
<u>27,881</u>	<u>9,796</u>	<u>3,131,442</u>	<u>5,554,040</u>
2,281,689	751,817	-	3,117,126
1,731,592	515,761	1,596,589	6,888,969
<u>\$ 4,013,281</u>	<u>\$ 1,267,578</u>	<u>\$ 1,596,589</u>	<u>\$ 10,006,095</u>

City of Petaluma
Combining Statement of Activities and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2006

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
OPERATING REVENUES:				
Charges for sales	\$ -	\$ 10,282	\$ -	\$ -
Charges for current services	680,747	376,750	1,246,700	1,984,333
Total operating revenues	680,747	387,032	1,246,700	1,984,333
OPERATING EXPENSES:				
Cost of services	176,572	267,605	800,131	337,443
Claims	-	-	-	767,777
General and administrative	608,741	46,946	339,599	656,896
Depreciation	-	2,714	28,371	-
Total operating expenses	785,313	317,265	1,168,101	1,762,116
Operating income (loss)	(104,566)	69,767	78,599	222,217
NONOPERATING REVENUES (EXPENSES):				
Investment earnings and rent	6,646	5,740	6,553	58,583
Gain or (loss) on disposal of assets	-	-	-	-
Total nonoperating revenues (expenses)	6,646	5,740	6,553	58,583
INCOME (LOSS) BEFORE TRANSFERS	(97,920)	75,507	85,152	280,800
Transfers in	100,000	-	-	-
Total transfers	100,000	-	-	-
Change in net assets	2,080	75,507	85,152	280,800
NET ASSETS:				
Beginning of year	372,497	152,971	180,359	1,979,281
End of year	\$ 374,577	\$ 228,478	\$ 265,511	\$ 2,260,081

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ 5,775	\$ 1,725	\$ -	\$ 17,782
-	-	3,119,665	7,408,195
5,775	1,725	3,119,665	7,425,977
45,411	500	120,417	1,748,079
-	-	189,858	957,635
2,166	-	359,779	2,014,127
295,309	76,278	-	402,672
342,886	76,778	670,054	5,122,513
(337,111)	(75,053)	2,449,611	2,303,464
36,687	10,960	30,905	156,074
(18,688)	-	-	(18,688)
17,999	10,960	30,905	137,386
(319,112)	(64,093)	2,480,516	2,440,850
281,618	148,382	-	530,000
281,618	148,382	-	530,000
(37,494)	84,289	2,480,516	2,970,850
4,050,775	1,183,289	(883,927)	7,035,245
\$ 4,013,281	\$ 1,267,578	\$ 1,596,589	\$ 10,006,095

City of Petaluma
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2006

	Employee Benefits Fund	General Services Fund	Information Services Fund	Risk Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 693,474	\$ 386,954	\$ 1,250,633	\$ 1,917,913
Cash payments to suppliers for goods and services	(148,705)	(264,657)	(746,687)	(1,106,302)
Cash payments to employees for services	(609,616)	(59,854)	(357,613)	(658,037)
Claims paid	-	-	-	561,256
Net cash provided (used) by operating activities	(64,847)	62,443	146,333	714,830
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	-	-	(58,219)	-
Net cash provided (used) by capital and related financing activities	-	-	(58,219)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	6,646	5,740	6,553	58,583
Net cash provided (used) by investing activities	6,646	5,740	6,553	58,583
Net increase (decrease) in cash and cash equivalents	41,799	68,183	94,667	773,413
CASH AND CASH EQUIVALENTS:				
Beginning of year	346,470	179,762	211,690	3,084,682
End of year	\$ 388,269	\$ 247,945	\$ 306,357	\$ 3,858,095
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (104,566)	\$ 69,767	\$ 78,599	\$ 222,217
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2,714	28,371	-
Changes in assets and liabilities:				
Account receivable	(20,000)	-	-	-
Inventories	-	(1,593)	-	-
Deposits and prepaids	32,727	(78)	3,933	531,700
Noncurrent assets	-	-	-	(598,120)
Accounts payable	27,867	4,541	53,444	(1,082)
Wages payable	155	873	1,670	(584)
Accrued claims	-	-	-	561,256
Compensated absences	(1,030)	(13,781)	(19,684)	(557)
Total adjustments	39,719	(7,324)	67,734	492,613
Net cash provided (used) by operating activities	\$ (64,847)	\$ 62,443	\$ 146,333	\$ 714,830

Equipment Replacement (GG) Fund	Equipment Replacement (BA) Fund	Workers' Compensation Fund	Total
\$ (69,909)	\$ (20,882)	\$ 3,331,562	\$ 7,489,745
(17,530)	9,296	(284,157)	(2,558,742)
(2,166)	-	(362,555)	(2,049,841)
-	-	(574,847)	(13,591)
<u>(89,605)</u>	<u>(11,586)</u>	<u>2,110,003</u>	<u>2,867,571</u>
65,925	24,075	-	90,000
281,618	148,382	-	530,000
<u>347,543</u>	<u>172,457</u>	<u>-</u>	<u>620,000</u>
(789,599)	(433,480)	-	(1,281,298)
<u>(789,599)</u>	<u>(433,480)</u>	<u>-</u>	<u>(1,281,298)</u>
36,687	10,960	30,905	156,074
<u>36,687</u>	<u>10,960</u>	<u>30,905</u>	<u>156,074</u>
(494,974)	(261,649)	2,140,908	2,362,347
<u>2,161,438</u>	<u>759,424</u>	<u>2,527,082</u>	<u>9,270,548</u>
<u>\$ 1,666,464</u>	<u>\$ 497,775</u>	<u>\$ 4,667,990</u>	<u>\$ 11,632,895</u>
\$ (337,111)	\$ (75,053)	\$ 2,449,611	\$ 2,303,464
295,309	76,278	-	402,672
-	-	(60,041)	(80,041)
-	-	-	(1,593)
(75,684)	(22,607)	271,938	741,929
-	-	-	(598,120)
27,881	9,796	26,118	148,565
-	-	483	2,597
-	-	(574,847)	(13,591)
-	-	(3,259)	(38,311)
<u>247,506</u>	<u>63,467</u>	<u>(339,608)</u>	<u>564,107</u>
<u>\$ (89,605)</u>	<u>\$ (11,586)</u>	<u>\$ 2,110,003</u>	<u>\$ 2,867,571</u>



Fiduciary Fund Financial Statements

Private Purpose Trust Funds:

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

Child Care Trust Fund - This 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, 2006

	Thomas Lee Charity Fund	Child Care Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 21,023	\$ 149,374	\$ 170,397
Total assets	<u>21,023</u>	<u>149,374</u>	<u>170,397</u>
LIABILITIES			
Accounts payable	72	-	72
Total liabilities	<u>72</u>	<u>-</u>	<u>72</u>
NET ASSETS			
Held in trust	<u>\$ 20,951</u>	<u>\$ 149,374</u>	<u>\$ 170,325</u>

City of Petaluma

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Fiduciary Funds - Private Purpose Trust Funds

For the year ended June 30, 2006

	Thomas Lee Charity Fund	Child Care Fund	Total
ADDITIONS:			
Investment income	\$ 547	\$ 3,949	\$ 4,496
Total revenues	<u>547</u>	<u>3,949</u>	<u>4,496</u>
DEDUCTIONS:			
Administrative costs	-	2,445	2,445
Total expenditures	<u>-</u>	<u>2,445</u>	<u>2,445</u>
Change in net assets	<u>547</u>	<u>1,504</u>	<u>2,051</u>
NET ASSETS:			
Beginning of year	20,404	147,870	168,274
End of year	<u>\$ 20,951</u>	<u>\$ 149,374</u>	<u>\$ 170,325</u>

City of Petaluma
Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>General Agency Funds</u>				
Assets:				
Cash and investments	\$ 2,107,495	\$ 3,022,344	\$ (3,013,513)	\$ 2,116,326
Total assets	\$ 2,107,495	\$ 3,022,344	\$ (3,013,513)	\$ 2,116,326
Liabilities:				
Accrued liabilities	\$ 2,107,495	\$ 3,016,773	\$ (3,007,942)	\$ 2,116,326
Total liabilities	\$ 2,107,495	\$ 3,016,773	\$ (3,007,942)	\$ 2,116,326
 <u>Public Community Access Fund</u>				
Assets:				
Cash and investments	\$ 156,204	\$ -	\$ (2,503)	\$ 153,701
Total assets	\$ 156,204	\$ -	\$ (2,503)	\$ 153,701
Liabilities:				
Accrued liabilities	\$ 156,204	\$ 5,291	\$ (7,794)	\$ 153,701
Total liabilities	\$ 156,204	\$ 5,291	\$ (7,794)	\$ 153,701
 <u>Assessment District Funds</u>				
Assets:				
Cash and investments	\$ 1,605,867	\$ 1,557,108	\$ (1,058,803)	\$ 2,104,172
Intergovernmental receivable	70,431	57,225	(70,430)	57,226
Restricted cash	678,189	-	(678,189)	-
Total assets	\$ 2,354,487	\$ 1,614,333	\$ (1,807,422)	\$ 2,161,398
Liabilities:				
Accrued liabilities	\$ 2,354,487	\$ 1,455,121	\$ (1,648,210)	\$ 2,161,398
Total liabilities	\$ 2,354,487	\$ 1,455,121	\$ (1,648,210)	\$ 2,161,398
 <u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 3,869,566	\$ 4,579,452	\$ (4,074,819)	\$ 4,374,199
Intergovernmental receivable	70,431	57,225	(70,430)	57,226
Restricted cash	678,189	-	(678,189)	-
Total assets	\$ 4,618,186	\$ 4,636,677	\$ (4,823,438)	\$ 4,431,425
Liabilities:				
Accrued liabilities	\$ 4,618,186	\$ 4,477,185	\$ (4,663,946)	\$ 4,431,425
Total liabilities	\$ 4,618,186	\$ 4,477,185	\$ (4,663,946)	\$ 4,431,425

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
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>	5, 6, 7, 8, 9
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>	10, 11, 12, 13, 14
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>	15, 16, 17
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>	18, 19

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 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 Three Fiscal Years
(accrual basis of accounting)

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

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

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

	Fiscal Year		
	2004	2005	2006
Expenses:			
Governmental activities:			
General government	\$ 3,591,778	\$ (116,666)	\$ 767,089
Community development	15,567,621	15,463,212	14,526,449
Police	12,369,227	12,731,433	14,701,135
Fire	5,737,850	7,086,322	7,596,507
Parks and recreation	4,446,122	4,541,987	4,970,013
Public works	4,986,792	6,284,072	7,424,386
Debt service	2,836,883	1,156,896	1,953,163
Total governmental activities net assets	<u>49,536,273</u>	<u>47,147,256</u>	<u>51,938,742</u>
Business-type activities			
Airport	1,624,216	1,150,586	1,258,864
Ambulance	1,964,576	2,175,271	2,511,723
Marina	542,941	636,843	941,162
Public Transportation	1,340,081	1,431,130	1,637,727
Wastewater	7,525,048	8,593,484	10,674,274
Water Utility	9,814,156	9,539,452	10,048,200
Total business-type activities net assets	<u>22,811,018</u>	<u>23,526,766</u>	<u>27,071,950</u>
Total primary government activities expenses	<u>\$ 72,347,291</u>	<u>\$ 70,674,022</u>	<u>\$ 79,010,692</u>
Program Revenues :			
Governmental activities:			
Charges for services:			
General government	\$ 1,330,855	\$ 1,046,469	\$ 2,009,426
Community development	3,343,931	3,662,041	3,547,011
Police	619,937	1,204,915	823,226
Fire	525,101	583,811	548,681
Parks and recreation	1,166,680	1,431,244 ¹	1,481,006
Public works	929,151	1,545,972	259,982
Operating grants and contributions	7,657,787	2,414,691 ²	3,392,838
Capital grants and contributions	469,012	11,244,101 ²	3,816,602
Total government activities program revenues	<u>16,042,454</u>	<u>23,133,244</u>	<u>15,878,772</u>
Business-type activities			
Charges for services:			
Airport	984,202	1,031,176	1,272,124
Ambulance	1,763,361	1,799,204	1,982,093
Marina	228,078	235,068	205,910
Public Transportation	158,719	186,207	170,296
Wastewater Utility	13,444,505	13,289,537	13,621,443
Water Utility	9,976,729	9,091,568	10,424,392
Operating grants and contributions	4,446,247	3,137,622	1,183,859
Capital grants and contributions	-	-	990,059
Total business-type activities program revenues	<u>31,001,841</u>	<u>28,770,382</u>	<u>29,850,176</u>
Total primary government program revenues	<u>\$ 47,044,295</u>	<u>\$ 51,903,626</u>	<u>\$ 45,728,948</u>

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

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

- (1) Public works costs increased in 2005 as a result of increased street maintenance and reconstruction activity.
- (2) 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 due to developer contributions.
- (3) Redevelopment agency tax increment increased in 2005 due to increasing property values in the project areas.
- (4) Motor vehicle-in-lieu tax increased in 2005 due to increased state funding.
- (5) 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.
- (6) 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.

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

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

Notes: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

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

	Fiscal Year		
	2004	2005	2006
Revenues			
Taxes (see schedule 5)	\$ 32,060,862	\$ 34,115,853	\$ 37,373,918
Licenses, permits and fees	7,074,230	4,702,427	7,004,651
Fines, forfeitures and penalties	531,759	461,484	640,529
Use of money and property	1,426,738	2,410,608	2,709,507
Intergovernmental	10,955,677	8,667,888	8,437,421
Charges for current services	6,052,771	7,002,640	7,261,639
Other	1,800,233	12,466,301	3,549,792
Total revenues	59,902,270	69,827,201	66,977,457
Expenditures			
Current:			
General government	4,794,560	3,874,863	4,534,477
Community development	15,038,727	13,552,608	13,254,401
Police	12,225,462	12,709,603	15,148,920
Fire	6,163,772	7,116,641	7,825,626
Parks and recreation	4,149,849	4,263,778	4,809,275
Public works	4,414,278	4,985,813	6,207,522
Capital outlay	15,675,426	41,923,353	17,280,890
Debt service			
Principal	4,316,000	563,000	672,000
Interest	3,700,940	2,687,678	1,870,837
Cost of issuance	-	-	559,891
Total expenditures	70,479,014	91,677,337	72,163,839
Excess of revenues over (under) expenditures	(10,576,744)	(21,850,136)	(5,186,382)
Other Financing Sources (Uses):			
Debt issuance	-	-	18,355,000
Premium paid	-	-	161,953
Payment to escrow agent	-	-	(17,948,420)
Proceeds from the sale of assets	23,615,783	8,756	60,908
Transfers in	47,231,862	71,642,416	19,431,281
Transfers out	(47,955,862)	(70,150,553)	(18,132,350)
Total other financing sources (uses)	22,891,783	1,500,619	1,928,372
Net change in fund balances	\$ 12,315,039	\$ (20,349,517)	\$ (3,258,010)
Debt service as a percentage of noncapital expenditures (1)	14.63%	6.53%	4.63%

Notes: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

(1) 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 Three Fiscal Years

Tax type	Fiscal Year			% Change 2004-2006
	2004	2005	2006	
Property	\$ 17,214,712	\$ 18,570,923	\$ 20,211,085	17.41%
Sales and Use	10,030,124	10,313,999	10,726,182	6.94%
Occupancy	1,169,119	1,182,897	1,395,574	19.37%
Franchise	1,813,523	1,840,187	2,690,147	48.34%
Property Transfer	1,407,014	1,756,647	1,936,582	37.64%
Other	426,370	451,200	414,348	-2.82%
Total taxes	\$ 32,060,862	\$ 34,115,853	\$ 37,373,918	

Schedule 6

City of Petaluma, CA

Assessed Value and Estimated Actual Value of Taxable Property,
Last Three Fiscal Years

City

Fiscal Year	Secured Property	Unsecured Property	Less: Tax-Exempt Property	Total Taxable Assessed Value
2004	\$ 5,294,819,536	\$ 480,013,128	\$ (82,261,355)	\$ 5,692,571,309
2005	5,722,477,031	615,814,178	(83,986,218)	6,254,304,991
2006	6,225,079,545	608,213,942	(83,074,728)	6,750,218,759

Redevelopment Agency

Fiscal Year	Secured Property	Unsecured Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate (1)
2004	\$ 1,058,679,795	\$ 354,068,122	\$ (6,192,118)	\$ 1,406,555,799	1.14
2005	1,123,050,779	494,438,143	(6,432,958)	1,611,055,964	1.14
2006	1,194,266,828	492,122,499	(6,330,688)	1,680,058,639	1.12

Notes:

(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.

Source: Sonoma County Auditor-Controller

Schedule 7
City of Petaluma, CA
Direct and Overlapping Property Tax Rates,
(rate per \$100 of assessed value)
Last Three Fiscal Years

	2004	2005	2006
Direct Rate:			
Basic Proposition 13 statewide rate (1)	1.0000	1.0000	1.0000
WS Dam-Russian River Project	0.0070	0.0070	0.0070
Petaluma High school bonds	0.0324	0.0300	0.0200
Sonoma County Junior College bonds	0.0250	0.0250	0.0250
Petaluma Elementary school bonds	0.0480	0.0480	0.0480
Old Adobe Elementary school bonds	0.0266	0.0256	0.0220
Total Direct Rate:	1.1390	1.1356	1.1220

Notes:

(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.

Source: Sonoma County Auditor-Controller Office

Schedule 8
City of Petaluma, CA
Principal Property Tax Payers,
Current Year and Nine Years Ago

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Sequoia Equities Cypress	\$ 49,808,320	1	0.89%	\$ -		
CRP Holdings A-1 LLC	32,250,000	2	0.57%			
EQR Lakeville Resort General PTP	31,685,964	3	0.56%	27,092,810	4	0.85%
CA-Redwood Business Park II	25,002,450	4	0.45%			
Minnesota Mining & Manufacturing	24,215,303	5	0.43%	21,122,672	5	0.66%
Lok Petaluma Marina Hotel	23,385,348	6	0.42%			
Regency Petaluma LLC	22,888,798	7	0.41%			
CA-Redwood Business Park I	22,500,000	8	0.40%			
Redwood Gateway LLC	21,388,537	9	0.38%			
Syers Properties	18,761,676	10	0.33%	13,972,605	7	0.48%
G&W / Redwood Associates	-			33,777,890	1	1.06%
California Hive-Down Inc	-			31,838,636	2	0.99%
Chelsea OCA Realty Group	-			30,039,530	3	0.94%
Friedman, Morton & Marcine	-			15,386,710	6	0.44%
Kaiser Foundation Health Plan	-			13,637,017	8	0.43%
G&W Redwood Assoc Joint Venture	-			12,414,728	9	0.39%
Crocker, Jane TR	-			12,379,883	10	0.39%
	\$ 271,886,396		4.85%	\$ 211,662,481		6.63%
Total Taxable Assessed Value	\$ 5,610,309,954			\$ 3,192,495,943		

Source: Sonoma County Auditor-Controller

Schedule 9
City of Petaluma, CA
Property Tax Levies and Collections,
Last Three Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	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%

Notes:

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.

Source: Sonoma County Auditor-Controller Office

Schedule 10
City of Petaluma, CA
Ratios of Outstanding Debt by Type,
Last Three 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		

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		

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

Schedule 11
City of Petaluma, CA
Ratios of General Bonded Debt Outstanding
Last Three Fiscal Years

Fiscal Year	General Bonded Debt Outstanding			Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Redevelopment Tax Allocation Bonds				
2004	\$ -	\$ 45,050,000	\$ 45,050,000	3%	\$ 806	
2005	\$ -	\$ 44,555,000	\$ 44,555,000	3%	\$ 787	
2006	\$ -	\$ 45,610,000	\$ 45,610,000	3%	\$ 804	

Schedule 12
City of Petaluma, CA
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

05-06 City Assessed Valuation	\$ 6,766,794,952	(includes aircraft valuations)	
05-06 Redevelopment Agency Incremental Valuation	<u>(1,299,298,374)</u>		
Adjusted Assessed Valuation	\$ 5,467,496,578		

	Total Debt	% Applicable (1)	City's Share
	6/30/2006	Debt 6/30/06	of Debt
			6/30/2006
Overlapping Tax and Assessment Debt:			
Sonoma County Joint Community College	\$ 141,526,697	10.71%	\$ 15,163,170
Petaluma Joint Union High School District	35,816,250	74.95%	26,845,712
Old Adobe Union School District	7,017,017	88.68%	6,222,901
Petaluma City School District	24,570,000	80.99%	19,900,226
Waugh School District Community Facilities District #1	10,640,000	100.00%	10,640,000
City of Petaluma 1915 Act Bonds	9,452,200	100.00%	9,452,200
Sonoma County Sunnyslope Assessment District	220,000	100.00%	<u>220,000</u>
Total Overlapping Tax and Assessment Debt			<u><u>88,444,209</u></u>
Direct and Overlapping General Fund Debt:			
Sonoma County General Fund Obligations	\$ 37,965,000	10.82%	\$ 4,105,915
Sonoma County Pension Obligations	296,535,000	10.82%	32,070,260
Sonoma County Office of Education COP	3,610,000	10.82%	390,422
Sonoma County Joint Community College GF Obligation	2,625,000	10.71%	281,243
Petaluma Joint Union High School District COP	8,450,000	74.95%	6,333,613
City of Petaluma General Fund Obligations	6,130,000	100.00%	<u>6,130,000</u>
Total Direct and Overlapping General Fund Debt:			<u><u>49,311,453</u></u>
Combined Total Debt			<u><u>\$ 137,755,662</u></u> (2)

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 2006-06 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.31%

Ratios to Adjusted Assessed Valuation"

Combined Direct Debt (\$6,130,000) 0.11%

Combined Total Debt 2.52%

State School Building Aid Repayment as of 6/30/06 \$ -

Source: California Municipal Statistics, Inc.

Schedule 13
City of Petaluma, CA
Legal Debt Margin Information
Last Three 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%

*gross tax increment

** all bonded debt

Schedule 14
City of Petaluma, CA
Pledged-Revenue Coverage
Last Three 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	

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	

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	

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	

* 125% required
** 100% required

Statement 15
City of Petaluma, CA
Demographic and Economic Statistics,
Last Three Calendar Years

Calendar Year	Population	Personal Household Income <i>(in thousands of dollars)</i>	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2003	55,884	\$ 61,679	\$ 17,875	36.9	16,739	3.20%
2004	56,632	\$ 61,679	\$ 18,650	37.1	16,597	4.90%
2005	56,727	\$ 63,726	\$ 18,775	37.1	16,845	3.80%

Sources:

Sonoma County Economic Development Board (Economic and Demographic Profile Series)
Petaluma Area Chamber of Commerce

Schedule 16
City of Petaluma, CA
Principal Employers
Current Year and Nine Years Ago

Employer	2006			1997 (2)		
	Employees(1)	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Kaiser Permanente	1,217	1	3.98%			
United States Postal Services	775	2	2.53%			
Hansel Honda	701	3	2.29%	511	N/A	N/A
Petaluma Valley Hospital	500	4	1.63%			
City of Petaluma	330	5	1.08%			
Petaluma School District	300	6	0.98%			
Old Adobe Union School District	250	7	0.82%			
North Bay Construction	250	8	0.82%			
Petaluma Poultry Processors	200	9	0.65%			
Safeway	200	10	0.65%			
Sola Optical				960	N/A	N/A
Advanced Fibre Communications				650	N/A	N/A
Santa Rosa Junior College (1)	2,350					

Notes:

- (1) Data provided by the North Bay Business Journal. The total employees at the Petaluma campus is not available; this figure represents the total employees at the three campuses.
- (2) Unable to obtain the top ten employers for 1997. The data presented was made available from the North Bay Business Journal archives.

Sources:

Argus Courier (2006 Petaluma Almanac; 2005 calendar year statistics)
North Bay Business Journal

Schedule 17

City of Petaluma, CA

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

Last Three Fiscal Years

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

Schedule 18
City of Petaluma, CA
Operating Indicators by Function/Program,
Last Three Fiscal Years

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

Notes:

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

Schedule 19
City of Petaluma, CA
Capital Asset Statistics by Function/Program
Last Three Fiscal Years

Function/Program	Fiscal Year		
	2004	2005	2006
Police			
Stations	1	1	1
Zone offices	1	1	1
Patrol units	40	40	59
Fire			
Fire stations	3	3	3
Ambulances	3	3	4
Public works			
Streets (miles)	170	170	170
Highways (miles)	0.80	0.80	0.80
Streetlights	5,043	5,043	4,740
Traffic Signals	45	47	48
Park and recreation			
Acreage	200	200	200
Parks	43	43	43
Community centers	2	2	2
Recreation facilities	3	3	3
Ball/soccer fields	40	40	43
Tennis court	7	7	7
Turning basin public dock footage	995	995	995
Community swimming pools	2	2	2
Library	1	1	1
Water			
Water mains (miles)	245	245	250
Fire hydrants	2,312	2,658	2,405
Aqueduct stations	8	8	8
Wells	20	18	18
Valves	6,864	6,799	6,965
Reservoirs, finished water (total capacity - 13.1 mg)	10	10	11
Wastewater			
Booster stations (24 pumps)	11	11	11
Sanitary sewers (miles)	N/A	N/A	192
Storm sewers (miles)	N/A	N/A	142
Treatment capacity (thousands of gallons)	1,898	1,898	1,898
Transit - buses	8	8	9
Airport			
Runway length	3,600	3,600	3,600
City hangars	127	127	182

Notes:

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