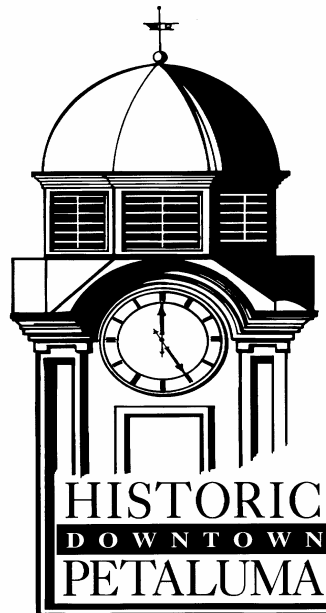


**PETALUMA COMMUNITY
DEVELOPMENT COMMISSION**

CITY OF PETALUMA, CALIFORNIA

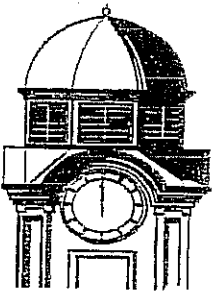
**BASIC FINANCIAL STATEMENTS and
Independent Auditors' Reports
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



Petaluma Community Development Commission
Basic Financial Statements
For the year ended June 30, 2006

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PETALUMA COMMUNITY
DEVELOPMENT COMMISSION

11 English Street, P.O. Box 61, Petaluma CA 94953-0061 (707) 778-4345

November 18, 2006

Commissioners:

It is our pleasure to submit to you the Basic Financial Statements of the Petaluma Community Development Commission (PCDC). 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 (GAAS), by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby submit the Financials Statement of PCDC for the fiscal year ended June 30, 2006.

For the fiscal year ended June 30, 2006, PCDC 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. PCDC'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 PCDC. 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 PCDC 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 PCDC's financial statements. Because the cost of internal controls should not outweigh their benefits, PCDC's comprehensive framework of internal controls has been designed to provided 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.

PCDC Financial Statements have been audited by Caporicci & Larson (C&L) 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 PCDC, 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 PCDC'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.

PROFILE

PCDC is a redevelopment agency, formed in December 1, 1975, pursuant to the California Health and Safety Code, Part 1, division 24, commencing with section 33000.

The City Council of the City of Petaluma serves as the governing body of PCDC. The City Manager acts as the Executive Director, the City Administrative Services Director is the Treasurer, and the City Clerk is the Secretary.

PCDC is divided into four funds:

Special Revenue Funds, which include, Low/Moderate Income Housing, Donations and Grants,

Central Business District (CBD) Project Area, which includes CBD administration, programs and capital improvement projects,

Petaluma Community Development (PCD) Project Area, which includes PCD administration, programs and capital improvement projects, and

Debt Service Fund.

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 PCDC operates. 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. Currently, 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.

PCDC tax increment continues to increase, as property values rise. Housing prices have stabilized in the past six months, due to overall decline in housing market. But commercial property values in the redevelopment areas continue to increase as redevelopment projects are completed and new ones are initiated. Gross PCDC tax increment increased \$860,000 from the prior year, 6.5%

Additional information concerning the finances of PCDC is contained in the notes to the basic financial statements. PCDC has refrained from duplicating information in this transmittal letter, which is contained in the Management Discussion and Analysis (MD&A) or in the notes.

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, 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, Kate Lloyd, Senior Accountant, and Cindy Juandy, Accountant. 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 PCDC finances.

Respectfully submitted,



Michael A. Bierman
Executive Director



Steven Carmichael
Administrative Services Director/Treasurer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund, of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma (City), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2006 on our consideration of Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary information as listed in the table of contents, are not a required part of the basic financial statements but are 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 Commission's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson

Oakland, California
November 17, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- PCDC assets exceeded its liabilities at June 30, 2006 by \$10.3 million (net assets). Of this amount, negative \$9.6 million was invested in capital assets, net of related debt. The restricted balance was: restricted for community development projects \$16.6 million, and restricted for debt service \$0.7 million. Net assets unrestricted balance was \$2.6 million.

Fund Financial Statements

- At the close of the fiscal year, the PCDC's governmental funds, including the special revenue funds, debt service funds, and capital project funds, reported combined ending fund balances of \$17.3 million, a decrease of \$4.9 million from the prior year. The 2006 fund balance was comprised of \$49.2 million reserved fund balances, producing a deficit unreserved fund balance of \$31.9 million.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to PCDC's Basic Financial Statements. The Basic Financial Statements consist of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains other required 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 PCDC's finances, in a manner similar to a private-sector business. On the Government-Wide Financial Statements, PCDC has only governmental activities.

The Statement of Net Assets presents information on all of PCDC's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in the net assets may serve as a useful indicator of whether the financial position of PCDC is improving or deteriorating.

The Statement of Activities presents the change in the agency's net assets during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The Government-Wide Financial Statements can be found on pages 14 - 15 of this report.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS, CONTINUED

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. PCDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of PCDC are governmental funds. Included in this type of funds are special revenue funds, debt service funds, and capital project funds. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund Statements provide a detailed short-term view of PCDC's operations and services provided.

Governmental Funds - Governmental funds account for basically the same functions 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 the agency'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 PCDC's major funds (all PCDC funds are considered major funds):

- Redevelopment Agency Special Revenue Funds,
- Redevelopment Agency Central Business District Project Area Capital Project Fund,
- Redevelopment Agency Petaluma Community Development Project Area Capital Project Fund
- Redevelopment Debt Service Fund

The Basic Governmental Fund Financial Statements are on pages 20 - 26 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 27 - 44 of this report.

OTHER INFORMATION

In addition to the Basic Financial Statements and accompanying notes, this report also presents certain required supplementary information. The budgetary comparison statements have been provided for the governmental funds to demonstrate compliance with the legal provision of the 2005-2006 appropriation ordinance. The Required Supplementary Information begins on page 45 - 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets are an indicator of the agency's financial position. In the case of the PCDC, the net assets (the amount by which total assets exceeded total liabilities) equaled \$10.3 million at the close of the fiscal year.

The largest portion of the agency's net assets (61%) reflect assets restricted for community development projects. The majority of PCDC's revenue comes from tax increment, the use of which is restricted by law. A minor portion of net assets is restricted for debt service. Net assets invested in capital assets, net of related debt is a negative amount, as debt is in excess of capital assets. During 05-06 PCDC contributed its capital assets to the City of Petaluma. The agency retains only construction in progress (CIP), until it is completed. As CIP is completed, it will be contributed to the City. The City is required to maintain all PCDC assets, as PCDC funds cannot be used for maintenance. Thus the City is required to report these assets as City assets. 25% of PCDC's net assets are unrestricted and may be used to meet the agency's ongoing obligations to citizens and creditors, subject to restrictions of various funding sources, as applicable.

As stated earlier, net assets of PCDC decreased 31%, to \$10.3 million. This is a result of the \$12.2 million asset contribution to the City.

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

	Governmental Activities		Change Increase
	2006	2005	(Decrease)
Assets:			
Capital Assets (net)	\$ 35,491	\$ 36,551	\$ 1,060
Other Assets	23,020	27,432	4,412
Total Assets	58,511	63,983	5,472
Liabilities:			
Long-term Liabilities	44,069	44,685	616
Other Liabilities	4,097	4,304	207
Total Liabilities	48,166	48,989	823
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	(9,634)	(8,631)	1,003
Restricted	17,338	774	(16,564)
Unrestricted	2,641	22,851	20,210
Total Net Assets	\$ 10,345	\$ 14,994	\$ 4,649

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED
--

Statement of Activities and Changes in Net Assets - PCDC's total revenues (ignoring the contribution to the City) were consistent with the prior year's, approximately \$17.7 million.

The total program costs were also consistent with prior year's, with a small decrease of \$0.7 million (8%).

Summary of Changes in Net Assets
For The Years Ended June 30, 2006 and 2005
(in thousands)

	Governmental Activities		Change Increase/(decrease)
	2006	2005	
Revenues:			
Program Revenue:			
Charges for Services	\$ 18	\$ 58	\$ (40)
Operating Grants and Contributions	105	563	(458)
	324	-	324
Total Program Revenue	447	621	(174)
General Revenues:			
Tax Increment	14,181	13,318	863
Investment Earnings	456	1,179	(723)
Miscellaneous	292	107	185
Contributions to City	(12,286)	-	(12,286)
Transfers from City	2,259	2,199	60
Total General Revenues	4,902	16,803	(11,901)
Total Revenues	5,349	17,424	(12,075)
Expenses:			
Community Development	8,039	8,749	(710)
Interest on Long-Term Debt	1,959	1,076	883
Total Expenses	9,998	9,825	173
Excess of Revenues over Expenses	(4,649)	7,599	(12,248)
Net Assets:			
Beginning Assets	14,994	7,395	7,599
Ending Net Assets	\$ 10,345	\$ 14,994	\$ (4,649)

FUND FINANCIAL STATEMENT ANALYSIS
--

Governmental Funds-The focus of the PCDC's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing PCDC's financing requirements. In particular, unreserved fund balance is service as a useful measure of the agency' net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, PCDC reported combined ending fund balances of \$17.3 million. This is a decrease of \$4.9 million from the prior year, primarily due to the planned use of funds for the capital projects.

\$49.3 million of the fund balance is reserved (\$1.6 million for encumbrances, \$14.2 million for notes receivable, \$31.1 million for long-term advances and due from other funds, \$1.3 million advances to City, and the balance for land held for resale and debt service). Unreserved fund balance reported in special revenues funds is \$2.1 million, and unreserved funds reported in capital project funds were a negative \$34.1 million.

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

	Governmental Activities		Change Increase/(decrease)
	2006	2005	
Assets:			
Current assets	\$ 35,246	\$ 13,678	\$ 21,568
Non-current assets	17,433	46,604	(29,171)
Total	<u>52,679</u>	<u>60,282</u>	<u>(7,603)</u>
Liabilities:			
Current liabilities	1,354	3,321	(1,967)
Non-current liabilities	33,980	34,734	(754)
Total	35,334	38,055	(2,721)
Fund Balance:			
Reserved	49,263	48,894	369
Unreserved, undesign in sp rev funds	2,135	1,434	701
Unreserved, undesign in debt svc funds	-	(500)	500
Unreserved, undesign in cap proj funds	(34,053)	(27,601)	(6,452)
Total	17,345	22,227	(4,882)
Total liabilities and fund balance	<u>\$ 52,679</u>	<u>\$ 60,282</u>	<u>\$ (7,603)</u>

FUND FINANCIAL STATEMENT ANALYSIS, CONTINUED

Revenue Classified by Source

Governmental Funds

For Fiscal Years Ended June 30, 2006 and 2005

(in thousands)

	2006		2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Taxes	\$ 14,181	94%	\$ 13,318	90%	\$ 863	294%
Use of money and property	456	3%	778	5%	(322)	-110%
Intergovernmental	105	1%	563	4%	(458)	-156%
Charges for services	11	0%	23	0%	(12)	-4%
Other revenue	<u>331</u>	<u>2%</u>	<u>108</u>	<u>1%</u>	<u>223</u>	<u>76%</u>
Total	<u>\$ 15,084</u>	<u>100%</u>	<u>\$ 14,790</u>	<u>100%</u>	<u>\$ 294</u>	<u>100%</u>

Expenditures Classified by Function

Governmental Funds

For Years Ended June 30, 2006 and 2005

(in thousands)

	2006		2005		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Community development	\$ 8,133	36%	\$ 7,062	20%	\$ 1,071	-8%
Capital outlay	11,573	51%	25,766	71%	(14,193)	107%
Debt service principal	672	3%	563	2%	109	-1%
Debt service interest/fiscal charges/COI	<u>2,418</u>	<u>11%</u>	<u>2,680</u>	<u>7%</u>	<u>(262)</u>	<u>2%</u>
Total	<u>\$ 22,796</u>	<u>100%</u>	<u>\$ 36,071</u>	<u>100%</u>	<u>\$ (13,275)</u>	<u>100%</u>

PCDC BUDGETARY HIGHLIGHTS

The difference between the PCDC final amended revenue budget and the year end actual revenue amounts was a negative variance of \$8.2 million. The following summarizes the differences:

- A negative variance in PCDC special revenue funds of donation/grant revenue budgeted, but not received of \$2.1 million.
- A negative variance due to debt proceeds being \$5 million less than budgeted.
- A negative variance of \$1.1 million in available transfers in to capital project funds.

The difference between the PCDC final amended appropriations and the year end actual expenditures was a negative variance of \$21.4 million. The following summarizes the differences:

- The unbudgeted amount of \$17.4 million in debt service fund for payments to escrow agent and cost of issuance related to refunding of TAB.
- Expenditures over budget for capital outlay of \$8 million, due to timing issues.
- Positive variances of \$3.6 million in the special revenue funds, due in part to lack of donation and grant revenue, which resulted in transfers out less than budgeted. Positive variance of in PCD funds resulting from ERAF shift and program costs less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION
--

Capital Assets

PCDC's capital assets as of June 30, 2006 consisted of construction in progress, and equaled \$35.5 million. (There is no depreciation associated with construction in progress.) Total investment in capital assets decreased by the net amount of approximately \$1 million. Detailed information about PCDC's capital assets is contained in Note 7.

Capital Assets (Net of Depreciation)

As of June 30, 2006 and 2005

(in thousands)

	2006	2005	Increase (Decrease)
Land	\$ -	\$ 756	\$ (756)
Construction in progress	35,491	33,604	1,887
Building/Improvements	-	914	(914)
Infrastructure	-	1,278	(1,278)
Total	\$ 35,491	\$ 36,552	\$ (1,061)

Long-term Debt

At the end of the current fiscal year, PCDC had total long term debt of \$45.1 million, which is secured by future tax increment revenue. The Moody's rating for PCDC is A1(uninsured). Additional information about PCDC's long-term debt is in Note 8 of this report.

Governmental Activities Long-Term Debt

As of June 30, 2006 and 2005

(in thousands)

	2006	2005	Increase (Decrease)
2000A Tax Allocation Bonds	\$ 430	\$ 17,265	\$ (16,835)
2000B Tax Allocation Bonds	585	685	(100)
2001A Tax Allocation Bonds	2,700	2,975	(275)
2003A Tax Allocation Bonds	23,630	23,630	-
Unamortized Bonds Issuance Discount			
for 2003A Tax Allocation Bonds	(13)	(13)	-
2005A Tax Allocation Bonds	18,265	-	18,265
Deferred Amount on Refunding			
for 2005A Tax Allocation Bonds	(1,198)	-	(1,198)
Unamortized Bonds Issuance Premium			
for 2005A Tax Allocation Bonds	157	-	157
Assessment District 19 TAB	570	642	(72)
Total	\$ 45,126	\$ 45,184	\$ (58)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Petaluma's economy, and like-wise PCDC's, is clearly linked to the national and state economies. These continue to grow at a sluggish rate. The local economy is further impacted by the slow rebound in the Petaluma high tech industry. However, property values continue to rise in Sonoma County, and tax increment growth is healthy.

CONTACTING PCDC'S FINANCIAL MANAGEMENT

The Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of PCDC's finances. Questions about this report should be directed to the Administrative Services Department, at 11 English Street, Petaluma, California 94952.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Petaluma Community Development Commission
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 3,863,082
Restricted cash and investments with fiscal agents	151,121
Accounts receivable, net	465,339
Intergovernmental receivables	424,990
Total current assets	4,904,532
Noncurrent assets:	
Advances to the City of Petaluma	1,274,686
Noncurrent receivables	1,584,080
Notes receivable	14,171,716
Deferred charges	683,130
Land held for resale	402,053
Construction in progress	35,491,251
Total noncurrent assets	53,606,916
Total assets	58,511,448
LIABILITIES	
Current liabilities:	
Accounts payable	1,327,718
Wages payable	26,675
Interest payable	366,141
Due to the City of Petaluma	1,200,701
Refundable deposits	75,000
Compensated absences - due within one year	6,392
Long-term debt - due within one year	1,094,448
Total current liabilities	4,097,075
Noncurrent liabilities:	
Compensated absences - due in more than one year	37,787
Long-term debt - due in more than one year	44,031,368
Total noncurrent liabilities	44,069,155
Total liabilities	48,166,230
NET ASSETS	
Invested in capital assets, net of related debt	(9,634,565)
Restricted for:	
Debt service	686,807
Community development projects	16,651,723
Total restricted	17,338,530
Unrestricted	2,641,253
Total net assets	\$ 10,345,218

See accompanying Notes to Basic Financial Statements.

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

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
Community development	\$ 8,426,932	\$ 18,417	\$ 104,995	\$ 324,132	\$ 447,544	\$ (7,979,388)
Interest on long-term debt	2,059,180	-	-	-	-	(2,059,180)
Total governmental activities	\$ 10,486,112	\$ 18,417	\$ 104,995	\$ 324,132	\$ 447,544	(10,038,568)
General Revenues, Contributions and Transfers:						
Tax increment						14,180,657
Investment earnings						456,288
Miscellaneous						779,266
Contributions to the City of Petaluma						(12,285,789)
Transfers from the City of Petaluma						2,259,301
Total general revenues, contributions and transfers						5,389,723
Change in net assets						(4,648,845)
Net assets - beginning of year						14,994,063
Net assets - end of year						\$ 10,345,218

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Petaluma Community Development Commission
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds		
	Redevelopment Special Revenue	Redevelopment Debt Service Fund	Central Business District Project Area Capital Project Fund
ASSETS			
Cash and investments	\$ 3,324,566	\$ 535,686	\$ 1,434
Restricted cash and investments with fiscal agents	-	151,121	-
Receivables:			
Accounts receivable, net	461,707	-	-
Intergovernmental receivables	110,680	-	96,016
Due from other fund	-	-	-
Advances to City of Petaluma	-	-	-
Notes receivable	12,238,980	-	60,956
Noncurrent receivables	1,411,530	-	-
Land held for resale	-	-	-
Total assets	\$ 17,547,463	\$ 686,807	\$ 158,406
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 259,727	\$ -	\$ 580,137
Wages payable	5,751	-	17,629
Deferred revenue	1,899,042	-	-
Refundable deposits	-	-	-
Due to the City of Petaluma	-	-	1,200,701
Due to other funds	-	-	30,109,999
Total liabilities	2,164,520	-	31,908,466
Fund Balances:			
Reserved:			
Encumbrances	1,009,000	-	-
Notes receivable	12,238,890	-	60,956
Land held for resale	-	-	-
Long-term advances and due from other funds	-	-	-
Advances to City of Petaluma	-	-	-
Debt service	-	686,807	-
Unreserved, undesignated reported in:			
Special revenue fund	2,135,053	-	-
Capital projects funds	-	-	(31,811,016)
Total fund balances	15,382,943	686,807	(31,750,060)
Total liabilities and fund balances	\$ 17,547,463	\$ 686,807	\$ 158,406

See accompanying Notes to Basic Financial Statements.

Major Funds		
Petaluma Community Development Project Area Capital Project Fund		Total Governmental Funds
\$ 1,396		\$ 3,863,082
-		151,121
3,632		465,339
218,294		424,990
30,341,999		30,341,999
1,274,686		1,274,686
1,871,780		14,171,716
172,550		1,584,080
402,053		402,053
<u>\$ 34,286,390</u>		<u>\$ 52,679,066</u>
\$ 487,854		\$ 1,327,718
3,295		26,675
463,029		2,362,071
75,000		75,000
-		1,200,701
232,000		30,341,999
<u>1,261,178</u>		<u>35,334,164</u>
621,200		1,630,200
1,871,780		14,171,626
402,053		402,053
31,097,999		31,097,999
1,274,686		1,274,686
-		686,807
-		2,135,053
(2,242,506)		(34,053,522)
<u>33,025,212</u>		<u>17,344,902</u>
<u>\$ 34,286,390</u>		<u>\$ 52,679,066</u>

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

Total Fund Balances - Total Governmental Funds \$ 17,344,902

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: 35,491,251

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. 2,362,071

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 consisting of bonds and notes payable, were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences (44,179)
Long-term debt - due within one year (1,094,448)
Long-term debt - due in more than one year (44,031,368)

Net Assets of Governmental Activities \$ 10,345,218

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

	Major Funds		
	Redevelopment Special Revenue	Redevelopment Debt Services	Central Business District Project Area Capital Projects
REVENUES:			
Taxes	\$ 2,741,130	\$ -	\$ 1,018,606
Licenses, permits and fees	-	-	787
Use of money and property	31,549	7,209	44,086
Intergovernmental	104,995	-	-
Charges for services	10,923	-	-
Other revenues	324,132	-	720
Total revenues	3,212,729	7,209	1,064,199
EXPENDITURES:			
Current:			
Community development	886,139	840,030	540,665
Capital outlay	-	-	9,139,824
Debt service:			
Principal	-	672,000	-
Interest	-	1,752,821	87,804
Cost of issuance	-	559,891	-
Total expenditures	886,139	3,824,742	9,768,293
REVENUES OVER (UNDER) EXPENDITURES	2,326,590	(3,817,533)	(8,704,094)
OTHER FINANCING SOURCES (USES):			
Debt issuance	-	18,355,000	-
Premium paid	-	161,953	-
Refunding payment to escrow	-	(17,948,420)	-
Transfers in from the City of Petaluma	-	-	1,483,600
Transfers out to the City of Petaluma	-	-	-
Transfers in	-	4,258,200	497,133
Transfers out	(442,829)	-	(140,500)
Total other financing sources (uses)	(442,829)	4,826,733	1,840,233
Net change in fund balances	1,883,761	1,009,200	(6,863,861)
FUND BALANCES:			
Beginning of year	13,499,182	(322,393)	(24,886,199)
End of year	\$ 15,382,943	\$ 686,807	\$ (31,750,060)

See accompanying Notes to Basic Financial Statements.

<u>Major Funds</u>		
<u>Petaluma Community</u>		<u>Total</u>
<u>Development</u>		<u>Governmental</u>
<u>Project Area</u>		<u>Funds</u>
<u>Capital Projects</u>		
\$ 10,420,921	\$	14,180,657
-		787
373,444		456,288
-		104,995
-		10,923
5,988		330,840
<u>10,800,353</u>		<u>15,084,490</u>
5,865,822		8,132,656
2,432,804		11,572,628
-		672,000
17,077		1,857,702
-		559,891
<u>8,315,703</u>		<u>22,794,877</u>
<u>2,484,650</u>		<u>(7,710,387)</u>
-		18,355,000
-		161,953
-		(17,948,420)
1,081,501		2,565,101
(305,800)		(305,800)
150,196		4,905,529
(4,322,200)		(4,905,529)
<u>(3,396,303)</u>		<u>2,827,834</u>
(911,653)		(4,882,553)
<u>33,936,865</u>		<u>22,227,455</u>
<u>\$ 33,025,212</u>	<u>\$</u>	<u>17,344,902</u>

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in
Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (4,882,553)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

The PCDC transferred all capital assets recorded in the financial statement to the City. Since capital assets do not require current financial resources, these amounts were not recorded in the Fund Financial Statements. (12,285,789)

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. 11,225,515

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. 779,265

Compensated absences are 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, Compensated absences are not reported as expenditures in Governmental Funds. 52,837

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 represents the current year amortization. 559,891

Bond issuance costs 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 issuance costs is capitalized and amortized over the life of the bonds.

Current year amortization of bond issuance costs (223,359)

Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Issuance of long-term debt (18,355,000)

Premium paid on long-term debt (161,953)

Deferred amount on refunding 1,248,420

Long-term debt repayments 17,372,000

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The amount represents the change in accrued interest from prior year. 21,881

Change in Net Assets of Governmental Activities **\$ (4,648,845)**

Petaluma Community Development Commission
Notes to Basic Financial Statements
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

The Commission has no power to levy and collect taxes.

B. Basis of Accounting and Measurement Focus

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Commission.

Petaluma Community Development Commission
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

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets are presented using the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Commission's program revenues consisted of:

- ◆ Charges for services.
- ◆ Operating grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- ◆ Due to/from other funds
- ◆ Transfers in/out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all funds as major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet.

The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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

Petaluma Community Development Commission
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

Governmental Fund Financial Statements, Continued

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

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

C. Cash and Investments

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

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

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

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

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

In accordance with GASB Statement No. 31, highly liquid money market investments with maturities of one year or less are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investment is allocated to all funds on the basis of monthly cash and investment balances.

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Restricted Cash and Investments with Fiscal Agents

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

E. Interfund Transactions

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

F. Capital Assets

Capital assets are valued at historical cost or estimated historical cost, if historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. The Commission's policy has set the capitalization threshold for reporting capital assets at the following:

General Capital Assets	\$	5,000
------------------------	----	-------

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

G. Interest Payable

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

H. Deferred Revenue

In the 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 Commission records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments and loans receivable.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences

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

A liability is calculated for all of the cost of compensated absences based on benefits earned by employees in the current period, for which there is a probability of payment at termination. The salary and related payroll costs are those in effect as of June 30, 2006. Compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements.

J. Long-Term Debt

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

K. Net Assets and Fund Equity

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

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity, Continued

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

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

L. Use of Estimates

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

M. Property Tax

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2006 consisted of the following:

Cash and investments pooled with the City	\$	3,863,082
Restricted cash and investments		<u>151,121</u>
Total cash and investments	\$	<u><u>4,014,203</u></u>

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

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

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

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

3. LAND HELD FOR RESALE

Land held for resale is recorded in capital projects funds at the lower of cost or estimated net realizable value. The available fund balance is reserved in an amount equal to the carrying value of land and buildings held for resale because such assets are not available to finance the Commission's current operations. The amount recorded as assets held for resale and the corresponding fund balance reserved as of June 30, 2006, was \$402,053.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

4. NOTES RECEIVABLE

At June 30, 2006, the Agency had the following loans receivable:

Housing Loans		
575 Vallejo St. Associate	\$	851,184
Buckelew Blvd. Apartments		363,951
Downtown River Associate LLC		3,662,836
Parklane Apartment Corp		172,500
579 Vallejo St. Associate		990,000
Salishan Apartments, Inc.		388,380
Lieb St. Apt. Inc.		810,241
Edith St. Apartment		889,964
Old Elm Partner, LP.		1,305,961
Roundwalk Village Partners		933,400
Wood Sorrel		629,646
Lind Storefront Program		60,956
Casa Grande		1,240,918
		<hr/>
Total Housing Loans		12,299,936
Sheraton Marina Hotel (Owners Participation Agreement)		750,000
Sheraton Marina Hotel (TOT Owners Participation Agreement)		1,121,780
		<hr/>
Total	\$	14,171,716
		<hr/> <hr/>

Housing Loans

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

Sheraton Marina Hotel (Owners Participation Agreement)

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 continue in equal monthly payments over ten years.

Sheraton Marina Hotel (TOT Owners Participation Agreement)

The Petaluma Community Development Commission loaned the developer mentioned above two thirds of the monthly Transient Occupancy Tax (TOT) generated by the same hotel mentioned above, to a maximum of \$2,000,000. The 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

5. DEFERRED REVENUE

Deferred revenue in the Governmental Funds Financial Statements as of June 30, 2006 was reported as follows:

Interest receivable on Notes Receivable:	
575 Vallejo St. Associate	\$ 330,177
Bucklew Blvd. Apartments	14,687
Downtown River Associate LLC	308,597
Parklane Apartment Corp	1,636
579 Vallejo St. Associate	245,888
Salishan Apartments, Inc.	93,212
Lieb St.Apt. Inc.	51,767
Edith St. Apartment	152,486
Old Elm Partner, LP.	213,080
Sheraton Marina Hotel (Owners Participation Agreement)	107,506
Sheraton Marina Hotel (TOT Owners Participation Agreement)	47,538
	<hr/>
Total interest on Notes receivable	1,566,573
Developer contributions	487,512
Advances to other funds	307,986
	<hr/>
Total deferred revenue	\$ 2,362,071

6. INTERFUND ACTIVITIES

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
	Petaluma Community Development Project Area Capital Projects Fund
	<hr/>
Governmental funds:	
Petaluma Community Development Project Area	
Capital Project Fund	\$ 232,000
Central Business District Project Area Capital Project Fund	30,109,999
	<hr/>
Total	\$ 30,341,999

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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. INTERFUND ACTIVITIES, Continued

B. Advances to the City of Petaluma

The Petaluma Community Development Project Area Capital Project Fund advance \$1,274,686 to the Marina for debt service payments.

C. Transfers In/Out

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

Transfers Out	Transfers In				
	Redevelopment Debt Service Fund	Central Business District Project Area Capital Project Fund	Petaluma Community Development Project Area Capital Project Fund	Total	
	Redevelopment Special Revenue Fund	\$ -	\$ 300,133	\$ 142,696	\$ 442,829
	Central Business District Project Area Capital Projects Fund	133,000	-	7,500	140,500
Petaluma Community Development Project Area Capital Projects Fund	4,125,200	197,000	-	4,322,200	
Total	\$ 4,258,200	\$ 497,133	\$ 150,196	\$ 4,905,529	

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

7. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2006 were as follows:

	Balance July 1, 2005	Additions	Transfers to the City	Balance June 30, 2006
Non-depreciable:				
Land	\$ 756,303	\$ -	\$ (756,303)	\$ -
Construction in progress	33,604,465	11,225,515	(9,338,729)	35,491,251
Total non-depreciable	34,360,768	11,225,515	(10,095,032)	35,491,251
Depreciable assets:				
Building and improvements	1,086,954	-	(1,086,954)	-
Accumulated depreciation for building and improvements	(173,544)	-	173,544	-
Vehicles and equipment	25,499	-	(25,499)	-
Accumulated depreciation for vehicles and equipment	(25,499)	-	25,499	-
Infrastructure	2,932,781	-	(2,932,781)	-
Accumulated depreciation for infrastructure	(1,655,434)	-	1,655,434	-
Total depreciable assets, net	2,190,757	-	(2,190,757)	-
Total	\$ 36,551,525	\$ 11,225,515	\$ (12,285,789)	\$ 35,491,251

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2006 were as follows:

	Balance			Balance	Due within	Due in more
	July 1, 2005	Additions	Deletions	June 30, 2006	One Year	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 2003A 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 Discount for 2005A Tax Allocation Bonds	-	161,953	(4,859)	157,094	4,859	152,235
Assessment District 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.

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

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 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, 2006, 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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

2001A Tax Allocation Bonds, Continued

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 were 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.

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 discount of \$14,217 which is being amortized over the 30 years life of the bonds resulting in an annual amortization of \$474. The amount outstanding at June 30, 2006 was \$12,795.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

2005A Tax Allocation Bonds

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

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 Commission 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

Auto Plaza DDA

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.

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	\$ 570,000	\$ 139,976	\$ 709,976

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.

Non-Agency Obligation Debt

Oakmont project – the Redevelopment Agency issued \$4,750,000 in Multifamily Housing Revenue Bonds, with a variable rate of interest, not to exceed 12%, with the variable rate to be determined by the marketing agent. The bonds will mature April 1, 2026. Current balance is \$3,850,000. 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

Non-Agency Obligation Debt, Continued

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.

Non-Agency Defeased Debt

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

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

9. COMPENSATED ABSENCES

The Agency accrues a liability for the vested and unpaid compensated absences (accrued vacation, sick leave, compensatory time and administrative leave). The balance at June 30, 2006 was \$44,179.

	Balance			Balance	Due in	Due in More
	July 1, 2005	Additions	Deletions	June 30, 2006	One Year	Than One Year
Governmental activities	\$ 97,016	\$ 53,506	\$ (106,343)	\$ 44,179	\$ 6,392	\$ 37,787
Total	\$ 97,016	\$ 53,506	\$ (106,343)	\$ 44,179	\$ 6,392	\$ 37,787

10. COMMITMENT AND CONTINGENCIES

The Commission had year-end commitments, construction commitments was \$3,695,347 and professional services commitments was \$96,154, for construction related contracts, awarded but not completed, as of June 30, 2006.

The Commission contributed to the construction of the downtown parking garage, a project which was also funded by Special Assessment District 14. The Commission pays parking credit to the district's property owners, who own residential property, or who own business and provide improved off-street parking in the district. The parking credits totaled \$53,044 for the fiscal year ended June 30, 2006, and are not to exceed \$56,000 in any one year.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

10. COMMITMENT AND CONTINGENCIES, Continued

Pass-through Agreements

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

During the fiscal year, the Petaluma Community Development Project Area received \$4,071,986 in tax increment revenue, which was passed-through to the County, the Library and the School Districts mentioned above. This amount was recorded as both tax increment revenue and general government expenditure. Additionally the State of California's ERAF shirt, which in included in tax increment revenue and general government expenditures, totaled \$894,053 for the fiscal year ended June 30, 2006.

The Central Business District Project Area was amended in 2001. The tax increment related to the increased project area is subject to a statutory pass-through amount of 25%. During the current fiscal year, the Central Business District Project Area received \$120,134 in tax increment and ERAF was \$10,000, which both were passed-through to various other local governmental agencies, with the highest pass-through amount going to Sonoma County, School Districts and the City of Petaluma. This amount was recorded as tax increment revenue and as a general government expenditure.

11. DEFICIT NET ASSETS AND FUND BALANCE

Government-Wide Financial Statements

In the Government-Wide Financial Statements, Governmental Activities had deficit net assets of \$25,543,295. This is due to the fact that PCDC debt is presented on the PCDC Government-Wide Financial Statements, but the related capital assets are presented on the City Government-Wide Financial Statement.

Fund Financial Statements

At June 30, 2006, the following funds had deficit fund balances:

Funds	Deficit
Redevelopment CBD Capital Projects Fund	\$ (31,750,060)

The deficit in the Redevelopment CBD admin/program Fund will be combined with \$33,000,000 positive fund balance of RDA PCD once project area merger is completed in 2006.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

12. 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.

REQUIRED SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Required Supplementary Information
For the year ended June 30, 2006

1. BUDGETS AND BUDGETARY ACCOUNTING

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

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

Reported budget figures are as originally adopted or subsequently amended and include prior year encumbrances. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse and become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2006, was adopted and approved by the Commissioners for the special revenue, debt service and capital projects funds. These budgets are prepared on the modified accrual basis of accounting. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. However the budget for the capital projects funds are approved by the Commissioners annually.

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

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

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SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Debt Service Fund
For the year ended June 30, 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):				
Fines and forfeitures	-	-	7,209	7,209
Transfers from other funds	2,836,800	4,258,200	4,258,200	-
Debt issuance	(23,006,650)	565,000	18,355,000	17,790,000
Premium paid	-	-	161,953	161,953
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	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

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Central Business District Project Area Capital Project 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
Fines, forfeitures and penalties	-	-	44,086	44,086
Use of money and property	3,500	3,500	-	(3,500)
Other	-	-	720	720
Transfers from other funds	254,000	760,500	497,133	(263,367)
Transfers from the City of Petaluma	1,483,600	1,483,600	1,483,600	-
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)

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Petaluma Community Development Project Area Capital Project 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	1,425,499	1,771,999	150,196	(1,621,803)
Transfers from the City of Petaluma	1,081,501	1,081,501	1,081,501	-
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 and fiscal charges	-	-	17,077	(17,077)
Transfers to other funds	2,914,000	4,378,200	4,322,200	56,000
Transfers to the City of Petaluma	305,800	305,800	305,800	-
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)

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

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

We have audited the basic financial statements of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma (City), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 17, 2006. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving internal control over financial reporting that we have reported to management of the Commission in a separate letter dated November 17, 2006.

This report is intended for the information of management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Oakland, California
November 17, 2006

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