

Petaluma Community Development Commission

Petaluma, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2004

Petaluma Community Development Commission
Basic Financial Statements
For the year ended June 30, 2004

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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, 2004, 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, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

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 inquires 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
December 8, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Petaluma Community Development Commission (PCDC) implemented the provisions of the Government Accounting Standards Board Statement 34 (GASB 34), "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", for the 2003-2004 fiscal year. GASB 34 requires fundamental changes in accounting and reporting of fiscal information in an effort to make government financial performance clearer and more understandable to readers. More detailed discussion and analysis of financial activities, particularly in comparing results to the prior fiscal year and to the 2003-2004 fiscal budget are being presented. Other required changes are described in the financial statements. To obtain an accurate conception of the redevelopment agency's financial condition, this document should be read in conjunction with the accompanying letter of transmittal and basic financial statements.

The basic financial statement is presented in three sections:

- *Introductory Section*, which includes the letter of transmittal;
- *Financial Section*, which includes:
 - the independent auditor's report,
 - management's discussion and analysis
 - basic financial statements
 - schedules of budget to actual comparisons: and
- *Compliance Section*

PCDC is comprised of two project areas, the Central Petaluma Business District (CBD) Project Area, and the Petaluma Community Development (PCD) Project Area. Each of these project areas has a capital project fund and a debt service fund. Additionally, included in the redevelopment agency is the Low/Moderate Income Housing Special Revenue Fund, as legally required. All of these funds are considered to be major funds in the basic financial statements of PCDC.

FINANCIAL HIGHLIGHTS

- PCDC net assets exceeded its liabilities at June 30, 2004 by \$7.4 million (net assets). Total net assets were restricted by law.
- PCDC's net assets decreased, using the full accrual method, \$3.1 million during the fiscal year ended June 30, 2004. This was a decrease of 29% over the prior year balance.
- PCDC reserved fund balance increased \$30.7 million from the prior year (285%). The unreserved fund balance decreased \$13.7 million (101%).
- PCDC total fund balances increased \$17 million from the prior year (69.8%).
- During the current year, PCDC revenues, on the modified accrual basis, decreased to \$13 million, 15.4% decrease over the prior year. Expenditures, on the modified accrual basis, increased to \$17 million, 45.9% increase over the prior year.
- The resources available for appropriation (including transfers), on the budgetary basis, were \$24.7 million more than budgeted (78%). Expenditures, on the budgetary basis, were \$.15 million less than budgeted (.97%).
- The PCDC issued Tax Allocation Bonds (TAB's) in October, 2003 in the amount of \$23.6 million. These bond proceeds are shown in the Statement of Revenues, Expenditures and Changes in Fund Balance - in the "Other Financing Sources (Uses) Section". These bond proceeds are earmarked for capital and infrastructure projects.

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 basic financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide a broad overview of PCDC's finances, in a manner similar to a private-sector business. On the government-wide financial statements, governmental activities are differentiated from business-type activities. 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, increases 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 information on how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about each of PCDC's funds, all of which are considered to be major funds. The concept of major funds, and the determination of which are major funds, was established by GASB 34. This replaces the concept of combining like-type funds and presenting them in total. Instead, each major fund is presented individually.

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 converted to cash. The governmental fund statements provide a detailed short-term view of PCDC's operations and services provided.

RECONCILIATION

Included in the basic financial statements is a reconciliation between the government-wide financial statements and the fund financial statements. It is useful to compare the information presented in the fund financial statements, which focus on financial resources available for expenditure in the near future, with similar information presented in the government-wide financial statements, which include assets, liabilities, revenues and expenses which may not have a current period impact on financial condition. Thus the long-term impact of the government's near-term financing decisions is clarified.

BUDGET

PCDC adopts an annual appropriated budget for all funds. The basic financial statements include budgetary comparison statements for Low/Moderate Income housing Special Revenue Fund to demonstrate compliance with the annual budget. Budgetary comparison statements have been provided for all of the funds in the combining section of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual (Non-GAAP Budgetary Basis) with Budget to GAAP Reconciliation, Low/Moderate Income Housing Special Revenue Fund.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) WITH BUDGET TO GAAP RECONCILIATION

The combining statements, following the notes to the basic financial statements, include budget to actual comparisons for the debt services funds and the capital project funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Net assets of PCDC decreased 29%, to \$7.4 million. The largest portion of net assets (\$23 million) is legally restricted for debt service. Additionally, \$11.9 million is restricted for community development projects, with the balance of \$15.2 million for other capital projects. Net assets invested in capital asset, net of related debt is a deficit (\$34.1 million), since the amount of debt exceeds the value of capital assets. This resulted from the fact that debt is used to finance redevelopment projects, not all of which are assets of the redevelopment agency. Finally, there is a negative balance of \$8.6 million in unrestricted net assets. This means that assets legally required to be spent in a certain manner exceed the amount of assets available for expenditure.

	FY 02-03	FY 03-04	
	Governmental	Governmental	Change
	Activities	Activities	Increase
	(in \$000)	(in \$000)	(Decrease)
Assets:			
Capital Assets (net)	\$ 4,635	\$ 10,842	\$ 6,207
Other Assets	27,352	46,443	19,092
Total Assets	31,987	57,286	25,299
Liabilities:			
Long-term Liabilities	22,684	45,242	22,558
Other Liabilities	1,503	4,650	3,147
Total Liabilities	24,187	49,892	25,705
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	(8,283)	(34,130)	(25,847)
Restricted	21,343	50,172	28,829
Unrestricted	(2,579)	(8,647)	(6,067)
Total Net Assets	\$ 10,481	\$ 7,394	\$ (3,087)

The summary of changes in net assets provides information on how the net assets increased for PCDC operations.

PCDC's total revenues decreased by 5.4% over the prior year, to approximately \$13 million. The decrease was a result of receipts in the amount of \$3.5 million in FY 2002-03 from the Army Corps of Engineers for the previous year's flood control project. The PCDC received an additional \$300,000 from the Corps of Engineers for continued flood project work in FY 2003-04. It should be noted that property tax increments increased by \$820,000 for FY 2003-04 over the prior year's actual.

The total cost of programs and services increased by \$5.4 million (on the modified accrual basis) or 45.9%. The major salient items for the increase include \$5.9 million increase in capital outlay projects; and \$0.73 million reduction in Community Development expenditures.

	FY 03-04 Governmental Activities (in\$000)
Revenues:	
Program Revenue:	
Charges for Services	\$ 38
Operating Grants and Contributions	345
Total Program Revenue	<u>383</u>
General Revenue:	
Tax Increment	11,909
Investment Earnings	638
Other Revenue	59
Total General Revenue	<u>12,606</u>
Total Revenues	<u>12,989</u>
Expenses:	
Community Development	6,862
Interest on Long-Term Debt	2,642
Total Expenses	<u>9,504</u>
Excess of Revenues over Expenses	<u>3,485</u>
Transfers to the City of Petaluma	(6,572)
Changes in Net Assets	(3,087)
Increase in Net Assets:	
July 1, 2003 Net Assets as Restated	10,481
June 30, 2004 Net Assets	7,394
Changes in Net Assets	<u>\$ 3,087</u>

FUND FINANCIAL ANALYSIS

LOW/MODERATE INCOME HOUSING SPECIAL REVENUE FUND FINANCIAL HIGHLIGHTS

During the year ended June 30, 2004, the 20% set-aside of tax increment from the redevelopment project areas to the low/moderate income housing fund was accounted for using the direct method, as required by SB 109. Thus this fund has tax increment revenue, rather than transfers in from CBD and PCD project areas, as was the method of accounting used in prior years.

During the year ended June 30, 2004, the Low/Moderate Income Housing Special Revenue Fund program expenditures were \$534,834. This included housing programs and projects that meet the requirements of Low to Moderate Income criteria.

Reserved fund balances for this fund is \$10 million for notes receivable. This amount includes a prior period adjustment of \$2.7 million, increasing the notes receivable from various non-profit agencies. The unreserved, undesignated fund balance is \$1.9 million.

CBD PROJECT AREA DEBT SERVICE FUND FINANCIAL HIGHLIGHTS

During the year ended June 30, 2004, this fund had investment revenue of approximately \$20,000 and debt service interest expenditures of approximately \$41,000. Additionally, \$95,000 was spent on debt service principal on the Tax Allocation Bonds. \$139,000 was transferred from the CBD Capital Project Fund to CBD Debt Service Fund to pay for debt service principal and interest payments.

PCD PROJECT AREA DEBT SERVICE FUND FINANCIAL HIGHLIGHTS

During the year ended June 30, 2004, this fund had a significant increase in investment earnings of \$167,564 due to the large cash balances from the bond proceeds held by the trustee bank and allocated to this fund. Total debt service payments (principal and interest) increased by \$163,000 over the previous year due to the new debt created by the new TAB. In addition, Interest and Fiscal Charges expenditures were \$3,442,755, of which a portion represents the cost of issuance of the Tax Allocation Bonds, Series 2003A. In Other Financing Sources, a transfer was made into the debt service fund of \$3 million from the PCD Capital Project Fund to pay for debt service principal and interest payments.

CBD PROJECT AREA CAPITAL PROJECT FUND FINANCIAL HIGHLIGHTS

Revenues in this fund were slightly greater (\$41,361) than last year's. This included approximately \$63,000 in increased tax increment and \$9,000 in charges for services over the prior year.

\$7.1 million represents costs for capital outlay in fiscal year 2003-04. The major portion of the capital outlay was for the CPSP Theatre District project, the Railroad Depot Leasehold Improvements project and the Downtown Improvement project.

In addition, a short term/cash flow loan was established in the amount of \$2.7 million to the CBD from the Low to Moderate Income Housing Fund. This loan will be paid as soon as the bond proceeds are drawn from the trustee bank (in process).

PCD Project Area Capital Project Fund Financial Highlights

Revenues in this fund were \$9.6 million, a decrease of 29%. This was due to \$3.5 million received from the Federal Army Corps of Engineers as reimbursement for prior year expenditures related to the flood control project. An additional \$300,000 was received in FY 2003-04 from the Army Corps of Engineers for continued flood project work. At June 30, 2004, \$598,862 additional tax increment revenue was reported in this fund over the previous year, an increase of 7%.

Community development expenditures increased to \$5 million, a 10.5% increase. This increase was a result of increased pass through of tax increment to other agencies, ERAF shift, and increased expenditures for salary/benefits and professional services.

Capital outlay expenditures increased to \$357,259 for June 30, 2004, an increase of 235%. This increase was due to increased project activity in fiscal year 2003-04.

The PCD Project Area Capital Project Fund has loaned \$5.5 million to the CBD Project Area Capital Project Fund, to finance the improvements and programs in the CBD project area. It is anticipated that the improvements in the CBD area will result in an increase in property valuations, which in turn will lead to an increase in tax increment collected, which can then be used to repay the interfund loan from the PCD project area. There are preliminary discussions about merging the two districts. In that event, the loans would be offset and extinguished.

PCDC BUDGETARY HIGHLIGHTS

The difference between the PCDC original budget and the final amended budget was an increase of \$2.2 million (8.6%). The following summarizes the differences:

- An increase in the Low to Moderate Income Housing Fund in the amount of \$345,000 for additional programs/projects.
- PCDC Debt Service was reduced by \$615,050 due to lower interest rates on the TAB’s in the first year. This was not originally anticipated.
- Central Business District (CBD) Project Fund increased by \$2.3 million for downtown projects including the Theatre District and the Railroad Depot.
- Petaluma Community Development Project Fund was increased by \$185,400 for projects outside the Central Business District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

GASB 34 requires the City to record all of its capital assets including infrastructure. Infrastructure includes land, buildings, park facilities, roads, bridges and similar assets used by the entire population. PCDC’s investment in capital assets for its governmental activities as of June 30, 2004, was \$10.8 million, net of accumulated depreciation.

- This year, major construction projects included:
 1. Petaluma River Access Plan
 2. Petaluma Central Business District Streetscape Master Plan
 3. Theatre District Project/Downtown Plan
 4. Petaluma Railroad Depot

PCDC’s fiscal year 2005 capital budget calls for it to spend \$22 million for capital projects, principally for the continued work on the CPSP Theater District (\$4.7 million) and the Downtown Improvements (\$5.8 million). Additional major projects include the Riverwalk Improvement/Water Street and Turning Basin (\$2.6 million) and the River Trail Enhancement (\$1.4 million). More detailed information about PCDC’s capital assets is presented in the notes to the financial statements.

Debt

Each of PCDC’s debt issues is discussed in detail in the Notes to the Financial Statements. At June 30, 2004, PCDC’s debt was comprised of the following:

	2003	2004	Increase (Decrease)
Tax Allocation Bonds	\$ 21,900	\$ 45,036	\$ 23,136
Assessment District 19	720	710	(10)
	<u>\$ 22,620</u>	<u>\$ 45,746</u>	<u>\$ 23,126</u>

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. However, several factors are evident in Petaluma and Sonoma County that are resulting in Petaluma being somewhat immune from the overall national trends. The factor which impacts PCDC is the market value of real estate, which continues to rise in Petaluma, and reflects the general market of Sonoma County and its surrounding region.

The City uses, among other sources, economic reports issued by the UCLA Anderson Forecast and the Economic Development Board of Sonoma County. The former provides detailed economic forecasts for the State, while the latter provides reviews of economic trends in Sonoma County. Detailed information about the economic analysis, revenue assumptions can be obtained from the City of Petaluma's 2004-2005 Budget, which includes PCDC, and is available through the City's Finance Department.

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 Finance 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, 2004

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 2,365,805
Restricted cash and investments with fiscal agents	29,917,264
Interest receivable	947,404
Intergovernmental receivables	101,044
Total current assets	<u>33,331,517</u>
Noncurrent assets:	
Advances to the City of Petaluma	1,274,685
Notes receivable	11,126,335
Deferred charges	309,257
Land held for resale	402,053
Capital assets:	
Nondepreciable	8,675,887
Depreciable, net	2,166,211
Total capital assets, net	<u>10,842,098</u>
Total noncurrent assets	<u>23,954,428</u>
Total assets	<u>57,285,945</u>
LIABILITIES	
Current liabilities:	
Accounts payable	905,541
Wages payable	22,990
Interest payable	393,692
Deposits payable	50,000
Due to the City of Petaluma	2,700,000
Compensated absences - due within one year	14,841
Long-term debt - due within one year	562,526
Total current liabilities	<u>4,649,590</u>
Noncurrent liabilities:	
Compensated absences - due in more than one year	58,220
Long-term debt - due in more than one year	45,183,731
Total noncurrent liabilities	<u>45,241,951</u>
Total liabilities	<u>49,891,541</u>
NET ASSETS	
Invested in capital assets, net of related debt	<u>(34,130,159)</u>
Restricted for:	
Debt service	23,088,068
Community development projects	11,917,395
Capital projects	15,166,090
Total restricted	<u>50,171,553</u>
Unrestricted	<u>(8,646,990)</u>
Total net assets	<u>\$ 7,394,404</u>

See accompanying Notes to Basic Financial Statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Total	
Primary government:					
Governmental activities:					
Community development	\$ 6,861,823	\$ 37,649	\$ 345,651	\$ 383,300	\$ (6,478,523)
Interest and fiscal charges on long-term debt (unallocated)	2,642,381	-	-	-	(2,642,381)
Total governmental activities	\$ 9,504,204	\$ 37,649	\$ 345,651	\$ 383,300	(9,120,904)
General Revenues and Transfers:					
Tax increment					11,908,633
Investment earnings					638,182
Miscellaneous					59,019
Transfers to the City of Petaluma					(6,572,000)
Total general revenues and transfers					6,033,834
Change in net assets					(3,087,070)
Net assets - beginning of year, as restated (Note 9)					10,481,474
Net assets - end of year					\$ 7,394,404

See accompanying Notes to Basic Financial Statements.

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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, 2004

	Major Funds			
	Low/Moderate Income Housing Special Revenue	Central Business District Project Area Debt Service Fund	Petaluma Community Development Project Area Debt Service Fund	Central Business District Project Area Capital Project Fund
ASSETS				
Pool cash and investments	\$ 1,864,164	\$ 69,678	\$ 22,880,821	\$ 53,058
Restricted cash and investments with fiscal agents	-	99,135	115,965	-
Interest receivable	788,256	6,934	-	1,175
Intergovernmental receivables	20,341	-	-	8,535
Notes receivable	10,029,629	-	-	-
Land held for resale	-	-	-	-
Advances to other funds	-	-	-	-
Advances to City of Petaluma	-	-	-	-
Total assets	\$ 12,702,390	\$ 175,747	\$ 22,996,786	\$ 62,768
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,112	\$ -	\$ 30	\$ 796,913
Wages payable	1,757	-	-	9,509
Customer deposits	-	-	-	-
Deferred revenue	771,126	-	-	-
Advances from other funds	-	-	-	5,504,000
Due to the City of Petaluma	-	-	-	2,700,000
Total liabilities	784,995	-	30	9,010,422
Fund Balances:				
Reserved:				
Encumbrances	252,290	-	-	6,430,414
Notes receivable	10,029,629	-	-	-
Land held for resale	-	-	-	-
Advances to City of Petaluma	-	-	-	-
Long-term advances	-	-	-	-
Debt service	-	175,747	22,996,756	-
Unreserved, undesignated	1,635,476	-	-	(15,378,068)
Total fund balances	11,917,395	175,747	22,996,756	(8,947,654)
Total liabilities and fund balances	\$ 12,702,390	\$ 175,747	\$ 22,996,786	\$ 62,768

See accompanying Notes to Basic Financial Statements.

Major Funds	
Petaluma Community Development Project Area Capital Project Fund	Total Governmental Funds
\$ (22,501,916)	\$ 2,365,805
29,702,164	29,917,264
151,039	947,404
72,168	101,044
1,096,706	11,126,335
402,053	402,053
5,504,000	5,504,000
1,274,685	1,274,685
<u>\$ 15,700,899</u>	<u>\$ 51,638,590</u>

\$ 96,486	\$ 905,541
11,724	22,990
50,000	50,000
376,599	1,147,725
-	5,504,000
-	2,700,000
<u>534,809</u>	<u>10,330,256</u>

1,930,663	8,613,367
1,096,706	11,126,335
402,053	402,053
1,274,685	1,274,685
5,504,000	5,504,000
-	23,172,503
4,957,983	(8,784,609)
<u>15,166,090</u>	<u>41,308,334</u>
<u>\$ 15,700,899</u>	<u>\$ 51,638,590</u>

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

Total Fund Balances - Total Governmental Funds \$ 41,308,334

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. The capital assets were adjusted as follows:

Nondepreciable	8,675,887
Depreciable, net	2,166,211

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.

1,147,725

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

309,257

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

(393,692)

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

Compensated absences - due within one year	(14,841)
Compensated absences - due in more than one year	(58,220)
Long-term debt - due within one year	(562,526)
Long-term debt - due in more than one year	(45,183,731)

Net Assets of Governmental Activities \$ 7,394,404

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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, 2004

	Major Funds			
	Low/Moderate Income Housing Special Revenue	Central Business District Project Area Debt Service	Petaluma Community Development Project Area Debt Service	Central Business District Project Area Capital Projects
REVENUES:				
Taxes	\$ 2,276,239	\$ -	\$ -	\$ 573,869
Investment earnings and rents	48,469	19,869	167,564	1,213
Intergovernmental	60,803	-	-	-
Charges for services	18,165	-	-	19,484
Other revenues	12,200	42,805	-	2,433
Total revenues	2,415,876	62,674	167,564	596,999
EXPENDITURES:				
Current:				
Community development	534,834	-	-	-
Capital outlay	-	-	-	7,145,125
Debt service:				
Principal	-	95,000	449,000	-
Interest and fiscal charges	-	41,054	3,422,755	-
Total expenditures	534,834	136,054	3,871,755	7,145,125
REVENUES OVER (UNDER)				
EXPENDITURES	1,881,042	(73,380)	(3,704,191)	(6,548,126)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of bonds	-	-	23,615,783	-
Transfers in	-	139,000	3,031,500	14,733,300
Transfers out	-	-	-	(14,872,300)
Transfers in from the City of Petaluma	-	-	-	280,000
Transfers out to the City of Petaluma	-	-	-	-
Total other financing sources (uses)	-	139,000	26,647,283	141,000
Net change in fund balances	1,881,042	65,620	22,943,092	(6,407,126)
FUND BALANCES:				
Beginning of year	7,355,241	110,127	53,664	(2,540,528)
Prior period adjustment (Note 9)	2,681,112	-	-	-
End of year	\$ 11,917,395	\$ 175,747	\$ 22,996,756	\$ (8,947,654)

See accompanying Notes to Basic Financial Statements.

Major Funds		
Petaluma Community Development Project Area Capital Projects		Total Governmental Funds
\$ 9,058,525	\$	11,908,633
222,188		459,303
284,848		345,651
-		37,649
1,581		59,019
<u>9,567,142</u>		<u>12,810,255</u>
5,025,135		5,559,969
357,259		7,502,384
-		544,000
-		3,463,809
<u>5,382,394</u>		<u>17,070,162</u>
4,184,748		(4,259,907)
-		23,615,783
1,642,000		19,545,800
(4,673,500)		(19,545,800)
-		280,000
(6,852,000)		(6,852,000)
<u>(9,883,500)</u>		<u>17,043,783</u>
(5,698,752)		12,783,876
20,864,842		25,843,346
-		2,681,112
<u>\$ 15,166,090</u>	<u>\$</u>	<u>41,308,334</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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 12,783,876

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

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds. (187,923)

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 7,502,384

Loss on the disposal of capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, it is not reported as revenues in Governmental Funds. (1,106,917)

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. 178,879

Long-term 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, long-term compensated absences are not reported as expenditures in Governmental Funds. (7,014)

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. (474)

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 (10,664)

 Amount recognized as expenditure on the Governmental Funds Financial Statements 319,921

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

 Bond proceeds (23,615,783)

 Long-term debt repayments 544,000

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. 512,645

Change in Net Assets of Governmental Activities \$ (3,087,070)

Petaluma Community Development Commission
Notes to Basic Financial Statements
For the year ended June 30, 2004

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, 1988, amended in February 2000.

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

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

The Commission has no power to levy and collect taxes.

B. Basis of Accounting and Measurement Focus

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements

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

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

The Commission's program revenues consisted of:

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

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:

- ◆ Advances 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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

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

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

C. Cash and Investments

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

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 derivatives and similar transactions. LAIF's investments are subject to credit and market risk.

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.

D. Restricted Cash and Investments

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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
------------------------	----------

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Building and Improvements	10 - 50 Years
Vehicles and Equipment	4 - 15 Years
Infrastructure	20 - 50 Years

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Commission's infrastructure capital assets are combined with building and improvements and amounted to \$2,749,684, at June 30, 2004.

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. 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Long-Term Debt, Continued

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.

I. Net Assets

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

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

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.

J. Fund Balances – Reservations and Designations

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.

The following is a listing of the Commission’s reserves:

- ◆ **Reserved for Encumbrances** represents commitments for materials and services on purchase orders and contracts, which are unperformed.
- ◆ **Reserved for Land held for resale** represents amounts invested in land held for resale.
- ◆ **Reserved for Debt service** represents amounts accumulated in accordance with a bond indenture or similar covenant.
- ◆ **Reserved for Notes receivable, Long-term advances and Advances to City of Petaluma** represents amounts not available for use as current resources.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Property Taxes

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.

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.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2004 consisted of the following:

Cash and investments pooled with the City	\$ 2,365,805
Restricted cash and investments	29,917,264
Total cash and investments	\$ 32,283,069

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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

2. CASH AND INVESTMENTS, Continued

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 custodial risk categorization.

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, 2004, was \$402,053.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

4. NOTES RECEIVABLE

At June 30, 2004, the Agency had the following loans receivable:

Housing Loans:	
575 Vallejo St. Association	\$ 851,184
Parklane Apartments	177,115
Roundwalk Village Partners	933,400
579 Vallejo St. Association	990,000
Salishan Apartments, Inc.	388,380
Edith St Apartments	889,964
Old Elm Partners, LP	1,305,961
Downtown River Associate, LP	3,662,247
Lieb Sr. Apartments, Inc.	585,000
Bucklew Project	95,601
Casa Grande	150,777
Total Housing Loans	<u>10,029,629</u>
Sheraton Marina Hotel (Owners Participation Agreement)	750,000
Sheraton Marina Hotel (TOT Owners Participation Agreement)	346,706
Total	<u><u>\$ 11,126,335</u></u>

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, 2004

5. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Non-depreciable:				
Land	\$ 756,303	\$ -	\$ -	\$ 756,303
Construction in progress	1,542,646	6,376,938	-	7,919,584
Total non-depreciable	<u>2,298,949</u>	<u>6,376,938</u>	<u>-</u>	<u>8,675,887</u>
Depreciable assets:				
Building and improvements	3,845,302	1,125,446	(1,151,472)	3,819,276
Accumulated depreciation for building and improvements	(1,510,136)	(187,484)	44,555	(1,653,065)
Vehicles and equipment	25,499	-	-	25,499
Accumulated depreciation for vehicles and equipment	(25,060)	(439)	-	(25,499)
Total depreciable assets, net	<u>2,335,605</u>	<u>937,523</u>	<u>(1,106,917)</u>	<u>2,166,211</u>
Total	<u><u>\$ 4,634,554</u></u>	<u><u>\$ 7,314,461</u></u>	<u><u>\$ (1,106,917)</u></u>	<u><u>\$ 10,842,098</u></u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2004 are as follows:

Community Development	<u>\$ 187,923</u>
Total depreciation expense	<u><u>\$ 187,923</u></u>

6. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due within One Year	Due in more Than One Year
2000A Tax Allocation Bonds	\$ 17,515,000	\$ -	\$ (125,000)	\$ 17,390,000	\$ 125,000	\$ 17,265,000
2000B Tax Allocation Bonds	880,000	-	(95,000)	785,000	100,000	685,000
2001A Tax Allocation Bonds	3,505,000	-	(260,000)	3,245,000	270,000	2,975,000
2003A Tax Allocation Bonds	-	23,630,000	-	23,630,000	-	23,630,000
Unamortized Bonds Issuance Discount for 2003A Tax Allocation Bonds	-	(14,217)	474	(13,743)	(474)	(13,269)
Assessment District 19	719,921	54,079	(64,000)	710,000	68,000	642,000
Compensated Absences	66,047	7,014	-	73,061	14,841	58,220
Total	<u><u>\$ 22,685,968</u></u>	<u><u>\$ 23,676,876</u></u>	<u><u>\$ (543,526)</u></u>	<u><u>\$ 45,819,318</u></u>	<u><u>\$ 577,367</u></u>	<u><u>\$ 45,241,951</u></u>

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

2000A Tax Allocation Bonds

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. 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, 2005, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$785,000 as of June 30, 2004.

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

2001A Tax Allocation Bonds

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

2003A Tax Allocation Bonds

On October 28, 2003, the Commission issued Tax Allocation Bonds, Series 2003A in the amount of \$23,630,000. The proceeds of the bonds 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, 2004.

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

Auto Plaza DDA

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

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

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, Continued

Defeased Debt

In prior years, the Commission has defeased various bond issues by creating separate, irrevocable trust funds. New debt was issued, and the proceeds were used to purchase US government securities, which were placed in the trust funds. The investments, and fixed earnings from the investments, are expected to be sufficient to fully service the defeased debt, until the debt is called or matures. For financial reporting purposes, the debt is considered defeased. Consequently, the trusts' assets and liabilities are not included in the Commission's financial statements. At June 30, 2004, the amount of the Commission's Tax Allocation Bonds defeased outstanding was \$3,815,000.

Limited Obligation Debt

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

Oakmont project - the Commission has issued \$4,750,000 in Multifamily Housing Revenue Bonds with a variable rate of interest, not to exceed 12%, with the variable rate to be determined by the marketing agent. The bonds will mature April 1, 2026. The proceeds from the bonds were used to make a loan to Oakmont Retirement Investors, LLC for the purpose of financing the acquisition and construction of a 76-unit assisted living care/multi-family rental facility known as Oakmont at Petaluma. In August 1997, the Commission consented to a sale of the project from Oakmont Retirement Investors, LLC to Windchime of Walnut Creek Investors, LP, a California limited partnership. The bonds are special obligation of the Commission, payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by Windchime of Walnut Creek, LP. These bonds are not recorded as liabilities on the City's financial statements.

On September 15, 2003, the Commission issued Multi-family Housing Revenue Bonds and Taxable Multi-family Housing Revenue Bonds in the amount of \$12,800,000. The proceeds of the bonds will be used to finance the construction and equipping of an 81 unit, multifamily, rental housing development in the City of Petaluma, known as the "Downtown River Apartments". The bonds are special obligation of the Commission payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by the obligator.

Compensated Absences

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

6. LONG-TERM DEBT, 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 \$3,565,649 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 \$512,641 for the fiscal year ended June 30, 2004.

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 \$32,328 in tax increment, which was 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.

7. DEFERRED REVENUE

Deferred revenue in the Governmental Funds Financial Statements as of June 30, 2004 was reported as follows:

Interest receivable on:	
Notes receivable:	
575 Vallejo St. Associate	\$ 279,106
Parklane Apartment Corp	1,812
579 Vallejo St. Associate	186,488
Salishan Apartments, Inc.	69,909
Edith St. Apartment	99,088
Old Elm Partner, LP.	134,723
Sheraton Marina Hotel (Owners Participation Agreement)	6,108
Sheraton Marina Hotel (TOT Owners Participation Agreement)	62,506
Total interest on Notes receivable	<u>839,740</u>
Advances to other funds	<u>307,985</u>
Total deferred revenue	<u><u>\$ 1,147,725</u></u>

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2004

8. COMMITMENT AND CONTINGENCIES

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

The 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 \$52,337 for the fiscal year ended June 30, 2004, and are not to exceed \$56,000 in any one year.

9. PRIOR PERIOD ADJUSTMENTS

During the fiscal year 2004, the Commission recorded prior period adjustment in its Low and Moderate Income Housing Special Revenue Fund to record some notes receivable in the amount of \$2,681,112 not previously recorded.

A. Government-Wide Statements

	Net Assets as Previously Reported	Prior period Adjustment	Net Assets as Restated
Government-Wide Activities:			
Net assets	\$ 7,800,362	\$ 2,681,112	\$ 10,481,474
Total government-wide activities	<u>\$ 7,800,362</u>	<u>\$ 2,681,112</u>	<u>\$ 10,481,474</u>

B. Governmental Funds Statements

	Fund Balance as Previously Reported	Prior Period Adjustments	Fund Balance as Restated
Low and Moderate Income Housing:			
Special Revenue Fund	\$ 7,355,421	\$ 2,681,112	\$ 10,036,533
Total governmental activities	<u>\$ 7,355,421</u>	<u>\$ 2,681,112</u>	<u>\$ 10,036,533</u>

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REQUIRED SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Required Supplementary Information
For the year ended June 30, 2004

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, 2004, 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, 2004

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Low/Moderate Income Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 2,226,200	\$ 2,226,200	\$ 2,276,239	\$ 50,039
Investment earnings and rents	-	-	48,469	48,469
Intergovernmental	258,000	258,000	60,803	(197,197)
Charges for services	-	-	18,165	18,165
Other revenues	21,950	21,950	12,200	(9,750)
Total revenues	2,506,150	2,506,150	2,415,876	(90,274)
EXPENDITURES:				
Current:				
Community development	1,508,950	3,552,850	534,834	3,018,016
Capital outlay	100,000	100,000	-	100,000
Total expenditures	1,608,950	3,652,850	534,834	3,118,016
REVENUES OVER (UNDER) EXPENDITURES	897,200	(1,146,700)	1,881,042	3,027,742
Net change in fund balances	897,200	(1,146,700)	1,881,042	3,027,742
FUND BALANCES:				
Beginning of year, as restated	10,036,353	10,036,353	10,036,353	-
End of year	\$ 10,933,553	\$ 8,889,653	\$ 11,917,395	\$ 3,027,742

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SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Central Business District Project Area Debt Service Fund
For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings and rents	\$ 2,000	\$ 2,000	\$ 19,869	\$ 17,869
Other revenues	-	-	42,805	42,805
Total revenues	2,000	2,000	62,674	60,674
EXPENDITURES:				
Debt service:				
Principal	95,000	95,000	95,000	-
Interest and fiscal charges	44,000	44,000	41,054	2,946
Total expenditures	139,000	139,000	136,054	2,946
REVENUES OVER (UNDER) EXPENDITURES	(137,000)	(137,000)	(73,380)	63,620
OTHER FINANCING SOURCES (USES):				
Transfers in	139,000	139,000	139,000	-
Total other financing sources (uses)	139,000	139,000	139,000	-
Net change in fund balances	2,000	2,000	65,620	63,620
FUND BALANCES:				
Beginning of year	110,127	110,127	110,127	-
End of year	\$ 112,127	\$ 112,127	\$ 175,747	\$ 63,620

Petaluma Community Development Commission
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Petaluma Community Development Project Area Debt Service Fund
For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings and rents	\$ 18,000	\$ 18,000	\$ 167,564	\$ 149,564
Total revenues	18,000	18,000	167,564	149,564
EXPENDITURES:				
Debt service:				
Principal	449,000	449,000	449,000	-
Interest and fiscal charges	3,200,600	2,585,530	3,422,755	(837,225)
Total expenditures	3,649,600	3,034,530	3,871,755	(837,225)
REVENUES OVER (UNDER) EXPENDITURES	(3,631,600)	(3,016,530)	(3,704,191)	(687,661)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of bonds	15,000,000	15,000,000	23,615,783	8,615,783
Transfers in	3,646,550	3,031,500	3,031,500	-
Total other financing sources (uses)	18,646,550	18,031,500	26,647,283	8,615,783
Net change in fund balances	15,014,950	15,014,970	22,943,092	7,928,122
FUND BALANCES:				
Beginning of year	53,664	53,664	53,664	-
End of year	\$ 15,068,614	\$ 15,068,634	\$ 22,996,756	\$ 7,928,122

Petaluma Community Development Commission
Schedule 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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 543,400	\$ 543,400	\$ 573,869	\$ 30,469
Investment earnings and rents	235,000	235,000	1,213	(233,787)
Charges for services	-	-	19,484	19,484
Other revenues	167,000	167,000	2,433	(164,567)
Total revenues	945,400	945,400	596,999	(348,401)
EXPENDITURES:				
Capital outlay	11,180,300	13,436,350	7,145,125	6,291,225
Total expenditures	11,180,300	13,436,350	7,145,125	6,291,225
REVENUES OVER (UNDER) EXPENDITURES	(10,234,900)	(12,490,950)	(6,548,126)	5,942,824
OTHER FINANCING SOURCES (USES):				
Transfers in	13,358,000	14,733,300	14,733,300	-
Transfers out	(13,497,000)	(14,872,300)	(14,872,300)	-
Transfers in from the City of Petaluma	280,000	280,000	280,000	-
Total other financing sources (uses)	141,000	141,000	141,000	-
Net change in fund balances	(10,093,900)	(12,349,950)	(6,407,126)	5,594,423
FUND BALANCES:				
Beginning of year	(2,540,528)	(2,540,528)	(2,540,528)	-
End of year	\$ (12,634,428)	\$ (14,890,478)	\$ (8,947,654)	\$ 5,594,423

Petaluma Community Development Commission
Schedule 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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 8,911,450	\$ 8,911,450	\$ 9,058,525	\$ 147,075
Investment earnings and rents	300,000	300,000	222,188	(77,812)
Intergovernmental	-	-	284,848	284,848
Other revenues	-	-	1,581	1,581
Total revenues	9,211,450	9,211,450	9,567,142	355,692
EXPENDITURES:				
Current:	-	-	-	-
Community development	5,228,250	5,151,550	5,025,135	126,415
Capital outlay	1,642,000	1,904,100	357,259	1,546,841
Total expenditures	6,870,250	7,055,650	5,382,394	1,673,256
REVENUES OVER (UNDER) EXPENDITURES	2,341,200	2,155,800	4,184,748	2,028,948
OTHER FINANCING SOURCES (USES):				
Transfers in	1,642,000	1,642,000	1,642,000	-
Transfers out	(5,288,550)	(4,673,500)	(4,673,500)	-
Transfers out to the City of Petaluma	(3,852,000)	(6,852,000)	(6,852,000)	-
Total other financing sources (uses)	(7,498,550)	(9,883,500)	(9,883,500)	-
Net change in fund balances	(5,157,350)	(7,727,700)	(5,698,752)	2,028,948
FUND BALANCES:				
Beginning of year	20,864,842	20,864,842	20,864,842	-
End of year	\$ 15,707,492	\$ 13,137,142	\$ 15,166,090	\$ 2,028,948

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**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, 2004, and have issued our report thereon dated December 8, 2004. 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 December 8, 2004.

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.

Oakland, California
December 8, 2004

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