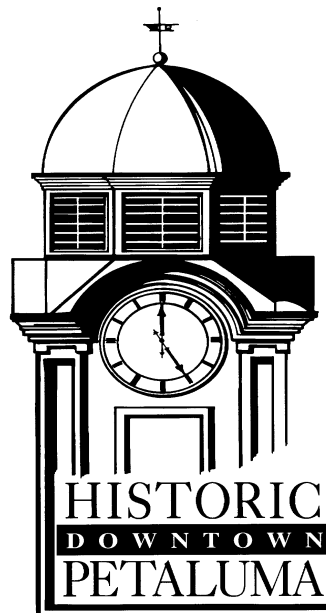


**PETALUMA COMMUNITY
DEVELOPMENT COMMISSION**

CITY OF PETALUMA, CALIFORNIA

**BASIC FINANCIAL STATEMENTS and
Independent Auditors' Reports
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**



Petaluma Community Development Commission
Basic Financial Statements
For the year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma, California (City), as of and for the year ended June 30, 2010, which collectively comprise of the Commission's basic financial statement as listed in the foregoing table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2010 on our consideration of Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and considered in assessing the results of our audit.

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 27, 2010

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Petaluma Community Development Commission
Statement of Net Assets
June 30, 2010

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 14,175,656
Restricted cash and investments with fiscal agents	17,131,971
Accounts receivable	42,026
Intergovernmental receivables	270,488
Deposits and prepaid items	675
Total current assets	<u>31,620,816</u>
Noncurrent assets:	
Interests receivable related to notes receivable	3,031,208
Notes receivable	22,746,223
Deferred charges, net	1,319,255
Capital assets:	
Nondepreciable	11,503,078
Capital assets, net	<u>11,503,078</u>
Total noncurrent assets	<u>38,599,764</u>
Total assets	<u><u>70,220,580</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	178,026
Wages payable	9,901
Interest payable	546,286
Due to the City of Petaluma	1,700,000
Refundable deposits	189,750
Unearned revenue	591
Compensated absences - due within one year	12,301
Long-term debt - due within one year	1,346,305
Total current liabilities	<u>3,983,160</u>
Noncurrent liabilities:	
Compensated absences - due in more than one year	120,175
Long-term debt - due in more than one year	69,798,574
Total noncurrent liabilities	<u>69,918,749</u>
Total liabilities	<u><u>73,901,909</u></u>
NET ASSETS	
Restricted for:	
Debt service	322,279
Capital projects	10,271,220
Special projects	24,563,889
Total restricted	<u>35,157,388</u>
Unrestricted (deficit)	<u>(38,838,717)</u>
Total net assets (deficit)	<u><u>\$ (3,681,329)</u></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, 2010

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions			
Primary government:						
Governmental activities:						
Community development	\$ 12,502,420	\$ 22,110	\$ 164,915	\$ 187,025	\$ (12,315,395)	
Tax increment pass through agreement	5,162,838	-	-	-	(5,162,838)	
Interest on long-term debt	3,389,658	-	-	-	(3,389,658)	
Total governmental activities	\$ 21,054,916	\$ 22,110	\$ 164,915	\$ 187,025	(20,867,891)	
General Revenues and Transfers:						
Tax increment					17,224,163	
Investment earnings					788,131	
Miscellaneous					158,007	
Transfers from the City of Petaluma					4,619,228	
Total general revenues and transfers					22,789,529	
Change in net assets					1,921,638	
Net assets (deficit) - beginning of year					(5,602,967)	
Net assets (deficit) - end of year					\$ (3,681,329)	

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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, 2010

	Major Funds			Total Governmental Funds
	Redevelopment Special Revenue	Redevelopment Debt Service	Redevelopment Capital Projects	
ASSETS				
Cash and investments	\$ 3,797,596	\$ 285,617	\$ 10,092,443	\$ 14,175,656
Restricted cash and investments	-	588	17,131,383	17,131,971
Receivables:				
Accounts receivable, net	4,940	36,074	1,012	42,026
Intergovernmental receivables	55,706	-	214,782	270,488
Deposits and prepaid items	548	-	127	675
Notes receivable	22,494,553	-	251,670	22,746,223
Interests receivable related to notes receivable	3,031,208	-	-	3,031,208
Total assets	\$ 29,384,551	\$ 322,279	\$ 27,691,417	\$ 57,398,247
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 26,023	\$ -	\$ 152,003	\$ 178,026
Wages payable	3,431	-	6,470	9,901
Deferred revenue	3,031,208	-	591	3,031,799
Refundable deposits	60,000	-	129,750	189,750
Due to City of Petaluma	1,700,000	-	-	1,700,000
Total liabilities	4,820,662	-	288,814	5,109,476
Fund Balances:				
Reserved:				
Encumbrances	-	-	1,631,277	1,631,277
Deposits and prepaid items	548	-	127	675
Notes receivable	22,494,553	-	251,670	22,746,223
Debt service	-	322,279	-	322,279
Capital projects	-	-	25,519,529	25,519,529
Unreserved, designated in:				
Special revenue fund	13,596	-	-	13,596
Unreserved, undesignated reported in:				
Special revenue fund	2,055,192	-	-	2,055,192
Debt service fund	-	-	-	-
Total fund balances	24,563,889	322,279	27,402,603	52,288,771
Total liabilities and fund balances	\$ 29,384,551	\$ 322,279	\$ 27,691,417	\$ 57,398,247

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds \$ 52,288,771

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. 11,503,078

Revenues which were deferred on the Governmental Funds Balance Sheet because they were not currently available were reported as revenue in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Government-Wide Statement of Net Assets. 3,031,208

Deferred charges, such as bond issuance costs, were an expenditure in the governmental funds but were capitalized and amortized over the life of the bonds in the Government-Wide Financial Statements. 1,319,255

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. (546,286)

Long-term liabilities consisting of bonds and compensated absences, 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 (12,301)

Compensated absences - due in more than one year (120,175)

Long-term debt - due within one year (1,346,305)

Long-term debt - due in more than one year (69,798,574)

Net Assets (Deficit) of Governmental Activities \$ (3,681,329)

Petaluma Community Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Major Funds			Total Governmental Funds
	Redevelopment Special Revenue	Redevelopment Debt Service	Redevelopment Capital Projects	
REVENUES:				
Taxes	\$ 3,285,294	\$ -	\$ 13,938,869	\$ 17,224,163
Use of money and property	48,389	3,126	245,204	296,719
Intergovernmental	160,332	-	4,583	164,915
Charges for services	22,110	-	-	22,110
Other	158,007	-	-	158,007
Total revenues	3,674,132	3,126	14,188,656	17,865,914
EXPENDITURES:				
Current:				
Community development	1,713,040	15,476	8,303,215	10,031,731
Tax increment pass through agreement	-	-	5,162,838	5,162,838
Capital outlay	-	-	772,336	772,336
Debt service:				
Principal	-	1,355,000	-	1,355,000
Interest and fiscal charges	-	3,280,831	-	3,280,831
Total expenditures	1,713,040	4,651,307	14,238,389	20,602,736
REVENUES OVER (UNDER) EXPENDITURES	1,961,092	(4,648,181)	(49,733)	(2,736,822)
OTHER FINANCING SOURCES (USES):				
Transfers from the City of Petaluma	-	-	4,708,225	4,708,225
Transfers to the City of Petaluma	(65,000)	-	(23,997)	(88,997)
Transfers in	-	5,000,000	158,007	5,158,007
Transfers out	(158,007)	-	(5,000,000)	(5,158,007)
Total other financing sources (uses)	(223,007)	5,000,000	(157,765)	4,619,228
Net change in fund balances	1,738,085	351,819	(207,498)	1,882,406
FUND BALANCES:				
Beginning of year (deficit)	22,825,804	(29,540)	27,610,101	50,406,365
End of year	\$ 24,563,889	\$ 322,279	\$ 27,402,603	\$ 52,288,771

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in
Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 1,882,406

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

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. 772,336

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) was to decrease net assets. (2,483,157)

Revenues which were deferred on the Governmental Funds Balance Sheet because they were not currently available in prior years were reported as revenue as they became available. In the Statement of Activities and Changes in Net Assets these amounts had been recorded in prior years, as a result they were not subject to revenue recognition in the current year. The amount represents the change in deferred revenue from the prior year. 491,412

Compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in Governmental Funds. 12,468

Bond premium and discount were recognized as expenditures on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond premium and discount were capitalized and amortized over the life of the bonds. This amount represents the current year amortization. (61,665)

Amortization expenses on bond issuance costs was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, amortization expense on bond issuance cost was not reported as an expenditure in governmental funds. (56,991)

Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.
 Long-term debt repayments 1,355,000

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it 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.

Prior year accruals	\$ 556,115	
Current year accruals	(546,286)	9,829

Change in Net Assets of Governmental Activities \$ 1,921,638

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Petaluma Community Development Commission
Notes to Basic Financial Statements
For the year ended June 30, 2010

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 accounting principles generally accepted in the United States of America (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

A. Reporting Entity

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

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

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

The Commission has no power to levy and collect taxes.

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

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, 2010

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:

- ◆ Transfers in/out
- ◆ Interfund receivable/payable

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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

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

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

C. Cash and Investments

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

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

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (an amendment of GASB No. 3)*, the Commission adheres to certain disclosure requirements, if applicable for Deposits and Investment Risks; these requirements are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

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.

D. Restricted Cash and Investments with Fiscal Agents

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

E. Interfund Transactions

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

F. Capital Assets

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Deferred Revenue

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Commission records deferred revenue for transactions for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are interest on notes receivable and loans receivable financed with federal funds.

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, 2010. 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 straight-line 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.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity

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

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 "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.

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 and agencies 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, 2010

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2010:

Cash and investments pooled with the City	\$ 14,175,656
Restricted cash and investments	<u>17,131,971</u>
Total cash and investments	<u><u>\$ 31,307,627</u></u>

Cash, cash equivalents, and investments consisted of the following at June 30, 2010:

Cash and cash equivalents:	
Demand Deposit	<u>\$ 4,023,733</u>
Total cash and cash equivalents	<u>4,023,733</u>
Investments:	
Local Agency Investment Fund	11
California Assets Management Program	1,660,642
Money Market Fund	294,528
Investments in Assessment District Bond	237,311
U.S. Government Securities:	
FFCB	269,779
FHLB	1,670,996
FHLMC	2,079,476
FNMA	2,231,280
US Regions Bank	198,987
US Treasury Notes	1,096,039
Corporate Notes	412,874
Investments with fiscal agents	<u>17,131,971</u>
Total investments	<u>27,283,895</u>
Total cash and investments	<u><u>\$ 31,307,627</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 Commission 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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Risk Disclosures

Interest Rate Risk

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

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

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

Fair value of cash and investments held in the City Treasury grouped by maturity date at June 30, 2010, are shown below:

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Maturities (in years)</u>					
		<u>1 year or less</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>
Cash deposits	\$ 4,023,733	\$ 4,023,733	\$ -	\$ -	\$ -	\$ -	\$ -
Securities of U.S. Government Agencies							
FFCB	269,779	-	269,779	-	-	-	-
FHLB	1,670,996	320,098	725,496	625,402	-	-	-
FHLMC	2,079,476	-	1,548,727	530,749	-	-	-
FNMA	2,231,280	352,625	1,258,879	619,776	-	-	-
US Regions Bank	198,987	-	198,987	-	-	-	-
US Treasury Notes	1,096,039	293,181	802,858	-	-	-	-
Corporate Notes	412,874	-	-	412,874	-	-	-
Total Securities of U.S.							
Government Agencies	7,959,431	965,904	4,804,726	2,188,801	-	-	-
Local Agency Investments Funds	11	11	-	-	-	-	-
California Asset Management Program	1,660,642	1,660,642	-	-	-	-	-
Money Market Funds	294,528	294,528	-	-	-	-	-
Investments in Assessment Dist. Bond	237,311	28,025	28,025	28,025	28,025	28,025	97,186
Cash and investments with Fiscal Agents	17,131,971	17,131,971	-	-	-	-	-
Total cash and investments	\$ 31,307,627	\$ 24,104,814	\$ 4,832,751	\$ 2,216,826	\$ 28,025	\$ 28,025	\$ 97,186

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Risk Disclosures, Continued

Credit Risk

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

At June 30, 2010, the Commission had the following deposits and investments:

	Credit Quality Ratings	
	Moody's	S&P
Investments:		
Securities of U.S. Government Agencies:		
FNMA	P-1	A-1+
Regions Bank (FDIC)	Aaa	AAA
FHLMC	Aaa	AAA
Corporate Notes	Aa2	AA+
US Treasury Notes	TSY	TSY
Local Agency Investment Funds		Not Rated
California Asset Management Program		Not Rated
Investments in Money Market Funds		Not Rated
Investment in Authority Refunding Revenue Bond		Not Rated
Investments in Assessment District Bond		Not Rated

Custodial Credit Risk

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. NOTES RECEIVABLE

At June 30, 2010, the Commission had the following notes receivable:

Housing Loans	
FIHB Program	\$ 4,399,875
Old Elm Partners	1,305,961
Roundwalk Village Partners	933,400
Boulevard (Buckelew) Project	480,200
Downtown River Associate LP	3,662,836
Edith Street Apartments, Inc.	889,964
Lieb Senior Apartments Inc.	810,241
Parklane Apartments Corp	164,486
575 Vallejo Street Association	851,184
579 Vallejo Street Association	990,000
Casa Grande	198,445
Wood Sorrel	1,144,537
Petaluma Blvd Senior Apartments	1,432,000
Logan Place	2,343,219
Salishan Apartments Inc.	388,380
Vintage Chateau	<u>2,499,825</u>
Total Housing Loans	22,494,553
Storefront Loan Program	<u>251,670</u>
Total	<u><u>\$ 22,746,223</u></u>

The 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. Management evaluated these loans and they are expected to be collected, therefore, no allowance for doubtful accounts was set up.

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

4. DEFERRED REVENUE

Deferred revenue in the Governmental Funds Financial Statements as of June 30, 2010 was reported as follows:

Interest receivable on Notes Receivable	\$ 3,031,208
Unearned revenue	<u>591</u>
Total deferred revenue	<u><u>\$ 3,031,799</u></u>

Changes in interests receivable on notes receivable are recognized as revenues in the Government-Wide Financial Statements.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. INTERFUND ACTIVITIES

Government-Wide Financial Statements

At June 30, 2010, the Commission had the following transfers between the Commission and the City.

Transfers Out		Transfers In
		Petaluma Development Commission
	City of Petaluma	\$ 4,619,228
	Total	\$ 4,619,228

At June 30, 2010, \$4,708,255 was transferred in from the City of Petaluma to refund excess money for transfers made from the Commission's funds to support the City's capital projects in prior years.

At June 30, 2010, \$88,997 was transferred out to the City of Petaluma to fund City's projects.

Fund Financial Statements

At June 30, 2010, transfers in/out were as follows:

Transfers Out		Transfers In		
		Redevelopment Debt Service	Redevelopment Capital Project	Total
	Redevelopment Special Revenue	\$ -	\$ 158,007	\$ 158,007
	Redevelopment Capital Project	5,000,000	-	5,000,000
	Total	\$ 5,000,000	\$ 158,007	\$ 5,158,007

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

6. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Non-depreciable:				
Construction in progress	\$ 13,213,899	\$ 772,336	\$ (2,483,157)	\$ 11,503,078
Total non-depreciable	13,213,899	772,336	(2,483,157)	11,503,078
Total	\$ 13,213,899	\$ 772,336	\$ (2,483,157)	\$ 11,503,078

As of June 30, 2010, the amount removed from construction in progress and transferred to the City was \$2,483,157.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2010 were as follows:

	Balance			Classification		
	July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year	Amounts Due in More than One Year
2001A Tax Allocation Bonds	\$ 1,790,000	\$ -	\$ (330,000)	\$ 1,460,000	\$ 340,000	\$ 1,120,000
2003A Tax Allocation Bonds	22,325,000	-	(460,000)	21,865,000	475,000	21,390,000
Unamortized Discount 2003A TAB	(11,373)	-	474	(10,899)	(474)	(10,425)
2005A Tax Allocation Bonds	17,955,000	-	(260,000)	17,695,000	270,000	17,425,000
Deferred amount refunding 2005A TAB	(1,048,672)	-	49,937	(998,735)	(49,937)	(948,798)
Unamortized Premium 2005A TAB	137,660	-	(6,478)	131,182	6,478	124,704
2007 Tax Allocation Bonds	31,505,000	-	(205,000)	31,300,000	220,000	31,080,000
Unamortized Discount 2007 TAB	(528,401)	-	17,732	(510,669)	(17,762)	(492,907)
Auto Plaza DDA - AD 19	314,000	-	(100,000)	214,000	103,000	111,000
Total	\$ 72,438,214	\$ -	\$ (1,293,335)	\$ 71,144,879	\$ 1,346,305	\$ 69,798,574

2001A Tax Allocation Bonds

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

At June 30, 2010, the bond had a reserve requirement of \$1,549,012. The Commission entered into an agreement with MBIA and purchased the debt service reserve surety bond to fulfill the requirement. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$1,460,000 as of June 30, 2010.

The Commission has pledged a portion of future property tax increment revenue to repay the 2001A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$1,624,255 payable through 2014.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2010 was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2011	\$ 340,000	\$ 63,340	\$ 403,340
2012	355,000	49,315	404,315
2013	375,000	34,050	409,050
2014	390,000	17,550	407,550
Total	\$ 1,460,000	\$ 164,255	\$ 1,624,255

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. LONG-TERM DEBT, Continued

2003A Tax Allocation Bonds

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

At June 30, 2010, the bond had a reserve requirement of \$1,469,737. The Commission entered into an agreement with MBIA and purchased the debt service reserve surety bond to fulfill the requirement. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$21,865,000 as of June 30, 2010.

The Commission has pledged a portion of future property tax increment revenue to repay the 2003A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$38,574,096 payable through 2033.

The annual debt service requirements outstanding at June 30, 2010 were as follows:

For the Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2011	\$ 475,000	\$ 1,026,043	\$ 1,501,043	\$ 474
2012	495,000	1,010,011	1,505,011	474
2013	505,000	992,686	1,497,686	474
2014	520,000	974,380	1,494,380	474
2015	515,000	954,230	1,469,230	474
2016-2020	2,900,000	4,434,410	7,334,410	2,370
2021-2025	3,620,000	3,722,834	7,342,834	2,370
2026-2030	4,620,000	2,759,502	7,379,502	2,370
2031-2033	8,215,000	835,000	9,050,000	1,419
Total	\$ 21,865,000	\$ 16,709,096	\$ 38,574,096	\$ 10,899

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. LONG-TERM DEBT, Continued

2005A Tax Allocation Bonds

On September 21, 2005, the Commission issued Refunding Tax Allocation Bonds, Series 2005A Tax Allocation Bonds in the amount of \$18,355,000. The proceeds of the bonds will be used to refund the 2000A Tax Allocation Bonds and finance the issuance of the 2005A Refunding Tax Allocation Bonds. The Bonds mature annually each May 1 from 2006 to 2030, in amounts ranging from \$90,000 to \$1,420,000 and bear interest at rates ranging from 5.00% to 5.75%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or before May 1, 2016, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after May 1, 2015, at a price equal to the principal amount, plus accrued interest on the redemption date.

At June 30, 2010, the bond had a reserve requirement of \$3,018,750. The Commission entered into an agreement with MBIA and purchased the debt service reserve surety bond to fulfill the requirement. The bonds are payable solely from secured tax revenues. The outstanding balance of the bonds was \$17,695,000 as of June 30, 2010.

The Commission has pledged a portion of future property tax increment revenue to repay the 2005A Tax Allocation Bonds. Total principal and interest remaining on the bond is \$28,045,407, payable through 2030.

The annual debt service requirements outstanding at June 30, 2010 were as follows:

For the Year Ending June 30,	Principal	Interest	Total	Amortization of Deferral Amount	Amortization of Bond Premium
2011	\$ 270,000	\$ 778,251	\$ 1,048,251	\$ 49,937	\$ 6,478
2012	275,000	769,814	1,044,814	49,937	6,478
2013	285,000	760,739	1,045,739	49,937	6,478
2014	300,000	751,120	1,051,120	49,937	6,478
2015	750,000	740,620	1,490,620	49,937	6,478
2016-2020	4,205,000	3,250,626	7,455,626	249,685	32,390
2021-2025	5,160,000	2,300,487	7,460,487	249,685	32,390
2026-2030	6,450,000	998,750	7,448,750	249,680	34,012
Total	\$ 17,695,000	\$ 10,350,407	\$ 28,045,407	\$ 998,735	\$ 131,182

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

In connection with the issuance of the bonds, the City recorded a deferral on refunding of debt which is reported as part of long-term debt. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. The total amount deferred was \$1,248,420 which will be amortized over the 25 year 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, 2010

7. LONG-TERM DEBT, Continued

2007 Tax Allocation Bonds

On April 10, 2007, the Commission issued Subordinate Tax Allocation Bonds, Series 2007 in the amount of \$31,825,000. The proceeds of the bonds will be used to refund the 2000B Tax Allocation Bonds and provide \$30,000,000 in project funds. The Bonds mature annually each May 1 from 2008 to 2039, in amounts ranging from \$115,000 to \$4,355,000 and bear interest at rates ranging from 4.00% to 4.5%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or before May 1, 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.

At June 30, 2010, the bond had a reserve requirement of \$2,671,548. The Commission entered into an agreement with MBIA and purchased the debt service reserve surety bond to fulfill the requirement. The bonds are payable solely from secured tax revenues. The outstanding balance of the bonds was \$31,300,000 as of June 30, 2010.

The Commission has pledged a portion of future property tax increment revenue to repay the 2007 Tax Allocation Bonds. Total principal and interest remaining on the bond is \$63,733,428 payable through 2039.

The annual debt service requirements outstanding at June 30, 2010 were as follows:

For the Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2011	\$ 220,000	\$ 1,376,911	\$ 1,596,911	\$ 17,762
2012	230,000	1,367,011	1,597,011	17,762
2013	240,000	1,357,812	1,597,812	17,762
2014	250,000	1,348,212	1,598,212	17,762
2015	255,000	1,338,212	1,593,212	17,762
2016-2020	1,435,000	6,530,060	7,965,060	88,810
2021-2025	1,735,000	6,216,640	7,951,640	88,810
2026-2030	2,110,000	5,816,804	7,926,804	88,810
2031-2035	8,500,000	5,204,814	13,704,814	88,810
2036-2039	16,325,000	1,876,952	18,201,952	66,619
Total	\$ 31,300,000	\$ 32,433,428	\$ 63,733,428	\$ 510,669

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

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. LONG-TERM DEBT, Continued

Auto Plaza DDA- AD 19

The Commission has an obligation under the Auto Center Disposition and Development Agreement, dated 1992 to refund 50% of assessments paid by property owners in relation to the Assessment District 19 Bonds. On February 3, 1992, the Assessment District 19 Bonds were issued in the amount of \$1,080,000. The proceeds of the bonds were to finance public improvements at the Auto Plaza. The Bonds mature annually each September 2 from 1997 to 2010, in amounts ranging from \$45,000 to \$103,000 and bear interest at rates ranging from 5.60% to 7.75%. Interest is payable semiannually on March 2 and September 2. The bonds are payable from and secured by assessment paid by the property owners. The outstanding balance was \$214,000 as of June 30, 2010.

The annual debt service requirements on these bonds outstanding at June 30, 2010 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2011	\$ 103,000	\$ 12,594	\$ 115,594
2012	111,000	4,301	115,301
Total	\$ 214,000	\$ 16,895	\$ 230,895

Non-Commission Obligation Debt

Oakmont project - the Commission 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 \$3,450,000. 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.

On September 15, 2003, the Commission issued Multi-family Housing Revenue Bonds and Taxable Multi-family Housing Revenue Bonds in the amount of \$6,197,000. Current balance is \$5,792,000. The proceeds of the bonds were 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. These bonds are not recorded as liabilities on the Commission's financial statements.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. LONG-TERM DEBT, Continued

Pledged Revenues

The Commission has pledged tax revenues to the repayment of the Commission's debts through the final maturity of the Bonds, or early retirement of the Bonds, whichever comes first.

Tax revenues consist of tax increment revenues allocated to the Commission's project areas pursuant to Section 33670 of the Redevelopment Law excluding that portion of such tax increment revenues required to be paid under Tax-Sharing Agreements unless the payment of such amounts has been subordinated to payment of debt service on the Bonds. Tax increment received in 2009-2010 was \$17,224,163 and total debt service of all Tax Allocation Bonds paid was \$4,515,396. The Bonds required 26% of net revenues. In future years, annual principal and interest payments on the Tax Allocation Bonds are expected to require 35% of tax increment revenues. The total principal and interest remaining to be paid on the Bonds is \$131,977,187.

8. COMPENSATED ABSENCES

The Commission accrues a liability for the vested and unpaid compensated absences (accrued vacation, sick leave, compensatory time and administrative leave). The balance at June 30, 2010 was \$132,476.

	Balance			Balance	Due in	Due in More
	July 1, 2009	Additions	Deletions	June 30, 2010	One Year	Than One Year
Governmental activities	\$ 144,944	\$ 75,690	\$ (88,158)	\$ 132,476	\$ 12,301	\$ 120,175
Total	\$ 144,944	\$ 75,690	\$ (88,158)	\$ 132,476	\$ 12,301	\$ 120,175

9. COMMITMENT AND CONTINGENCIES

A. Lawsuits

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

B. Commitments

The Commission's year-end commitments for professional services were \$1,328,382 and related construction contracts awarded were \$302,895 as of June 30, 2010.

In 1990, the Commission contributed to the North McDowell Boulevard Improvement project to finance roadway improvements; which was also funded by Assessment District 17. The Commission pays a right-of-way acquisition credit to the property owners who own residential property and also a credit to commercial property owners to maintain the low and moderate income housing use of the property. The credits totaled \$20,269 for the fiscal year ended June 30, 2010.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. COMMITMENT AND CONTINGENCIES, Continued

B. Commitments, 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 \$4,745,878 in tax increment revenue, which was passed-through to the County, the Library and the School Districts mentioned above. This amount was recorded as both tax increment revenue and general government expenditure.

The Central Business District Project Area was amended in 2001. The tax increment related to the increased project area is subject to a statutory pass-through amount of 25%. During the current fiscal year, the Central Business District Project Area received \$416,960 in tax increment passed-through to various other local governmental agencies, with the highest pass-through amount going to Sonoma County, School Districts and the City of Petaluma. This amount was recorded as tax increment revenue and as a general government expenditure.

10. OTHER REQUIRED DISCLOSURES

The unrestricted deficit of \$(38,838,717) is expected as the Commission's investment in assets is primarily in City owned property, and other than property held for resale, it does not hold property in its own name. The Commission, under State Law, is required to show indebtedness in order to be eligible to receive tax increment. Future tax increment revenue will be used to pay the deficit.

11. SUBSEQUENT EVENTS

State Financial and Budget Shortfall

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The fiscal year 2009-2010 payment was \$5,079,099 and it is anticipated another \$1,044,706 will need to be submitted for the fiscal year 2010-2011. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes.

REQUIRED SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Required Supplementary Information
For the year ended June 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

An annual budget for the year ended June 30, 2010 was adopted and approved by the Commissioners for the special revenue, debt service and capital projects funds. These budgets are prepared on the modified accrual basis of accounting. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. However the budget for the capital projects funds is approved by the Commissioners annually.

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

Petaluma Community Development Commission
Required Supplementary Information, Continued
For the year ended June 30, 2010

Budgetary Comparison Schedule, Redevelopment Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 22,825,804	\$ 22,825,804	\$ 22,825,804	\$ -
Resources (inflows):				
Taxes	3,000,000	3,000,000	3,285,294	285,294
Use of money and property	109,500	109,500	48,389	(61,111)
Intergovernmental	-	-	160,332	160,332
Charges for current services	-	-	22,110	22,110
Other	-	-	158,007	158,007
Total resources	3,109,500	3,109,500	3,674,132	564,632
Amount available for appropriation	25,935,304	25,935,304	26,499,936	564,632
Charges to appropriations (outflows):				
Departmental:				
Community development	2,696,650	2,938,550	1,713,040	1,225,510
Transfers to City of Petaluma	65,000	65,000	65,000	-
Transfers to other funds	11,000	261,000	158,007	102,993
Total charges to appropriations	2,772,650	3,264,550	1,936,047	1,328,503
Fund balance at June 30,	\$ 23,162,654	\$ 22,670,754	\$ 24,563,889	\$ 1,893,135

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SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Debt Service Fund
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ (29,540)	\$ (29,540)	\$ (29,540)	\$ -
Resources (inflows):				
Use of money and property	-	-	3,126	3,126
Transfers from other funds	5,000,000	5,000,000	5,000,000	-
Total resources	5,000,000	5,000,000	5,003,126	3,126
Amount available for appropriation	4,970,460	4,970,460	4,973,586	3,126
Charges to appropriations (outflows):				
Departmental:				
Community development	20,000	20,000	15,476	4,524
Debt service:				
Principal	1,671,400	1,671,400	1,355,000	316,400
Interest	3,308,600	3,308,600	3,280,831	27,769
Transfer to other funds	-	-	-	-
Total charges to appropriations	5,000,000	5,000,000	4,651,307	348,693
Fund balance at June 30,	\$ (29,540)	\$ (29,540)	\$ 322,279	\$ 351,819

Petaluma Community Development Commission
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Capital Projects Fund
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	Fund balance, July 1	\$ 27,610,101		
Resources (inflows):				
Taxes	13,000,000	13,000,000	13,938,869	938,869
Use of money and property	242,000	242,000	245,204	3,204
Intergovernmental	-	-	4,583	4,583
Charges for services	200,000	20,000	-	(20,000)
Transfers from other funds	11,000	261,000	158,007	(102,993)
Transfers from the City of Petaluma	1,215,400	10,708,275	4,708,225	(6,000,050)
Total resources	14,668,400	24,231,275	19,054,888	(5,176,387)
Amount available for appropriation	42,278,501	51,841,376	46,664,989	(5,176,387)
Charges to appropriations (outflows):				
Departmental:				
Community development	5,656,300	7,802,150	8,303,215	(501,065)
Tax increment pass through agreement	5,280,000	5,280,000	5,162,838	117,162
Capital outlay	65,000	65,000	772,336	(707,336)
Transfers to other funds	5,000,000	5,000,000	5,000,000	-
Transfers to the City of Petaluma	1,000,000	6,024,025	23,997	6,000,028
Total charges to appropriations	17,001,300	24,171,175	19,262,386	4,908,789
Fund balance at June 30,	\$ 25,277,201	\$ 27,670,201	\$ 27,402,603	\$ (267,598)

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

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

We have audited the basic financial statements of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma, California (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

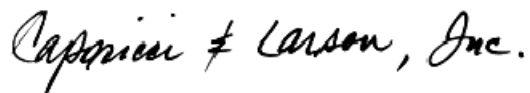
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the Commission's internal control over financial reporting that might be deficiencies, significant deficiencies,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

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California
Page 2

Compliance and Other Matters

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

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



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 27, 2010