

City of Healdsburg

California



August 27, 2006



September 27, 2006

Wastewater Treatment Plant Construction Progress

Comprehensive Annual Financial Report **Year Ended June 30, 2006**

**CITY OF HEALDSBURG
HEALDSBURG, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2006

Prepared by the Finance Department

CITY OF HEALDSBURG

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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CITY OF HEALDSBURG ADMINISTRATION

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December 15, 2006

Honorable Mayor and City Council Members
401 Grove Street
Healdsburg, CA 95448

Honorable Mayor, Members of the City Council, and Citizens of the City of Healdsburg:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Healdsburg for the fiscal year ended June 30, 2006. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

This report consists of management's representations concerning the finances of the City of Healdsburg. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Healdsburg has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Healdsburg's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Healdsburg's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Comprehensive Annual Financial Report is organized into three sections:

- The **Introductory Section** is intended to familiarize the reader with the organizational structure of the City, the nature and scope of services it provides, and the specific of its legal operating environment.
- The **Financial Section** is prepared in accordance with GASB 34 requirements by including the MD&A, the basic financial statements including notes and the required supplementary information. The basic financial statements includes government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary and other funds. Also included in this section is the independent auditor's report on the financial statements and schedules. This section also presents supplemental combining statements and schedules for the City's non-major funds.
- The **Statistical Section** contains comprehensive statistical data on the City's financial, physical, economic, social and political characteristics.

ANNUAL AUDIT

Diehl, Evans & Company, LLP, a firm of licensed certified public accountants has audited the City of Healdsburg's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Healdsburg for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Healdsburg's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

The City of Healdsburg was not required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-128, Audits of State and Local Governments.

CITY OF HEALDSBURG PROFILE

The City of Healdsburg, incorporated in 1867, is located in Sonoma County, the center of California's north coast premium wine growing region. Healdsburg continues to show strength as a region retail, service and tourist destination.

The City operates under the Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four member Council. The governing council is responsible for the City's ordinances, operating resolutions, adoption of the annual budget, appointing commissions and committees, and hiring the City Manager and City Attorney. The City Manager is responsible for implementing the policies, ordinances and directives of the City Council, for overseeing the day-to-day operations of the City and for appointing the Assistant City Manager and the Directors of the City's departments. The Council is elected on a nonpartisan basis. Council members are elected to four-year staggered terms and each year the Mayor is elected by a majority vote of the City Council.

The City provides a full range of services and activities which is summarized as follows:

General Government Activities

Police and Fire services
Non-Enterprise capital projects

Redevelopment Activities

Economic development and
business expansion
Preservation of low and moderate
Income housing and neighborhoods
Assistance toward development of
affordable housing
Downtown revitalization and
business retention
Project Area drainage, water and
street projects

Enterprise Activities

Water Utility, including production
Sewer Utility, including collection and treatment
of sanitary and storm drain waste water
Electric Utility
Planning and Building
Transit
Airport
Meeting Center (Villa)
School Services
Parks and recreation, including a
municipal golf course and pool
Streets and roads

FACTORS AFFECTING FINANCIAL CONDITION

Budgeting Control

The City of Healdsburg operates on a fiscal year basis, beginning July 1 and ending June 30. The budget is prepared under the supervision of the City Manager and transmitted to the City Council for deliberation and adoption in June prior to the beginning of the fiscal year.

Upon adoption by the City Council, the City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget. Budget to actual comparisons are provided in this report for each individual government fund for which an appropriated annual budget has been adopted. The City's budgetary procedures are further discussed in the Notes to the Basic Financial Statements and can be found in the financial section of this report.

Activities of all funds of the City are included in the annual appropriated budget. In addition, a five-year Capital Improvement Program is updated annually, at which time budget for new projects and revisions for existing projects are adopted. The level of budgetary control is by fund, although budgets are adopted within funds at the department level in all operating funds and at the project level in the capital projects funds. Only the City Council has the authority to increase total appropriations subject only to the appropriation limitations established by State law. Budget appropriations lapse at the end of the fiscal year, with the exception of contract commitments and capital improvement projects, which are carried over until the commitment is met, or the project has been completed. Quarterly financial reports are presented to the City Council to help them assess and evaluate budget performance.

For the Future

Several factors will have impacted the City's budget for the fiscal year 2005-2006 and beyond. These factors include the State and the local area economies; increases in health insurance and retirement plan costs and the State's management of its budget deficit. The economy as a whole continues to improve, although there is increasing concerns about a cooling off of the real estate markets. Locally, property tax revenue remains a stable revenue source and other major revenue sources such as sales tax and transient occupancy tax have experienced growth. The approval of State Proposition 1A will continue to help protect the City from future revenue raids by the State government.

For fiscal year 2005-2006 the City Council adopted a general fund budget balanced by using one-time grant revenues and contingency reserves to fund the City Council's goals for public safety services.

City Council has been proactive in planning for an uncertain financial future by:

- Establishing and maintaining reserve policies for the General Fund, Water, Sewer, Electric and Community Services Enterprise Funds.
- Enacting a ballot measure passed by voters for an additional 2% Transient Occupancy Tax effective June 1, 2006 to sustain Police and Fire services.
- Supporting the future strategic development of a plan to help the City study various revenue enhancements to alleviate changes in the local economic structure with the loss of a car dealership.
- Increasing fees and charges to more fully recover the cost of City Services.

These types of actions help to preserve the financial health of the City of Healdsburg and to provide the flexibility to make up for revenue shortfalls when the State put pressure on City resources and when the economic climate changes.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Healdsburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, the government published an

easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to other members of the City staff who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Chet Wystepik
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Healdsburg
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



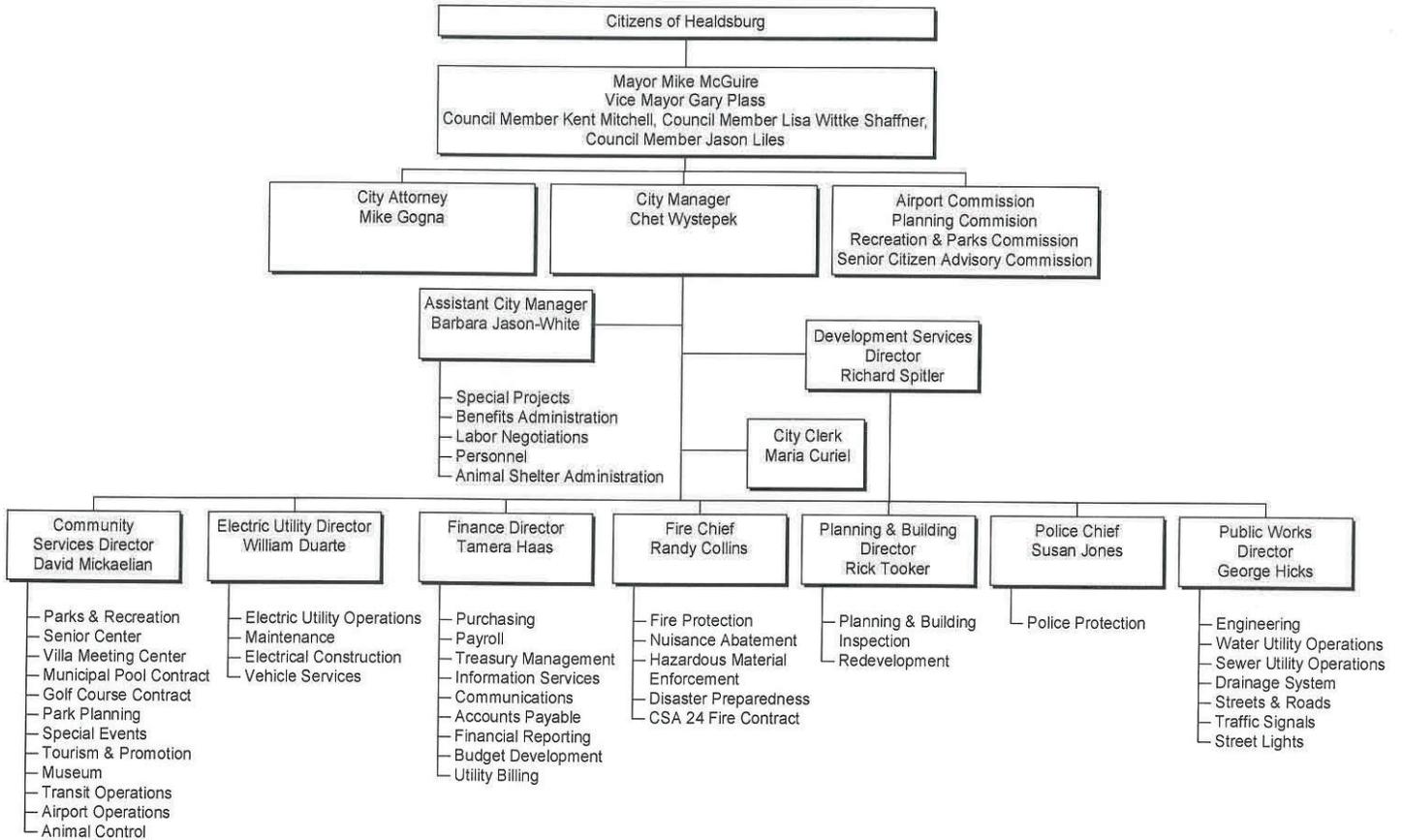
A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

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

Executive Director

City of Healdsburg Organization Chart



CITY OF HEALDSBURG

JUNE 30, 2006

Elected Officials

Mike McGuire
Mayor

Gary Plass
Vice Mayor

Jason Liles
Council Member

Kent Mitchell
Council Member

Lisa W. Schaffner
Council Member

Appointed Officials

Chet J. Wystepok
City Manager

Mike Gogna
City Attorney

Barbara Jason-White
Assistant City Manager

Tamera Haas
Finance Director

Maria Curiel
City Clerk

David Mickaelian
Community Services Director

Bill Duarte
Electric Utility Director

George Hicks
Public Works Director

Susan Jones
Police Chief

Randy Collins
Fire Chief

Rick Tooker
Planning and Building Director

Richard Spitler
Development Services Director

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*A PROFESSIONAL CORPORATION

October 12, 2006

INDEPENDENT AUDITORS' REPORT

The Honorable City Council
of the City of Healdsburg
Healdsburg, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Healdsburg, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Healdsburg'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Healdsburg, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2006 on our consideration of the City of Healdsburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and the other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the management's discussion and analysis and express no opinion on it. The budgetary comparison schedule and related note have 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Healdsburg's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the table of contents are presented for purposes of additional analysis and are 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. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dick, Evans and Company, LLP

CITY OF HEALSDBURG
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2006

As management of the City of Healdsburg (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the Introductory Section of this report.

Financial Highlights

- City assets exceeded its liabilities by \$136.9 million (net assets) at June 30, 2006. Of this amount, \$42.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- City total net assets increased by \$6.0 million during the fiscal year, compared to an increase of \$4.9 million in the prior year. The increase attributable to the City's business type activities was \$3.6 million, while the governmental activities increased by \$2.4 million.
- At the close of fiscal year 2005-06, City governmental funds reported combined ending fund balance of \$46.5 million, a decrease of \$0.1 million.
- At the end of fiscal year 2005-06, unreserved fund balance for the General Fund was \$4.5 million, or 66 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the basic financial statements.

This report also contains other supplemental information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

The *Statement of Activities* presents information showing how the City'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, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid (e.g., uncollected taxes or earned but unused vacation leave).

Government-wide financial statements distinguish City governmental activities that are principally supported by taxes and intergovernmental revenues from other business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities of the City and the Healdsburg Redevelopment Agency, a blended component unit, include general government, public safety, culture and recreation and community development. Business type activities of the city include water utility, sewer utility, electric utility, streets and other programs.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund Financial Statements

Fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

The City maintains several individual governmental funds organized by their type. They are Special Revenue, Debt Service, Capital Projects and Permanent Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Redevelopment Agency Debt Service, Redevelopment Commercial/Industrial Capital Projects, and General Capital Projects which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the other governmental funds is provided in the form of combining statements beginning on page 77 of this report.

The City adopts an annual appropriated budget for its General Fund, certain special revenue funds and debt service funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget. These statements are on pages 75 and 90 - 102 of this report.

The basic governmental fund financial statements can be found on pages 18 - 25 of this report.

Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges outside customers, or internal departments of the City. Proprietary funds provide the same type of information as shown in the government-wide statements, only in more detail. The City maintains the following two types of proprietary funds:

- ***Enterprise Funds:*** These are fund used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the operations of water, sewer, electric, streets and other programs.
- ***Internal Service Funds:*** These are fund that used to report activities that provide internal services for the City. The City uses internal service funds to account for its insurance and benefits, vehicle service and replacement, information systems and equipment and government buildings. Because internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements beginning on page 115 of this report.

The basic proprietary fund financial statements can be found on pages 26 - 31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The basic fiduciary fund financial statements can be found on page 32 of this report.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 34 - 72 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information that includes a Budgetary Comparison Schedule for the General Fund. Required supplementary information can be found on pages 74 and 75 of this report.

Combining statements for other governmental funds, internal service funds, and budgetary comparison schedules for certain individual funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 77 - 122 of this report.

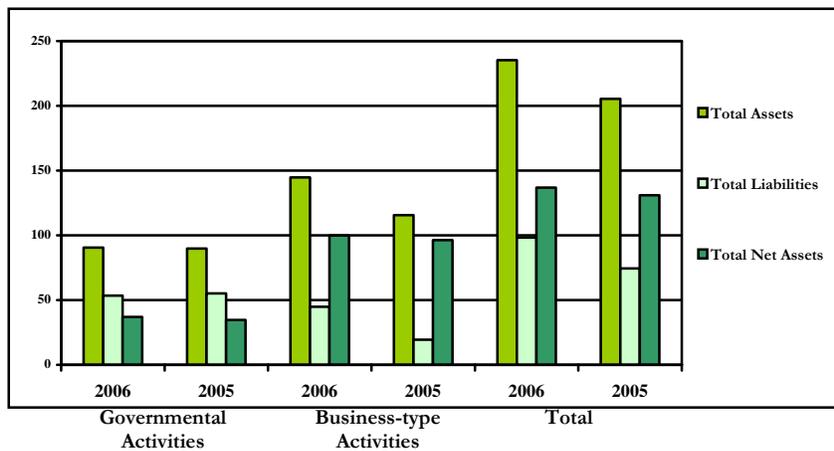
CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Government-Wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, city assets exceeded liabilities by \$136.9 million in 2006 and by \$131.0 million in 2005, as summarized below:

Condensed Statements of Net Assets
(In Millions of Dollars)



	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current and other assets	\$ 55.3	\$ 55.9	\$ 59.8	\$ 33.7	\$ 115.1	\$ 89.6
Capital assets (net of accumulated depreciation)	35.2	33.9	84.9	81.9	120.1	115.8
Total Assets	90.5	89.8	144.7	115.6	235.2	205.4
Liabilities:						
Current and other liabilities	3.8	4.4	1.5	1.8	5.3	6.2
Noncurrent liabilities	49.7	50.7	43.3	17.6	93.0	68.3
Total Liabilities	53.5	55.1	44.8	19.4	98.3	74.5
Net Assets:						
Invested in capital assets, net of related debt	13.3	13.3	67.4	64.4	80.7	77.7
Restricted	11.8	8.8	1.5	4.0	13.3	12.8
Unrestricted	11.9	12.6	31.0	27.9	42.9	40.5
Total Net Assets	\$ 37.0	\$ 34.7	\$ 99.9	\$ 96.3	\$ 136.9	\$ 131.0

A more detailed Statement of Net Assets is shown on page 15.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Analysis of Net Assets

The largest portion (58.9 percent) of the City's net assets reflects its investment of \$80.7 million in capital assets (land, buildings and improvements, equipment, infrastructure, and construction in progress, net of accumulated depreciation); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets (\$13.3 million or 9.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$42.9 million (31.3 percent) may be used to meet the government's ongoing obligations to citizens, creditors, and to meet City imposed designations (e.g., reserves, pending litigations, contingencies, capital projects).

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities and business-type activities. The same situation held true for the prior fiscal year.

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2005-06 as compared to 2004-05. The City's net assets increased overall by \$6.0 million during the current fiscal year.

Governmental activities increased the City's net assets by \$3.0 million before transfers for the current year. Compared to 2004-05, the City recognized an overall \$2.0 million increase in revenues, the net result of an increase in charges for services (\$0.1 million), an increase in operating grants and contributions (\$0.1 million), and an increase in general revenues (\$1.8 million). Total expenses increased by \$1.6 million, which included an increase to public safety (\$0.7 million), an increase to community development (\$0.6 million) and an increase to general government (\$0.3 million). Public safety is the largest expense function (43.9 percent), followed by community development (31.1 percent), interest on long-term debt (17.8 percent), general government (6.8 percent), unallocated depreciation (.2 percent) and culture and recreation (.2 percent). General revenues such as property and sales tax are not shown by program, but are primarily used to support public safety program activities.

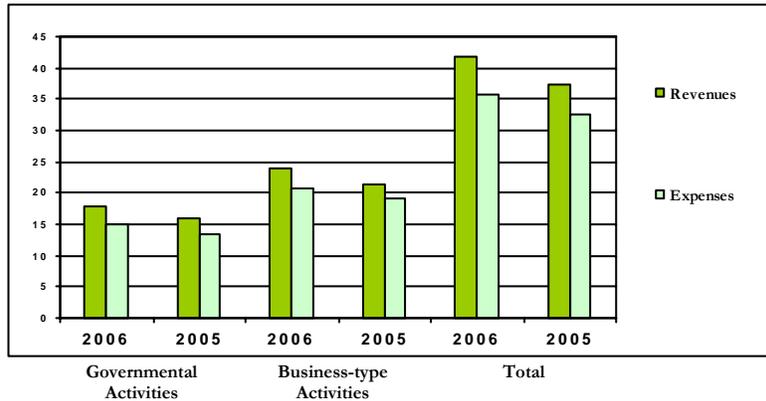
Business-type activities increased the City's net assets by \$2.9 million before transfers for the current year. Compared to 2004-05, business-type activities generated \$2.3 million more in revenue, which was the result of increases in each of the following: charges for services (\$1.2 million), operating grants and contributions (\$0.2 million), capital grants and contributions (\$0.4 million), and general revenues (\$0.5 million). Total expenses increased by \$1.7 million, which included increases to the following programs: water (\$0.6 million), sewer (\$0.6 million), electric (\$0.1 million), and other programs (\$0.3 million). The primary source of revenue for business-type activities is charges for services, and the electric utility fees provide the largest share (43.1 percent), followed by sewer (24.5 percent), water (20.4 percent), other programs (6.7 percent) and streets (5.3 percent).

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Statement of Activities: A more detailed Statement of Activities is shown on pages 16 – 17.

Condensed Statements of Net Assets
(In Millions of Dollars)



	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1.3	\$ 1.2	\$ 20.9	\$ 19.7	\$ 22.2	\$ 20.9
Operating grants and contributions	2.0	1.9	1.2	1.0	3.2	2.9
Capital grants and contributions	0.1	0.1	0.5	0.1	0.6	0.2
General revenues	14.6	12.8	1.2	0.7	15.8	13.5
Total Revenues	18.0	16.0	23.8	21.5	41.8	37.5
Expenses:						
General government	1.0	0.7	0.0	0.0	1.0	0.7
Public safety	6.6	5.9	0.0	0.0	6.6	5.9
Community development	4.7	4.1	0.0	0.0	4.7	4.1
Interest on long-term debt	2.7	2.7	0.0	0.0	2.7	2.7
Water	0.0	0.0	4.2	3.6	4.2	3.6
Sewer	0.0	0.0	3.5	2.9	3.5	2.9
Electric	0.0	0.0	9.4	9.3	9.4	9.3
Streets	0.0	0.0	1.4	1.3	1.4	1.3
Other programs	0.0	0.0	2.4	2.1	2.4	2.1
Total Expenses	15.0	13.4	20.9	19.2	35.9	32.6
Change in Net Assets before Transfers	3.0	2.6	2.9	2.3	5.9	4.9
Transfers	(7)	(1.7)	.7	1.7	0.0	0.0
Change in Net Assets	2.3	0.9	3.6	4.0	5.9	4.9
Net Assets Beginning of Year	34.7	33.8	96.3	92.3	131.0	126.1
Net Assets End of Year	\$ 37.0	\$ 34.7	\$ 99.9	\$ 96.3	\$ 136.9	\$ 131.0

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Governmental Funds

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Refer to pages 18 - 25 for more detail of governmental funds.

As of June 30, 2006, the City's governmental funds reported combined total fund balance of \$46.5 million, a decrease of \$0.1 million in comparison with the prior year. Of the \$46.5 million, \$13.0 million, or 28 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service (\$4.8 million), redevelopment projects from bond funding (\$27.6 million) and for noncurrent loans receivable (\$1.1 million).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund reported total fund balance of \$4.5 million, compared with \$4.7 million last year, a decrease of \$0.2 million. This decrease was the result of expenditures increasing by \$1 million, while revenues increased by only \$0.8 million.

The City's major debt service fund is used to report the accumulation of resources for and the payment of principal and interest of long-term debt for the City's Redevelopment Agency. At June 30, 2006 the Redevelopment Agency Debt Service fund reported a fund balance of \$3.2 million.

The City's capital projects funds are used to account for capital outlay associated with the Redevelopment Commercial/Industrial improvements, Redevelopment Low/Moderate Income Housing projects, and General projects not supported by enterprise funds. The Redevelopment Commercial/Industrial Capital Projects fund balance was \$18.2 million at the end of the current year, a decrease of \$0.5 million from prior year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City's major enterprise funds include Water, Sewer, Electric and Streets funds. The major changes in enterprise net assets are a \$0.2 million increase to \$15.5 million in the Water Fund, a \$1.8 million increase to \$30.7 million in the Sewer Fund, and a \$0.3 million increase to \$23.1 million in the Streets Fund. These increases are generally due to revenues exceeding expenditures and transfers out. The Electric Fund reported a decrease in net assets of \$156 thousand with an ending balance of \$20.7 million, which was the result of a decrease of \$0.3 million in operating revenues and an increase of \$0.1 million in operating expenses.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

The City also maintains internal service funds to account for Insurance and Benefits, Vehicle Maintenance, Information Services and Building Maintenance. The Internal Service Funds had an increase in net assets of \$1.0 million during the fiscal year, ending with a balance of \$6.1 million. This increase is primarily attributable to an increase in charges for services to cover increases in insurance and benefit costs and additional funding for the City's future vehicle and equipment replacement.

General Fund Budgetary Highlights

At June 30, 2006, unreserved general fund balance was \$4.5 million. Note that unreserved fund balance includes amounts designated by the City in accordance with the City's reserve policy. Unreserved fund balance, which includes designated funds, represents 66 percent of total General Fund expenditures, a decrease of 14 percent from prior year.

- The City budgeted \$5.6 million total revenue, but reported actual revenue of \$6.7 million with a variance of \$1.1 million.
- \$1.0 million increase in property taxes due to the increase in tax revenue from rising property value and the conversion of the vehicle license fee revenue into property taxes.
- \$0.4 million increase in sales and other taxes due to sales tax exceeding budget projection.
- \$0.4 million decrease in intergovernmental revenue due to shift in the vehicle license fee to property tax reimbursement.
- Total expenditures exceeded the City's budgeted amount by \$0.7 million due to funding adjustment to vehicle and equipment replacement for public safety.
- Overall, the City ended the year with a positive budget variance of \$0.4 million, having budgeted \$0.6 million decrease to fund balance, but ending the year with a net decrease of \$0.1 million.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$120.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings & improvements, equipment, infrastructure, and construction in progress. The total net increase in capital assets for fiscal year 2005-06 was \$4.3 million or 4 percent.

See independent auditors' report

CITY OF HEALDSBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Major capital asset events during the current fiscal year included the following:

- Purchased land for potential development of commercial/industrial and low/moderate income housing projects.
- Completed the job center.
- Completed the wastewater treatment plant design.
- Completed the Foss Creek Trail from Healdsburg Avenue to North Street.
- Completed ongoing streets and utility systems improvements.

Capital assets are summarized below:

Capital Assets (Net of Accumulated Depreciation)
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land and land rights	\$ 14.4	\$ 12.9	\$ 5.0	\$ 4.9	\$ 19.4	\$ 17.8
Right of way	6.7	6.7	0.0	0.0	6.7	6.7
Construction in progress	0.5	0.5	13.7	10.4	14.2	10.9
Buildings	10.4	10.7	2.9	3.0	13.3	13.7
Streets	0.0	0.0	17.7	17.8	17.7	17.8
Utility systems	0.0	0.0	39.8	39.8	39.8	39.8
Drainage	0.0	0.0	3.8	4.0	3.8	4.0
Machinery and equipment	2.2	2.3	1.2	1.3	3.4	3.3
Operations	0.0	0.0	0.8	0.8	0.8	0.8
Infrastructure	1.0	0.9	0.0	0.0	1.0	1.0
Total Capital Assets, Net	\$ 35.2	\$ 33.8	\$ 84.9	\$ 82.0	\$ 120.1	\$ 115.8

Additional information on the City's capital assets can be found in Note 4 in the notes to the basic financial statements.

See independent auditors' report

CITY OF HEALSDBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

Long-term Debt

At the end of fiscal year 2005-06 the City had total bonded debt outstanding of \$92.2 million. Outstanding debt is summarized as follows:

Outstanding Debt – General Obligation and Revenue Bonds
(In millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 5.0	\$ 5.3	\$ 0.0	\$ 0.0	\$ 5.0	\$ 5.3
Tax allocation bonds	41.7	42.6	0.0	0.0	41.7	42.6
Special assessments	1.6	1.7	0.0	0.0	1.6	1.7
Certificates of participation and Revenue Bonds	<u>0.0</u>	<u>0.0</u>	<u>43.9</u>	<u>17.7</u>	<u>43.9</u>	<u>17.7</u>
Total	<u>\$ 48.3</u>	<u>\$ 49.6</u>	<u>\$ 43.9</u>	<u>\$ 17.7</u>	<u>\$ 92.2</u>	<u>\$ 67.3</u>

The City's total bonds outstanding at the end of the year were \$92.2 million, an increase of \$24.9 million from the prior year. This increase was the result of issuing the 2006 Wastewater Revenue Bonds in the amount of \$26.2 million to fund construction of the new treatment plant, a net increase of \$0.3 million for the refunding of the 1996 Sewer Improvement Certificates and the 2000B Water and Sewer CSDA Certificates, and principal payments of \$1.6 million.

Additional information on the City's long-term debt can be found in Note 5 in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

In preparing the budget for 2006-07, management looked at the following economic factors:

- Factors impacting the budget are gradual local economic growth, rising Public Employee Retirement System costs, medical insurance rates, and a continuation of budget deficit problems at the Federal and State level.
- Proposition 1A included a two year property tax shift to the State in exchange for protection of local revenues. The shift ended in 2005-06 restoring future property tax revenues.
- The demand for Police and Fire services continues to grow faster than the existing permanent revenue sources. The City Council appropriated one-time revenues and contingency reserves in the budget to close the gap for the second year in a row. The City's General Fund expenditures are projected to increase by 8% to fund public safety needs. The City is actively pursuing other revenue generating ideas to replace declining sales tax revenues.

See independent auditors' report

CITY OF HEALDSBURG
Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2006

- Public Safety budgets were developed to maintain existing 2005-06 service levels, holding information services and vehicle replacement and service fees to a 5% growth over last year's budget.
- In May 2006, the City issued \$26.1 millions in sewer revenue bonds for construction of a state mandated wastewater treatment plant. Council adopted a 4-year sewer rate schedule to pay for the bonds. The first-rate increase of 20% was effective July 1, 2006. Future rate increases will be semi-annually over the next 3 years with an annual increase of 4%-5%.

The City continues to grow modestly with new hotels, and other commercial development, construction of street improvements, park construction, and various other projects. The 2006-07 budget is a reflection of the City's commitment to the residents of Healdsburg. The City's conservative approach has provided for a consistent high level of services that have continued through the use of one-time revenue sources. The City has made a commitment to allocate resources for public safety, cultural/social programs, and infrastructure improvements. A copy of the City's 2006-07 budget can be obtained by contacting the City's Finance Department.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, all inquires can be made to:

City of Healdsburg
Department of Finance
401 Grove Street
Healdsburg, CA 95448-4723
(707) 431-3310

CITY OF HEALDSBURG

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments (Note 2)	\$ 23,754,373	\$ 25,989,685	\$ 49,744,058
Receivables:			
Interest	290,816	339,551	630,367
Accounts	318,141	2,940,778	3,258,919
Taxes	994,556	206,005	1,200,561
Loans	1,253,348	-	1,253,348
Special assessments	1,605,000	-	1,605,000
Notes	26,996	-	26,996
Due from other governments	154,361	-	154,361
Internal balances	(553,878)	553,878	-
Inventory	57,569	1,468,650	1,526,219
Deferred charges	441,285	1,040,170	1,481,455
Restricted assets:			
Cash and investments (Note 2)	26,923,995	27,257,424	54,181,419
Capital assets (Note 4):			
Land	14,437,652	4,983,902	19,421,554
Right of way	6,681,379	-	6,681,379
Infrastructure, net	995,669	-	995,669
Depreciable buildings, net	10,368,678	2,878,184	13,246,862
Depreciable streets, net	-	17,735,280	17,735,280
Depreciable utility systems, net	-	39,728,017	39,728,017
Depreciable drainage, net	-	3,842,044	3,842,044
Depreciable machinery and equipment, net	2,199,920	1,248,299	3,448,219
Depreciable operations, net	-	753,471	753,471
Construction in progress	516,783	13,746,486	14,263,269
TOTAL ASSETS	90,466,643	144,711,824	235,178,467
LIABILITIES:			
Accounts payable and accrued liabilities	1,638,983	784,776	2,423,759
Deposits payable	24,659	740,901	765,560
Unearned revenue	2,139,646	-	2,139,646
Noncurrent liabilities (Note 5):			
Due within one year	3,036,794	570,000	3,606,794
Due in more than one year	46,620,834	42,724,146	89,344,980
TOTAL LIABILITIES	53,460,916	44,819,823	98,280,739
NET ASSETS:			
Invested in capital assets, net of related debt	13,292,401	67,370,961	80,663,362
Restricted for:			
Debt service	4,753,540	-	4,753,540
Capital projects	-	1,508,000	1,508,000
Community development	6,652,229	-	6,652,229
Public safety	15,713	-	15,713
Culture and recreation	302,206	-	302,206
Nonexpendable for senior services	80,904	-	80,904
Unrestricted	11,908,734	31,013,040	42,921,774
TOTAL NET ASSETS	\$ 37,005,727	\$ 99,892,001	\$ 136,897,728

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 1,014,105	\$ 814,970	\$ 119,795	\$ -
Public safety	6,577,375	483,953	410,972	-
Culture and recreation	32,460	951	5,793	95,633
Community development	4,665,986	-	1,421,682	47,696
Unallocated infrastructure depreciation	25,286	-	-	-
Interest on long-term debt	2,656,841	-	-	-
Total governmental activities	14,972,053	1,299,874	1,958,242	143,329
Business-type activities:				
Water	4,179,517	4,268,669	19,163	-
Sewer	3,491,376	5,115,748	7,545	65,493
Electric	9,372,286	9,006,313	135	-
Streets	1,391,533	1,111,802	50,609	61,735
Other programs	2,483,396	1,395,081	1,140,735	398,798
Total business-type activities	20,918,108	20,897,613	1,218,187	526,026
TOTAL PRIMARY GOVERNMENT	\$ 35,890,161	\$ 22,197,487	\$ 3,176,429	\$ 669,355

General revenues:

Taxes:

Property taxes, levied for general purposes

Franchise taxes

Sales tax

Intergovernmental:

Unrestricted motor vehicle in-lieu

Investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets - Beginning of year

Net assets - End of year

See independent auditors' report and notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (79,340)	\$ -	\$ (79,340)
(5,682,450)	-	(5,682,450)
69,917	-	69,917
(3,196,608)	-	(3,196,608)
(25,286)	-	(25,286)
(2,656,841)	-	(2,656,841)
<u>(11,570,608)</u>	<u>-</u>	<u>(11,570,608)</u>
-	108,315	108,315
-	1,697,410	1,697,410
-	(365,838)	(365,838)
-	(167,387)	(167,387)
-	451,218	451,218
<u>-</u>	<u>1,723,718</u>	<u>1,723,718</u>
<u>(11,570,608)</u>	<u>1,723,718</u>	<u>(9,846,890)</u>
9,475,198	-	9,475,198
324,924	-	324,924
3,044,564	-	3,044,564
43,946	-	43,946
1,695,519	1,218,445	2,913,964
(662,999)	662,999	-
<u>13,921,152</u>	<u>1,881,444</u>	<u>15,802,596</u>
2,350,544	3,605,162	5,955,706
<u>34,655,183</u>	<u>96,286,839</u>	<u>130,942,022</u>
<u>\$ 37,005,727</u>	<u>\$ 99,892,001</u>	<u>\$ 136,897,728</u>

CITY OF HEALDSBURG

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2006

		General	Redevelopment Agency Debt Service
ASSETS		<u>General</u>	<u>Service</u>
Cash and investments		\$ 4,041,011	\$ 11,475
Receivables:			
Accounts		19,897	-
Taxes		752,431	-
Loans		-	-
Interest		38,799	3,585
Special assessments		-	-
Due from other governments		53,763	-
Restricted cash and investments		-	3,152,944
		<u> </u>	<u> </u>
TOTAL ASSETS		<u>\$ 4,905,901</u>	<u>\$ 3,168,004</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable		\$ 47,827	\$ -
Deposits		24,659	-
Due to other funds		-	-
Deferred revenue		296,178	-
		<u> </u>	<u> </u>
TOTAL LIABILITIES		<u>368,664</u>	<u>-</u>
FUND BALANCES:			
Reserved:			
Noncurrent loans receivable		-	-
Low and moderate income housing		-	-
Debt service		-	3,168,004
Community and economic development		-	-
Unreserved, Reported In:			
General fund		4,537,237	-
Special revenue fund		-	-
Capital projects fund		-	-
Permanent fund		-	-
		<u> </u>	<u> </u>
TOTAL FUND BALANCES		<u>4,537,237</u>	<u>3,168,004</u>
		<u>\$ 4,905,901</u>	<u>\$ 3,168,004</u>

See independent auditors' report and notes to basic financial statements.

Capital Projects Funds			
Redevelopment Agency Commercial/ Industrial	General	Other Governmental Funds	Total Governmental Funds
\$ 1,866,173	\$ 2,893,271	\$ 8,684,353	\$ 17,496,283
-	-	279,773	299,670
161,686	-	80,439	994,556
-	-	1,253,348	1,253,348
59,864	29,835	110,738	242,821
-	-	1,605,000	1,605,000
-	-	100,598	154,361
16,158,409	-	7,612,642	26,923,995
<u>\$ 18,246,132</u>	<u>\$ 2,923,106</u>	<u>\$ 19,726,891</u>	<u>\$ 48,970,034</u>
\$ 8,713	\$ 5,429	\$ 72,665	\$ 134,634
-	-	-	24,659
-	-	173,417	173,417
-	-	1,877,667	2,173,845
<u>8,713</u>	<u>5,429</u>	<u>2,123,749</u>	<u>2,506,555</u>
-	-	1,092,839	1,092,839
-	-	9,354,870	9,354,870
-	-	1,585,536	4,753,540
18,237,419	-	-	18,237,419
-	-	-	4,537,237
-	-	5,470,498	5,470,498
-	2,917,677	18,495	2,936,172
-	-	80,904	80,904
<u>18,237,419</u>	<u>2,917,677</u>	<u>17,603,142</u>	<u>46,463,479</u>
<u>\$ 18,246,132</u>	<u>\$ 2,923,106</u>	<u>\$ 19,726,891</u>	<u>\$ 48,970,034</u>

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CITY OF HEALDSBURG

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2006

Fund balances - total governmental funds		\$ 46,463,479
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		33,315,479
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		34,199
Internal service funds are used by management to charge the costs of self-insurance, information services and capital replacements to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		6,143,094
Internal balances included in internal service funds which are payable from the enterprise funds.		(380,461)
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Assets:		
General obligation bonds	\$ (5,035,000)	
Tax allocation bonds payable	(41,690,000)	
Special assessment bonds payable	(1,605,000)	
Bond discount	259,166	
Deferred charges for issuance costs	441,285	
Total long-term liabilities		(47,629,549)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(940,514)
Net assets of governmental activities		<u>\$ 37,005,727</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2006

	<u>General</u>	<u>Redevelopment Agency Debt Service</u>
REVENUES:		
Property taxes	\$ 1,574,157	\$ -
Sales and other taxes	3,901,201	-
Charges for services	349,228	-
Intergovernmental revenue	648,583	-
Special assessments	-	-
Development fees and permits	-	-
Investment income	139,544	111,789
Miscellaneous fees and charges	71,760	-
Other revenues	54,490	-
	<u>6,738,963</u>	<u>111,789</u>
TOTAL REVENUES		
EXPENDITURES:		
Current:		
General government	309,694	512
Public safety	6,533,860	-
Culture and recreation	-	-
Community development	-	-
Capital outlay	-	-
Debt Service:		
Principal retirement	-	905,000
Interest and fees	-	2,298,098
	<u>6,843,554</u>	<u>3,203,610</u>
TOTAL EXPENDITURES		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(104,591)</u>	<u>(3,091,821)</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	-	3,132,301
Transfers out	<u>(31,202)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(31,202)</u>	<u>3,132,301</u>
NET CHANGE IN FUND BALANCES	(135,793)	40,480
FUND BALANCES - BEGINNING OF YEAR	<u>4,673,030</u>	<u>3,127,524</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,537,237</u>	<u>\$ 3,168,004</u>

See independent auditors' report and notes to basic financial statements.

Capital Projects Funds			
Redevelopment Agency Commercial/ Industrial	General	Other Governmental Funds	Total Governmental Funds
\$ 5,940,711	\$ -	\$ 1,960,330	\$ 9,475,198
-	-	-	3,901,201
-	-	-	349,228
-	-	602,366	1,250,949
-	-	481,342	481,342
-	-	109,161	109,161
686,546	108,557	574,484	1,620,920
-	-	-	71,760
30,469	-	780,021	864,980
<u>6,657,726</u>	<u>108,557</u>	<u>4,507,704</u>	<u>18,124,739</u>
224,698	75,279	66,777	676,960
-	-	-	6,533,860
-	-	32,460	32,460
3,596,756	-	526,051	4,122,807
-	2,269,721	-	2,269,721
-	-	420,000	1,325,000
-	-	326,838	2,624,936
<u>3,821,454</u>	<u>2,345,000</u>	<u>1,372,126</u>	<u>17,585,744</u>
<u>2,836,272</u>	<u>(2,236,443)</u>	<u>3,135,578</u>	<u>538,995</u>
215,295	1,150,386	206,000	4,703,982
(3,594,106)	(301,765)	(1,462,897)	(5,389,970)
<u>(3,378,811)</u>	<u>848,621</u>	<u>(1,256,897)</u>	<u>(685,988)</u>
(542,539)	(1,387,822)	1,878,681	(146,993)
<u>18,779,958</u>	<u>4,305,499</u>	<u>15,724,461</u>	<u>46,610,472</u>
<u>\$ 18,237,419</u>	<u>\$ 2,917,677</u>	<u>\$ 17,603,142</u>	<u>\$ 46,463,479</u>

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CITY OF HEALDSBURG

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Net change in fund balances - total governmental funds		\$	(146,993)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalizable capital outlays (\$1,712,647) exceeded depreciation (\$549,756) in the current period			1,162,891
Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.			(209,094)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. These amounts are the net effect of these differences in the treatment of long-term debt:			
Principal payments			1,325,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:			
Interest and related items	\$	2,975	
Amortization of issuance costs		(21,886)	
Amortization of bond discount		(12,994)	
		<u> </u>	(31,905)
Internal service funds are used by management to charge the costs of self-insurance, information services and capital replacements to individual funds. A portion of the net income of the internal service funds is reported with governmental activities.			<u>250,645</u>
Change in net assets of governmental activities		\$	<u><u>2,350,544</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS

June 30, 2006

		Business-type Activities - Enterprise Funds		
ASSETS		Water Fund	Sewer Fund	Electric Fund
CURRENT ASSETS:				
Cash and investments		\$ 3,216,413	\$ 8,156,087	\$ 8,368,284
Accounts receivable		765,564	631,697	1,493,018
Taxes receivable		-	-	-
Interest receivable		37,591	161,382	83,387
Notes receivable		-	-	-
Due from other funds		-	-	56,628
Inventory		86,981	2,136	1,352,562
TOTAL CURRENT ASSETS		4,106,549	8,951,302	11,353,879
NONCURRENT ASSETS:				
Deferred issuance cost		652,045	388,125	-
Restricted cash and investments		1,508,000	25,749,424	-
Capital assets:				
Land		310,781	766,902	48,360
Building		1,449,917	206,167	447,835
Streets		-	-	-
Utility systems		21,087,716	17,812,862	13,883,996
Drainage		-	9,028,872	-
Machinery and equipment		521,638	571,690	453,857
Operations		-	-	-
Construction in progress		5,563,770	4,786,702	1,634,124
Less accumulated depreciation		(5,414,774)	(7,979,604)	(6,638,788)
TOTAL NONCURRENT ASSETS		25,679,093	51,331,140	9,829,384
TOTAL ASSETS		29,785,642	60,282,442	21,183,263
LIABILITIES				
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities		221,737	331,647	77,003
Deposits from others		12,352	-	439,730
Due to other funds		-	-	-
Claims payable		-	-	-
Compensated absences		-	-	-
Certificates of participation and revenue bonds		465,000	105,000	-
TOTAL CURRENT LIABILITIES		699,089	436,647	516,733
NONCURRENT LIABILITIES:				
Certificates of participation and revenue bonds		13,573,558	29,150,588	-
TOTAL LIABILITIES		14,272,647	29,587,235	516,733
NET ASSETS:				
Invested in capital assets, net of related debt		9,480,490	21,687,427	9,829,384
Restricted		1,508,000	-	-
Unrestricted		4,524,505	9,007,780	10,837,146
TOTAL NET ASSETS		\$ 15,512,995	\$ 30,695,207	\$ 20,666,530

Adjustment to reflect the consolidation of internal
 service fund activities related to enterprise funds
 Net assets of business-type activities

See independent auditors' report and notes to basic financial statements.

Business-type Activities - Enterprise Funds (Continued)			Governmental Activities
Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 4,270,465	\$ 1,978,436	\$ 25,989,685	\$ 6,258,090
2,322	48,177	2,940,778	18,471
-	206,005	206,005	-
39,861	17,330	339,551	47,995
-	-	-	26,996
-	268,417	325,045	-
-	26,971	1,468,650	57,569
<u>4,312,648</u>	<u>2,545,336</u>	<u>31,269,714</u>	<u>6,409,121</u>
-	-	1,040,170	-
-	-	27,257,424	-
-	3,857,859	4,983,902	-
-	3,814,903	5,918,822	-
23,869,738	-	23,869,738	-
-	-	52,784,574	-
-	-	9,028,872	-
10,739	737,366	2,295,290	5,301,303
-	1,222,027	1,222,027	-
1,219,693	542,197	13,746,486	-
<u>(6,138,216)</u>	<u>(2,762,646)</u>	<u>(28,934,028)</u>	<u>(3,416,701)</u>
<u>18,961,954</u>	<u>7,411,706</u>	<u>113,213,277</u>	<u>1,884,602</u>
<u>23,274,602</u>	<u>9,957,042</u>	<u>144,482,991</u>	<u>8,293,723</u>
57,919	96,470	784,776	458,570
68,382	220,437	740,901	-
-	151,628	151,628	-
-	-	-	105,265
-	-	-	1,586,794
-	-	570,000	-
<u>126,301</u>	<u>468,535</u>	<u>2,247,305</u>	<u>2,150,629</u>
-	-	42,724,146	-
<u>126,301</u>	<u>468,535</u>	<u>44,971,451</u>	<u>2,150,629</u>
18,961,954	7,411,706	67,370,961	1,884,602
-	-	1,508,000	-
<u>4,186,347</u>	<u>2,076,801</u>	<u>30,632,579</u>	<u>4,258,492</u>
<u>\$ 23,148,301</u>	<u>\$ 9,488,507</u>	<u>99,511,540</u>	<u>\$ 6,143,094</u>
		<u>380,461</u>	
		<u>\$ 99,892,001</u>	

CITY OF HEALDSBURG

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
OPERATING REVENUES:			
Charges for services	\$ 3,933,797	\$ 4,452,952	\$ 8,858,296
Development fees	329,085	662,782	130,454
Rental income	-	-	-
Other revenues	5,787	14	17,563
TOTAL OPERATING REVENUES	4,268,669	5,115,748	9,006,313
OPERATING EXPENSES:			
Purchased power	-	-	5,367,577
Operations	1,869,211	1,442,812	2,087,296
Administrative	1,259,650	1,322,308	1,566,344
Insurance costs	-	-	-
Depreciation	482,626	565,008	379,103
TOTAL OPERATING EXPENSES	3,611,487	3,330,128	9,400,320
OPERATING INCOME (LOSS)	657,182	1,785,620	(394,007)
NONOPERATING REVENUES (EXPENSES):			
Taxes	-	-	-
Intergovernmental grants	19,163	7,545	135
Investment income	217,159	383,602	299,762
Interest expense	(608,186)	(225,861)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(371,864)	165,286	299,897
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	285,318	1,950,906	(94,110)
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
Capital contributions	-	65,493	-
Transfers in	36,288	-	119,580
Transfers out	(99,791)	(237,468)	(181,200)
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	(63,503)	(171,975)	(61,620)
CHANGE IN NET ASSETS	221,815	1,778,931	(155,730)
TOTAL NET ASSETS - BEGINNING OF YEAR	15,291,180	28,916,276	20,822,260
TOTAL NET ASSETS - END OF YEAR	\$ 15,512,995	\$ 30,695,207	\$ 20,666,530

Adjustment to reflect the consolidation of internal
 service fund activities related to enterprise funds:
 Change in net assets of business-type activities (page 17)

See independent auditors' report and notes to basic financial statements.

Business-type Activities - Enterprise Funds (Continued)			Governmental Activities
Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	297,157	\$ 17,542,202	\$ 9,103,738
1,109,615	585,286	2,817,222	-
-	349,201	349,201	-
2,187	163,437	188,988	48,559
<u>1,111,802</u>	<u>1,395,081</u>	<u>20,897,613</u>	<u>9,152,297</u>
-	-	5,367,577	-
625,267	1,867,188	7,891,774	2,238,053
337,216	489,144	4,974,662	85,698
-	-	-	6,029,062
486,835	162,951	2,076,523	412,512
<u>1,449,318</u>	<u>2,519,283</u>	<u>20,310,536</u>	<u>8,765,325</u>
<u>(337,516)</u>	<u>(1,124,202)</u>	<u>587,077</u>	<u>386,972</u>
61,735	1,140,735	1,202,470	-
50,609	398,798	476,250	-
149,077	61,067	1,110,667	177,729
-	(2,792)	(836,839)	-
<u>261,421</u>	<u>1,597,808</u>	<u>1,952,548</u>	<u>177,729</u>
<u>(76,095)</u>	<u>473,606</u>	<u>2,539,625</u>	<u>564,701</u>
-	-	65,493	-
565,666	507,057	1,228,591	496,190
<u>(147,933)</u>	<u>(366,266)</u>	<u>(1,032,658)</u>	<u>(6,135)</u>
<u>417,733</u>	<u>140,791</u>	<u>261,426</u>	<u>490,055</u>
341,638	614,397	2,801,051	1,054,756
<u>22,806,663</u>	<u>8,874,110</u>		<u>5,088,338</u>
<u>\$ 23,148,301</u>	<u>\$ 9,488,507</u>		<u>\$ 6,143,094</u>
		<u>804,111</u>	
		<u>\$ 3,605,162</u>	

CITY OF HEALDSBURG

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 4,142,791	\$ 5,020,583	\$ 9,171,728
Payments to suppliers	(2,592,940)	(1,855,724)	(7,317,537)
Payments to employees	(1,207,764)	(745,196)	(1,561,428)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>342,087</u>	<u>2,419,663</u>	<u>292,763</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Taxes	-	-	-
Intergovernmental grants	19,163	7,545	135
Cash received from other funds	36,288	-	123,759
Cash paid to other funds	(99,791)	(237,468)	(181,200)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(44,340)</u>	<u>(229,923)</u>	<u>(57,306)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets - capital replacement	(1,483,413)	(2,523,002)	(644,167)
Capital contributions	-	65,493	-
Certificates of participation and revenue bond proceeds	3,113,428	29,418,176	-
Debt issuance costs	(67,458)	(390,751)	-
Retirement of debt	(3,275,000)	(3,250,000)	-
Interest paid	(608,186)	(225,861)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,320,629)</u>	<u>23,094,055</u>	<u>(644,167)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	<u>201,134</u>	<u>275,544</u>	<u>282,877</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,821,748)	25,559,339	(125,833)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,546,161</u>	<u>8,346,172</u>	<u>8,494,117</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,724,413</u>	<u>\$ 33,905,511</u>	<u>\$ 8,368,284</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 657,182	\$ 1,785,620	\$ (394,007)
Depreciation	482,626	565,008	379,103
Amortization	151,917	154,109	-
Deferred amount on refunding	(175,414)	(167,361)	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(125,878)	(95,165)	165,415
(Increase) decrease in inventory	(8,195)	(516)	6,020
Increase (decrease) in accounts payable	(648,348)	177,968	(42,327)
Increase (decrease) in deposits	8,197	-	178,559
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 342,087</u>	<u>\$ 2,419,663</u>	<u>\$ 292,763</u>

See independent auditors' report and notes to basic financial statements.

Business-type Activities - Enterprise Funds (Continued)			Governmental Activities
Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 1,110,244	\$ 1,383,409	\$ 20,828,755	\$ 9,155,296
(352,265)	(1,406,277)	(13,524,743)	(7,766,042)
(582,695)	(924,793)	(5,021,876)	(327,796)
<u>175,284</u>	<u>(947,661)</u>	<u>2,282,136</u>	<u>1,061,458</u>
61,735	1,109,118	1,170,853	-
50,609	398,798	476,250	-
767,300	479,962	1,407,309	496,190
(349,567)	(461,767)	(1,329,793)	(6,135)
<u>530,077</u>	<u>1,526,111</u>	<u>1,724,619</u>	<u>490,055</u>
(324,017)	(71,870)	(5,046,469)	(605,433)
-	-	65,493	-
-	-	32,531,604	-
-	-	(458,209)	-
-	-	(6,525,000)	-
-	(1,421)	(835,468)	-
<u>(324,017)</u>	<u>(73,291)</u>	<u>19,731,951</u>	<u>(605,433)</u>
<u>133,260</u>	<u>55,256</u>	<u>948,071</u>	<u>160,460</u>
514,604	560,415	24,686,777	1,106,540
<u>3,755,861</u>	<u>1,418,021</u>	<u>28,560,332</u>	<u>5,151,550</u>
<u>\$ 4,270,465</u>	<u>\$ 1,978,436</u>	<u>\$ 53,247,109</u>	<u>\$ 6,258,090</u>
\$ (337,516)	\$ (1,124,202)	\$ 587,077	\$ 386,972
486,835	162,951	2,076,523	412,512
-	-	306,026	-
-	-	(342,775)	-
(1,558)	(11,672)	(68,858)	2,999
-	(11,747)	(14,438)	(10,413)
25,473	2,589	(484,645)	269,388
<u>2,050</u>	<u>34,420</u>	<u>223,226</u>	<u>-</u>
<u>\$ 175,284</u>	<u>\$ (947,661)</u>	<u>\$ 2,282,136</u>	<u>\$ 1,061,458</u>

CITY OF HEALDSBURG

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2006

	<u>Private Purpose Trust Funds</u>
ASSETS:	
Cash and investments (Note 2)	\$ 880,612
Accounts receivable	250
Interest receivable	<u>8,195</u>
 TOTAL ASSETS	 889,057
LIABILITIES:	
Accounts payable	<u>1,194</u>
NET ASSETS:	
Held in trust for other purposes	<u>\$ 887,863</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the year ended June 30, 2006

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Contributions	\$ 25,000
Investment income	28,993
Fees and charges	38,723
Other income	<u>50,000</u>
TOTAL ADDITIONS	142,716
DEDUCTIONS:	
Community development	<u>126,043</u>
CHANGE IN NET ASSETS	16,673
NET ASSETS - BEGINNING OF YEAR	<u>871,190</u>
NET ASSETS - END OF YEAR	<u><u>\$ 887,863</u></u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES:

Description of the Reporting Entity - The basic financial statements of the City of Healdsburg (City) include the financial activities of the City and its component units: the Healdsburg Redevelopment Agency (Agency), the Healdsburg Public Improvement Corporation (HPIC) and the Healdsburg Financing Authority (HFA).

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board Statement (GASB) 14. The City of Healdsburg is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component units' Board, or because the component unit will provide a financial benefit or impose a financial burden on the City.

The component units have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. Balances for the Agency are reported as separate funds in the Special Revenue, Debt Service, Capital Projects and Fiduciary Funds. HPIC transactions are included in the Water and Electric Enterprise Funds. HFA transactions are recorded in the Redevelopment Agency Debt Service Fund. The following criteria were used in determining that the component units were blended:

The members of the City Council or other members appointed by the City Council act as governing bodies of the Agency, HPIC and HFA. In addition, the Agency, HPIC and HFA provide services, which benefit the City.

The City and the Agency are financially interdependent, and the governing bodies of the City and Agency are the same.

The City and HPIC are financially interdependent. The City makes annual lease payments to HPIC, which are used for debt service on the certificates issued by HPIC.

The Agency and HFA are financially interdependent. The Agency makes annual payments to HFA, which are used for debt service on bonds issued by HFA.

Separate financial statements for the Agency and HPIC are available at the City's Administrative Offices.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Description of Joint Powers Authorities Participation - The City participates in one joint power activity and a pooled arrangement through formally organized and separate entities. The financial activities of the Northern California Power Agency and the Redwood Empire Municipal Insurance Fund are not included in the accompanying basic financial statements as they are administered by boards separate from and independent of the City. (See Notes 9 and 10)

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole, except for its fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government (including its blended component units) is reported separately from discretely presented component units for which the primary government is financially accountable. The City has no discretely presented component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Separate financial statements for the government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other funds in the aggregate for governmental and proprietary funds. Fiduciary statements, even though excluded from the government-wide financial statements include financial information that primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Under the modified accrual basis of accounting, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for principal and interest on long-term liabilities, claims payable, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All government-wide, business-type activities and proprietary funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Fund Classifications - The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34.

Major Governmental Funds

The General Fund is the primary operating fund of the City. It is used to account for all revenues and expenditures that are not required to be accounted for in another fund.

The Redevelopment Agency Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term obligations of the Redevelopment Agency.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Major Governmental Funds (Continued)

The Redevelopment Agency Commercial/Industrial Capital Projects Fund accounts for revenues received from tax increments redevelopment projects.

The General Capital Projects accounts for non-enterprise projects acquired by the City.

Major Enterprise Funds

The Water Fund accounts for the activities of water utility to the residents of the city.

The Sewer Fund accounts for the activities of sewer utility to the residents of the city.

The Electric Fund accounts for the activities of the electric distribution operations.

The Streets Fund accounts for the activities of the street maintenance operations.

The City's fund structure also includes the following fund types:

Governmental Fund Types

The Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

The Debt Service Funds are used to account for accumulation of resources for the payment of long-term debt principal and interest.

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by a government, except for those capital facilities financed by Enterprise Funds.

The Permanent Fund type is used to report resources that are legally restricted to the extent that only earnings, and not principal, are used for the benefit of the City.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund Type

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Internal Service Funds are used to account for the financing of special activities that provide services within the City. These activities include insurance and benefits, vehicle maintenance, information services and building maintenance.

Fiduciary Fund Type

Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefits to support private organizations or other governments.

Encumbrance Accounting is employed as an extension of the budgetary process. This method records purchase orders, contracts and other commitments for the expenditure of funds in order to reserve that portion of the applicable appropriation. The City Council honors encumbrances outstanding at year-end.

Capital Assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 3 years or more.

Capital assets include additions to public domain (infrastructure) which includes certain improvements including pavement, curb and gutter, sidewalks, traffic control devices, bridges and right-of-way corridors within the City. The City has valued and recorded all infrastructure asset data as of June 30, 2006.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the Government-wide Financial Statements and in the Fund Financial Statements of the Proprietary Funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Capital Assets (Continued)

The lives used for depreciation purposes of each capital asset class are:

Buildings	10 to 30 years
Improvements other than buildings	10 years
Water distribution lines	10 to 50 years
Vehicles	3 to 15 years
Machinery and equipment	10 years
Office furniture, computers and equipment	3 to 10 years
Leased property	5 to 10 years
Infrastructure	50 years

Inventory is valued at cost using the weighted average method. Inventory of the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed rather than when purchased. Inventory of the Enterprise Funds consist principally of materials and supplies for utility operations.

Cash and Investments are pooled by the City for investment purposes. Investments are stated at fair value. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Vested Vacation and Sick Leave obligations are fully funded and recorded in the Insurance and Benefit Internal Service Fund as accrued compensated absences.

Property Tax Levy, Collection and Maximum Rates - The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a one percent tax levy among the counties, cities, school districts and other districts.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property Tax Levy, Collection and Maximum Rates (Continued)

Sonoma County assesses properties, bills for and collects secured and unsecured property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property. These taxes are secured by liens on the property being taxed.

The City accrues only those taxes, which are levied for the tax year and received within sixty days after year-end.

Statement of Cash Flows - For the purpose of the statements of cash flows, cash and cash equivalents include highly liquid investments with original maturities of three months or less, including investments in the California Local Agency Investment Fund, Sonoma County Investment Fund, Banker's Acceptances and Commercial Paper.

Claims Payable - The City reports its risk activities in the Insurance and Benefit Service Fund. When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. Estimated claims losses, if any, include an accrual for IBNR ("incurred but not reported") claims. Small dollar claims are recorded as expenditures when paid.

Deferred Revenue - The deferred revenue reported on the Governmental Funds Balance Sheet represents \$34,199 in funds not available to pay for current expenditures and \$2,139,646 in receivables for which revenues have not been earned.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Specifically, the City has made certain estimates and assumptions relating to the collectibility of its receivables (including accounts receivable), and notes receivable, the valuation of property held for resale, valuation of capital assets and depreciation expense, and the ultimate outcome of claims payable. Actual results could differ from those estimates and assumptions.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2006 are classified in the accompanying financial statements as follows:

	Government- Wide Statement of <u>Net Assets</u>	Fiduciary Fund Statement of <u>Net Assets</u>	<u>Total</u>
Unrestricted assets:			
Cash and investments	\$ 49,744,058	\$ 880,612	\$ 50,624,670
Restricted assets:			
Cash and investments	<u>54,181,419</u>	<u>-</u>	<u>54,181,419</u>
Total Cash and Investments	<u>\$ 103,925,477</u>	<u>\$ 880,612</u>	<u>\$ 104,806,089</u>

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

Cash on hand	\$ 1,400
Deposits with financial institutions	256,282
Investments	<u>104,548,407</u>
Total Cash and Investments	<u>\$ 104,806,089</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investment Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Enterprise Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	180 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 day	2.5%	10%
Medium-Term Notes	5 years	30%	10%
County Pooled Investment Funds	N/A	10%	10%
Local Agency Investment Fund (LAIF)	N/A	10%	10%

* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

N/A - Not Applicable

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Enterprise Securities	None	None	None
Banker's Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

N/A - Not Applicable

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
Local Agency Investment Fund	\$ 1,606,932	\$ -	\$ -	\$ 1,606,932
Sonoma County Investment Pool	252,405	-	-	252,405
Commercial Paper	1,479,331	-	-	1,479,331
Banker's Acceptance	1,495,708	-	-	1,495,708
Federal Farm Credit Bank (FFCB)	3,000,000	-	-	3,000,000
Federal Home Loan Bank (FHLB)	31,888,262	9,969,006	10,956,429	52,813,697
Federal Home Loan Mortgage Corporation (FHLMC)	4,484,423	-	1,000,000	5,484,423
Federal National Mortgage Association (FNMA)	-	2,000,000	-	2,000,000
Money Market Mutual Funds	10,692,998	-	-	10,692,998
Investment Contracts	-	25,722,913	-	25,722,913
	<u>\$ 54,900,059</u>	<u>\$ 37,691,919</u>	<u>\$ 11,956,429</u>	<u>\$104,548,407</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standard and Poor's, as of year end for each investment type:

<u>Investment Type</u>	<u>Total as of June 30, 2006</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>A-1+</u>	<u>P-1</u>	<u>Unrated</u>
Local Agency						
Investment Fund	\$ 1,606,932	N/A	\$ -	\$ -	\$ -	\$ 1,606,932
Sonoma County						
Investment Pool	252,405	N/A	-	-	-	252,405
Commercial Paper	1,479,331	A-1+	-	1,479,331	-	-
Banker's Acceptance	1,495,708	P-1	-	-	1,495,708	-
FFCB	3,000,000	AAA	3,000,000	-	-	-
FHLB	52,813,697	AAA	52,813,697	-	-	-
FHLMC	5,484,423	AAA	5,484,423	-	-	-
FNMA	2,000,000	AAA	2,000,000	-	-	-
Money Market						
Mutual Funds	10,692,998	N/A	-	-	-	10,692,998
Investment Contracts	<u>25,722,913</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,722,913</u>
Total	<u>\$104,548,407</u>		<u>\$ 63,298,120</u>	<u>\$ 1,479,331</u>	<u>\$ 1,495,708</u>	<u>\$ 38,275,248</u>

N/A - Not Applicable

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	\$ 52,813,697
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	5,484,423
	Investment Contracts	25,722,913

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2006, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized under California Law.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment in County Investment Pool

The City is a voluntary participant in the Sonoma County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County of Sonoma. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the city's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis.

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS:

Due to and from other funds at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Other Governmental Funds	\$ 55,000
	Other Enterprise Funds	1,628
Other Enterprise Funds	Other Governmental Funds	118,417
	Other Enterprise Funds	<u>150,000</u>
		<u>\$ 325,045</u>

The amounts loaned between the funds represent temporary amounts advanced to pay for operating expenses.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (CONTINUED):

The compositions of the City's interfund transfer balances as of June 30, 2006 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Redevelopment Agency Debt Service	Redevelopment Agency Commercial/Industrial Other Governmental Funds	\$ 2,296,335 835,966
Redevelopment Agency Commercial/Industrial	General Capital Projects Other Enterprise Funds	206,765 8,530
General Capital Projects	General Redevelopment Agency Commercial/Industrial Other Governmental Funds Water Enterprise Sewer Enterprise Electric Enterprise Streets Enterprise Other Enterprise Funds Internal Service	16,202 744,585 206,964 13,079 6,116 51,000 3,301 103,004 6,135
Other Governmental Funds	General Capital Projects Other Governmental Funds Other Enterprise Funds	95,000 6,000 105,000
Water Enterprise	Redevelopment Agency Commercial/Industrial	36,288
Electric Enterprise	Streets Enterprise	119,580
Streets Enterprise	Redevelopment Agency Commercial/Industrial Other Governmental Funds	504,511 61,155
Other Enterprise Funds	Redevelopment Agency Commercial/Industrial Other Governmental Funds Other Enterprise Funds	4,513 352,812 149,732

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (CONTINUED):

The compositions of the City's interfund transfer balances (Continued):

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Internal Service	General	\$ 15,000
	Redevelopment Agency	
	Commercial/Industrial	7,874
	Water Enterprise	86,712
	Sewer Enterprise	231,352
	Electric Enterprise	130,200
	Streets Enterprise	<u>25,052</u>
		<u>\$ 6,428,763</u>

The Redevelopment Agency Debt Service Fund received funds to pay for debt service.

The Other Governmental Funds received funds to pay for capital improvements and operating expenditures.

The Streets Enterprise Fund received funds to pay for street related improvements.

All other transfers between funds were used for payment of operating expenditures or expenses.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. CAPITAL ASSETS:

A summary of changes in the Governmental Activities capital assets at June 30, 2006 is as follows:

Governmental Activities:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 12,888,560	\$ 1,549,092	\$ -	\$ 14,437,652
Right of way	6,681,379	-	-	6,681,379
Construction in progress	<u>502,724</u>	<u>125,469</u>	<u>(111,410)</u>	<u>516,783</u>
Total capital assets, not being depreciated	<u>20,072,663</u>	<u>1,674,561</u>	<u>(111,410)</u>	<u>21,635,814</u>
Capital assets, being depreciated:				
Buildings	13,980,905	111,410	-	14,092,315
Machinery and equipment	5,250,363	643,517	-	5,893,880
Infrastructure	<u>1,264,321</u>	<u>-</u>	<u>-</u>	<u>1,264,321</u>
Total capital assets being depreciated	<u>20,495,589</u>	<u>754,927</u>	<u>-</u>	<u>21,250,516</u>
Less accumulated depreciation for:				
Buildings	(3,246,007)	(477,630)	-	(3,723,637)
Machinery and equipment	(3,234,610)	(459,350)	-	(3,693,960)
Infrastructure	<u>(243,366)</u>	<u>(25,286)</u>	<u>-</u>	<u>(268,652)</u>
Total accumulated depreciation	<u>(6,723,983)</u>	<u>(962,266)</u>	<u>-</u>	<u>(7,686,249)</u>
Total capital assets being depreciated, net	<u>13,771,606</u>	<u>(207,339)</u>	<u>-</u>	<u>13,564,267</u>
Governmental activities capital assets, net	<u>\$ 33,844,269</u>	<u>\$ 1,467,222</u>	<u>\$ (111,410)</u>	<u>\$ 35,200,081</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. CAPITAL ASSETS (CONTINUED):

A summary of changes in the Business-type Activities capital assets at June 30, 2006 is as follows:

Business-type Activities:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 4,899,880	\$ 84,022	\$ -	\$ 4,983,902
Construction in progress	<u>10,426,314</u>	<u>4,786,766</u>	<u>(1,466,594)</u>	<u>13,746,486</u>
Total capital assets, not being depreciated	<u>15,326,194</u>	<u>4,870,788</u>	<u>(1,466,594)</u>	<u>18,730,388</u>
Capital assets, being depreciated:				
Buildings	5,918,822	-	-	5,918,822
Streets	23,451,527	418,211	-	23,869,738
Utility systems	51,780,099	1,004,475	-	52,784,574
Drainage	8,963,380	65,492	-	9,028,872
Machinery and equipment	2,161,194	134,096	-	2,295,290
Operations	<u>1,202,026</u>	<u>20,001</u>	<u>-</u>	<u>1,222,027</u>
Total capital assets being depreciated	<u>93,477,048</u>	<u>1,642,275</u>	<u>-</u>	<u>95,119,323</u>
Less accumulated depreciation for:				
Buildings	(2,884,785)	(155,853)	-	(3,040,638)
Streets	(5,648,697)	(485,761)	-	(6,134,458)
Utility systems	(11,981,329)	(1,075,228)	-	(13,056,557)
Drainage	(5,006,739)	(180,089)	-	(5,186,828)
Machinery and equipment	(887,462)	(159,529)	-	(1,046,991)
Operations	<u>(448,493)</u>	<u>(20,063)</u>	<u>-</u>	<u>(468,556)</u>
Total accumulated depreciation	<u>(26,857,505)</u>	<u>(2,076,523)</u>	<u>-</u>	<u>(28,934,028)</u>
Total capital assets being depreciated, net	<u>66,619,543</u>	<u>(434,248)</u>	<u>-</u>	<u>66,185,295</u>
Business-type activities capital assets, net	<u>\$ 81,945,737</u>	<u>\$ 4,436,540</u>	<u>\$ (1,466,594)</u>	<u>\$ 84,915,683</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

4. CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$	330,537
Public safety		193,931
Unallocated infrastructure depreciation		25,286
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>412,512</u>
Total depreciation expense - governmental activities	\$	<u>962,266</u>

Business-type Activities:

Water	\$	482,626
Sewer		565,008
Electric		379,103
Streets		486,835
Other programs		<u>162,951</u>
Total depreciation expense - business-type activities	\$	<u>2,076,523</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES:

The following is a summary of the Governmental Activities long-term liability transactions for the year ended June 30, 2006:

Governmental Activities:

	Balance at <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2006</u>	Due Within <u>One Year</u>
General Obligation Bonds (GO):					
1998 Refunding	\$ 1,890,000	\$ -	\$ (135,000)	\$ 1,755,000	\$ 140,000
2003 Refunding	<u>3,455,000</u>	<u>-</u>	<u>(175,000)</u>	<u>3,280,000</u>	<u>185,000</u>
Total GO Bonds	<u>5,345,000</u>	<u>-</u>	<u>(310,000)</u>	<u>5,035,000</u>	<u>325,000</u>
Tax Allocation Bonds (TAB):					
1995 Series	3,345,000	-	(80,000)	3,265,000	85,000
2002 Series A	13,490,000	-	(275,000)	13,215,000	285,000
2002 Series C	5,320,000	-	(110,000)	5,210,000	110,000
2003 Series A	12,520,000	-	(275,000)	12,245,000	270,000
2003 Series B	6,120,000	-	(125,000)	5,995,000	130,000
2002 Series B	<u>1,800,000</u>	<u>-</u>	<u>(40,000)</u>	<u>1,760,000</u>	<u>35,000</u>
Total TAB Bonds	<u>42,595,000</u>	<u>-</u>	<u>(905,000)</u>	<u>41,690,000</u>	<u>915,000</u>
Special Assessments:					
Foss Creek	185,000	-	(110,000)	75,000	75,000
Area A	<u>1,530,000</u>	<u>-</u>	<u>-</u>	<u>1,530,000</u>	<u>135,000</u>
Total Special Assessments	<u>1,715,000</u>	<u>-</u>	<u>(110,000)</u>	<u>1,605,000</u>	<u>210,000</u>
Compensated absences	<u>1,349,304</u>	<u>1,671,697</u>	<u>(1,434,207)</u>	<u>1,586,794</u>	<u>1,586,794</u>
Bond discount	<u>(272,160)</u>	<u>1,671,697</u>	<u>12,994</u>	<u>(259,166)</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 50,732,144</u>	<u>\$ 1,671,697</u>	<u>\$ (2,746,213)</u>	<u>\$ 49,657,628</u>	<u>\$ 3,036,794</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

The following is a summary of the Business-type Activities long-term liability transactions for the year ended June 30, 2006:

Business-type Activities:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006	Due Within One Year
Certificates of Participation (COP) and Bonds:					
1996 Sewer improvements	\$ 815,000	\$ -	\$ (815,000)	\$ -	\$ -
2000 B - CSCDA Water	2,920,000	-	(2,920,000)	-	-
2000 B - CSCDA Sewer	2,435,000	-	(2,435,000)	-	-
2001 A - CSCDA Water	6,280,000	-	(240,000)	6,040,000	255,000
2003 C - CSCDA Water/ Wastewater	5,285,000	-	(115,000)	5,170,000	120,000
2005 D - CSDA Water/ Wastewater	-	6,505,000	-	6,505,000	195,000
2006 Wastewater Bonds	-	<u>26,150,000</u>	-	<u>26,150,000</u>	-
Total COP and Bonds	17,735,000	32,655,000	(6,525,000)	43,865,000	570,000
Bond discount	(160,191)	(123,395)	46,860	(236,726)	-
Deferred amount on refunding	-	<u>(342,775)</u>	<u>8,647</u>	<u>(334,128)</u>	-
Total business-type activities long-term liabilities	<u>\$ 17,574,809</u>	<u>\$ 32,188,830</u>	<u>\$ (6,469,493)</u>	<u>\$ 43,294,146</u>	<u>\$ 570,000</u>

Governmental Activities:

a. General Obligation Refunding Bonds:

1998 General Obligation Refunding Bonds

In March 1998, the City issued \$2,675,000 in General Obligation Refunding Bonds to advance refund \$2,410,000 of outstanding 1990 Series B General Obligation Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 Series B bonds. As a result, the 1990 Series B bonds are considered to be defeased, and the liability for those bonds has been removed from the long-term liabilities. Interest on bonds varies from 3.80% to 5.05% with semi-annual debt service payments on August 1 and February 1 of each year with principal maturing August 1, 1998 through August 1, 2015. Debt service payments are made from property tax levy authorized by the voters. The 1990 B General Obligation were redeemed on August 1, 2000.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

a. General Obligation Refunding Bonds (Continued):

2003 General Obligation Refunding Bonds

In July 2003, the City issued \$3,620,000 in General Obligation Refunding Bonds to advance refund \$3,585,000 of outstanding 1998 General Obligation Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 General Obligation Bonds. As a result, the 1998 General Obligation Bonds are considered to be defeased, and the liability for those bonds has been removed from the long-term liabilities. Interest on bonds varies from 2.5% to 3.6% with semi-annual debt service payments on August 1 and February 1 of each year with principal maturing August 1, 2004 through August 1, 2015. Debt service payments are made from property tax levy authorized by the voters. The 1998 General Obligation Bonds were redeemed on August 1, 2003.

Future debt service requirements on these bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 325,000	\$ 178,403	\$ 503,403
2008	350,000	167,435	517,435
2009	385,000	154,914	539,914
2010	430,000	141,139	571,139
2011	460,000	126,391	586,391
2012-2016	<u>3,085,000</u>	<u>335,339</u>	<u>3,420,339</u>
	<u>\$ 5,035,000</u>	<u>\$ 1,103,621</u>	<u>\$ 6,138,621</u>

b. Tax Allocation Bonds:

1995 Series - In December 1995, the Agency issued \$3,900,000 1995 Tax Allocation Bonds. The Bonds were issued to finance improvements in the Sotoyome Project Area. Interest on the bonds varies from 4.20% to 7.50% with semi-annual debt service payments on June 1, and December 1 of each year with principal maturing annually December 1, 1996 through December 2025. Debt Service payments will be made from tax increment revenue received by the Agency.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

b. Tax Allocation Bonds (Continued):

2002 Series A - In March 2002, the Healdsburg Financing Authority issued \$14,290,000 in Tax Allocation Bonds on behalf of the Agency. The bonds were issued to finance improvements in the Sotoyome Project Area and to advance refund the 1993 Series A Certificates of Participation. Interest on the bonds varies from 1.7% to 5.125 % with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2002 through August 2031. Debt service payments will be made from tax increment revenue received by the Agency. The amount of defeased 1993 Series A Certificates of Participation has been redeemed.

2002 Series C - In March 2002, the Healdsburg Financing Authority issued on behalf of the Agency \$5,630,000 in Tax Allocation Bonds. The Bonds were issued to finance low and moderate income housing land acquisition and improvements in the Sotoyome Project Area. Interest on the bonds varies from 1.7% to 5.125% with semi-annual debt service payments on February 1, and August 1 of each year with principal maturing annually August 1, 2002 through August 2031. Debt Service payments will be made from tax increment revenue received by the Agency.

2003 Series A - In April 2003, the Agency issued \$13,000,000 Series A 2003 Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Sotoyome Project Area, fund a reserve account and pay for costs of issuance of the Bonds. Interest on the bonds varies from 1.46% to 4.45% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2003 through 2031. Debt service payments will be made from tax increment revenue received by the Agency.

2003 Series B - In April 2003, the Agency issued \$6,370,000 Series B 2003 Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Sotoyome Project Area, fund a reserve account and pay for costs of issuance of the Bonds. Interest on the bonds varies from 1.46% to 4.45% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2003 through 2031. Debt service payments will be made from tax increment revenue received by the Agency and allocated to the Low/Moderate Income Housing Fund.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

b. Tax Allocation Bonds (Continued):

2002 Series B - In August 2004, the Agency issued \$1,800,000 Series B 2002 Tax Allocation Bonds. The Bonds were issued for the purpose of providing funds to finance the Alliance Medical Clinic which the Agency has determined is a benefit to the Sotoyome Project Area. Interest on the bonds is at 4.75% with semiannual debt service payments due February 1 and August 1 with principal maturing annually August 1, 2005 through 2031. Debt service payments will be made from tax increment revenue received by the Agency.

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 915,000	\$ 2,147,195	\$ 3,062,195
2008	945,000	2,115,929	3,060,929
2009	970,000	2,080,374	3,050,374
2010	1,000,000	2,040,863	3,040,863
2011	1,040,000	1,997,865	3,037,865
2012-2016	5,885,000	9,195,976	15,080,976
2017-2021	7,355,000	7,509,531	14,864,531
2022-2026	9,330,000	5,272,544	14,602,544
2027-2031	11,575,000	2,412,117	13,987,117
2032	<u>2,675,000</u>	<u>74,261</u>	<u>2,749,261</u>
	<u>\$ 41,690,000</u>	<u>\$ 34,846,655</u>	<u>\$ 76,536,655</u>

c. Special Assessment Debt with Government Commitment:

Proceeds from the assessment bonds issued for each district were used to construct improvements that benefited the property owners in that district. In June 2005, bonds in the amount of \$1,530,000 were issued to refund in advance bonds outstanding of \$1,700,000. The advance refunding resulted in a decrease in cash flows of \$534,720 and an economic gain of \$55,779. Debt service payments are made from special assessment taxes collected from property owners by the County of Sonoma. The City has recorded the bonds as a liability because they may make temporary advance payment of debt service if sufficient funds have not been collected. Also, the assessments receivable have been recorded in a Debt Service Fund offset by an equal amount of deferred revenues in accordance with the provisions of GASB Statement 6.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

c. Special Assessment Debt with Government Commitment (Continued):

Future debt service requirements on these bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 210,000	\$ 55,048	\$ 265,048
2008	155,000	47,894	202,894
2009	160,000	43,167	203,167
2010	165,000	38,046	203,046
2011	880,000	95,607	975,607
2012-2016	<u>35,000</u>	<u>753</u>	<u>35,753</u>
	<u>\$ 1,605,000</u>	<u>\$ 280,515</u>	<u>\$ 1,885,515</u>

d. Compensated Absences:

Compensated absences are liquidated by the Insurance and Benefit Internal Service Fund and are reported as a liability of the governmental activities.

Business-type Activities:

e. Certificates of Participation (COP) and Bonds:

1996 Sewer Improvement Certificates

The Certificates were authorized and issued by the Healdsburg Public Improvement Corporation in the amount of \$950,000 to provide funds for capital improvements to the City's sewer system. The 1996 Sewer Improvement Certificates were defeased in October 2005 using proceeds from the 2005 D CSCDA Water/Wastewater Certificates.

2000 B Water and Sewer CSCDA Certificates

The bonds were authorized and issued on July 25, 2000 by the California Statewide Communities Development Authority in the amount of \$3,130,000 for water and \$2,605,000 for sewer totaling \$5,735,000 to provide funds for capital improvements. The 2000 B Water and Sewer CSCDA Certificates were defeased in October 2005 using proceeds from the 2005 D CSCDA Water/Wastewater Certificates.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activities (Continued):

e. Certificates of Participation (COP) and Bonds (Continued):

2001 A Water CSCDA Certificates

The bonds were authorized and issued by the California Statewide Communities Development Authority in the amount of \$7,170,000 of refunding revenue bonds on March 1, 2001. The interest on the bonds varies from 2.9% to 4.5% with semi-annual debt service payments payable on April 1 and October 1 of each year commencing October 1, 2001. Principal on the bonds is payable annually from October 1, 2001 through October 1, 2026. Revenues from the operation of the water utility will be used to make the debt service payments. The proceeds of \$6,886,409 (after the bond discount and payment of underwriter fees, insurance and other issuance costs of \$283,590) plus the debt service reserves of the refunded issues was used to purchase State and Local Government Securities (SLGS). These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments for the following Certificates of Participation - 1992 Water, 1993 REFA Series C, 1995 Water and 1996 Water. All of these above-mentioned certificates are considered defeased and the liability for these have been removed from long-term debt. As of June 30, 2006, \$1,995,000 remained outstanding on these refunded issues.

2003 C Water/Wastewater CSCDA Certificates

The Bonds were authorized and issued by the California Statewide Communities Development Authority on behalf of the City in the amount of \$5,510,000 in October 2002. The proceeds are to be used for water improvement projects. The interest on the bonds varies from 2.0% to 3.6% with semi-annual debt service payments payable on April 1 and October 1 commencing April 1, 2003. Principal on bonds is payable annually from October 1, 2003 through October 1, 2032. Debt service payments are made from the revenues from the operation of the water utility.

2005 D CSCDA Water/Wastewater Certificates

In October 2005, the City through the California Statewide Communities Development Authority issued \$6,505,000 in bonds to provide funds to defease the 1996 Sewer Improvement Certificates and the 2000 B Water and Sewer CSDA Certificates. The proceeds of \$6,387,775 (after bond discount, payment of underwriter fees, insurance and other costs plus the debt reserve of \$68,784) were used to purchase State and Local Government securities (SLGS). These SLGS were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1996 Sewer Improvement Certificates and the 2000 B Water and Sewer CSDA Certificates.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

5. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activities (Continued):

e. Certificates of Participation (COP) and Bonds (Continued):

2005 D CSCDA Water/Wastewater Certificates (Continued)

The refunded securities are considered defeased and the liability for these have been removed from long-term debt. At June 30, 2006, \$5,250,000 of the 2000 B Water/Wastewater CSCDA Certificates and \$795,000 of the 1996 Sewer Certificates remained outstanding on these refunded issues. The advance refunding resulted in a decrease in cash flows of \$434,590 and an economic gain of \$204,164. Interest on the bonds is payable semiannually on each April 1 and October 1 with the principal payments due annually on October 1 of each year. Revenues from the water and wastewater utility will be used for debt service payments.

2006 Wastewater Revenue Bonds

In June 2006, the Healdsburg Public Financing Authority issued \$26,150,000 in revenue bonds to finance improvements to the wastewater system of the City of Healdsburg consisting primarily of a new wastewater treatment plant and reservoir storage pond and related facilities. A portion of the proceeds will be used to pay interest and cost of issuance on the bonds. Interest on the bonds is payable semi-annually on April 1 and October 1 commencing October 1, 2006 with principal payable annually April 1 commencing April 1, 2011. Revenues from the operation of the wastewater utility will be used for debt service payments.

Annual Debt Service Requirements

Annual debt service requirements to maturity for proprietary long-term liabilities, including interest of \$35,730,220 are as follows:

Year Ending June 30,	Certificates of Participation and Bonds		
	Principal	Interest	Total
2007	\$ 570,000	\$ 1,743,035	\$ 2,313,035
2008	545,000	1,946,168	2,491,168
2009	580,000	1,928,996	2,508,996
2010	590,000	1,910,317	2,500,317
2011	1,120,000	1,890,263	3,010,263
2012-2016	6,070,000	8,737,325	14,807,325
2017-2021	7,355,000	7,297,056	14,652,056
2022-2026	8,840,000	5,481,209	14,321,209
2027-2031	9,100,000	3,454,601	12,554,601
2032-2037	9,095,000	1,341,250	10,436,250
	<u>\$ 43,865,000</u>	<u>\$ 35,730,220</u>	<u>\$ 79,595,220</u>

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

6. EMPLOYEES' RETIREMENT PLAN:

Plan Description

The City of Healdsburg contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. As of July 1, 2005, the District was mandated by the State to participate in the risk pool. The risk pool combines the assets and liabilities across employers of the same risk pool to provide a method to spread the risk of uncertain gains and losses over a larger base of members. Benefit provisions and all other requirements are established by state statute and City Ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 15.955% for miscellaneous employees and 31.218% for safety employees for the fiscal year ended June 30, 2006 of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS. The City, due to a collective bargaining agreement, also has a legal obligation to contribute 7% (9% for safety employees) of each participant's annual covered salary.

Annual Pension Cost

For 2006, the City's annual pension cost of \$1,768,067 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% payroll growth, and (d) individual salary growth using a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003 was 17 years.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

6. EMPLOYEES' RETIREMENT PLAN (CONTINUED):

Three-Year Trend Information for the Miscellaneous and Safety Plans

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 693,895	100%	\$ -
6/30/05	1,286,275	100%	-
6/30/06	1,768,067	100%	-

Schedule of Funding Progress for PERS

<u>Miscellaneous Plan</u>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (A)</u>	<u>Actuarial Value of Assets (B)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (A-B)</u>	<u>Funded Ratio (B/A)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll [(A-B)/C]</u>
6/30/02	\$ 21,188,667	\$ 19,491,095	\$ 1,697,572	92.0 %	\$ 5,483,146	30.960 %
* 6/30/03	2,596,966,545	2,372,879,034	224,087,511	91.4 %	725,020,458	30.908 %
* 6/30/04	2,746,095,668	2,460,944,656	285,151,012	89.6 %	743,691,970	38.343 %

<u>Safety Plan</u>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (A)</u>	<u>Actuarial Value of Assets (B)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (A-B)</u>	<u>Funded Ratio (B/A)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll [(A-B)/C]</u>
6/30/02	\$ 14,001,327	\$ 11,674,901	\$ 2,326,426	83.4 %	\$ 1,833,680	126.872 %
* 6/30/03	4,270,573,982	3,577,742,166	692,831,816	83.8 %	476,089,674	145.525 %
* 6/30/04	5,383,921,942	4,424,586,846	959,335,096	82.2 %	575,296,434	166.755 %

* - The schedule of funding progress for the years ended June, 30, 2003 and 2004 is for the risk pool.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

7. RESERVES AND DESIGNATIONS OF FUND EQUITY:

The City may set up "reserves" of fund equity to segregate fund balances which are not appropriate for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" may also be established to indicate tentative plans for financial resources utilization in a future period. Each of the City's reserves and designations are described below:

- a. Reserves for non-current loans receivable represents amounts which are not available for current expenditures.
- b. Reserve for low and moderate income housing represents amounts set-aside in the Redevelopment Agency Low/Moderate Income Capital Projects Fund.
- c. Reserves for debt service represent amounts accumulated in accordance with bond indenture or similar covenant.
- d. Reserve for Community and Economic Development has been established to reflect bond proceeds restricted for Capital Improvements.

8. NORTHERN CALIFORNIA POWER AGENCY:

The City is a member of Northern California Power Agency (NCPA), which operates under a joint powers agreement among fourteen public agencies consisting of eleven cities with publicly owned electric distribution systems, one irrigation district, one public utility district, one port authority and four associate member entities. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell, and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities. Each NCPA member has agreed to fund a pro rata share of certain assessments by NCPA and enter into power supply contracts with NCPA to purchase power in support of bearing the costs of NCPA operations, energy and facilities. While governed by its members, none of NCPA's obligations are those of its members unless expressly assumed by them. Amounts paid by the City to NCPA during the year ended June 30, 2006, of \$5,372,077 included \$5,367,577 for purchased power and \$4,500 in advances and assessments and are reported as an expense of the Electric Fund.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$3.1 million at June 30, 2006. This amount represents the City's portion of funds which resulted from the reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

8. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employee's post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 3.31% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered generating plants, Project Number 1 and Project Number 2. Total outstanding debt of the NCPA Geothermal Project at June 30, 2006 is \$126,500 thousand.

NCPA's Geothermal project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects will be higher than anticipated.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

8. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with the Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments began in February 1990 when the operating portions were declared substantially complete. Under a power purchase agreement with NCPA, the City is obligated to pay 1.66% of the debt service and operating costs. At June 30, 2006 approximately \$490,080 thousand in long-term debt used to finance this project was outstanding. NCPA has initiated a series of restructurings and early calls which will reduce annual debt service and comparative cost of energy from this resource. The City chose to lower debt service payment obligations by making a \$1,603,580 debt reduction payment in early 2002.

NCPA Combustion Turbine Project

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. Under the NCPA power purchase agreement, the City is obligated to pay 3.5% of the debt service and operating costs. The Combustion Turbine Project was completed in June 1990. Project participation costs are substantially less than the cost of power which would otherwise be purchased. At June 30, 2006 approximately \$18,490 thousand in long-term debt related to this project was outstanding.

Geothermal Public Power Line

In 1983, NCPA, Sacramento Municipal Utility District, Santa Clara, and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line. The transmission line will carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners can receive it for transmission to their load centers. NCPA has an 18.5% share of the project. The City has a 6.61% participation in NCPA's share. In 1989, the construction of the proposed Geothermal Public Power Line was discontinued. In December 1998, NCPA issued \$10 million in revenue bonds to defease the remaining variable rate refunding bonds used to finance this project. At June 30, 2006, approximately \$4,050 thousand in long-term debt related to this project was outstanding.

Interest Rate Swap Agreement

NCPA has entered into interest rate swaps and related agreements related to its hydro electric project. Additional information regarding NCPA debt is disclosed in NCPA's financial statements.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

8. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

NCPA Condensed Financial Information

The information below summarizes NCPA's audited financial statements as of and for the year ended June 30, 2006 (in thousands):

Total assets	\$ 924,137
Total liabilities (excluding long-term debt)	229,468
Long-term debt	664,904
Accumulated net revenues	29,765
Revenues	321,757
Expenses (including refunds)	310,900
Increase in accumulated net revenues	10,857

Maturities (Principal) of NCPA's long-term debt as of June 30, 2006 are as follows (in thousands) (audited):

2007	\$ 36,095
2008	37,060
2009	38,205
2010	38,715
2011	43,645
2012 and after	511,160
Less: unamortized net discount and premium	(3,881)
Current portion	<u>(36,095)</u>
Total	<u>\$ 664,904</u>

The City does not include its net investment in NCPA in the proprietary fund financial statements because it is a separate legal entity and the JPA's obligations and liabilities are not those of the City.

NCPA Financial Information

NCPA'S financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

9. POOLED ARRANGEMENT:

In addition to NCPA, the City participates in a pooled insurance arrangement. A description of this agency follows:

Redwood Empire Municipal Insurance Fund (REMIF) is a governmental self-insurance cooperative organized under a joint powers agreement by certain California cities to provide liability coverage to its members as allowed under the California Government Code. REMIF is a “risk sharing pool”, which pools risks and funds and which shares in the cost of losses. REMIF provides and administers liability coverage programs for seven member and eight associate member cities. Members and associate members have the option, with approval by the Board of Directors, of participating in any or all of seven programs which provide workers’ compensation, general liability, property, auto physical damage, fidelity employee bonding, dental and vision insurance. There are a number of programs that are funded on a pass-through basis including, employee assistance plan coverage, life and long-term disability insurance, boiler and machinery coverage, and difference in condition (flood and earthquake) coverage.

The Redwood Empire Municipal Insurance Fund is in turn a member of the California Joint Powers Insurance Authority, a super self-insurance and insurance procurement joint powers authority.

The activities of REMIF include setting and collecting premiums for each program, negotiating excess insurance coverage administering and paying claims and related expenses, and investing each program’s assets. REMIF engages the services of independent actuaries and claims administrators to assist in performing some of these activities.

The information below summarizes the audited financial statements as of and for the year ended June 30, 2006, for the Redwood Empire Municipal Insurance Fund in which the City participates.

Total Assets	\$	16,195,404
Total Liabilities		12,196,575
Total Net Assets		3,998,829
Total Revenues		8,321,282
Total Expenses		7,571,481
Increase in Net Assets		749,801
Total Long-Term Debt		6,153,966

See independent auditors’ report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

10. SELF-INSURANCE PLANS:

The City is a member of Redwood Empire Municipal Insurance Fund (REMIF) as described in Note 9. The City's general liability and workers compensation claims are covered as a member of REMIF. REMIF has a risk sharing arrangement for each insurance program. Each member participating in each program assumes its own losses up to its retention level. The City has a \$5,000 retention level for general liability and workers compensation. The excess amounts presently insured to statutory requirements of the State of California for workers compensation and \$10,000,000 for general liability through a pooled program. Each program's pool is funded by all of the members participating in that program through cash premiums. Excess losses up to the state limits are covered by commercial carriers or other agencies, which REMIF contracts for that purpose. Losses exceeding these excess coverage limits for each program are the responsibility of the individual member for which the loss or claim originated. Claims have not exceeded insurance coverage amounts over the last three fiscal years and there has been no reduction in insurance coverage since the last fiscal year.

11. INDIVIDUAL FUND DISCLOSURES:

a. The fund which has a deficit fund balance at June 30, 2006 was as follows:

Special Revenue Fund:	
North Area	\$ <u>41,149</u>

The City plans on removing the deficit in the North Area Special Revenue Fund through future development contributions and benefit assessments.

b. Funds where expenditures exceeded appropriations:

General Fund	\$ 736,346
Special Revenue Funds:	
Gas Tax	210
Park Fees	46
TDA	4
Redevelopment Agency UDAG Loan	4,409
Debt Service Fund:	
Redevelopment Agency	110,772

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

12. COMMITMENTS AND CONTINGENCIES:

There are pending claims and litigation against the City, which are considered normal to the City's operation. City management is of the opinion that potential claims against the City not covered by insurance resulting from such litigation would not materially affect the general purpose financial statements of the City beyond funded reserves.

The City has entered into long-term electric power purchase and electric transmission contracts. These contracts were entered into by Northern California Power Agency (NCPA) on behalf of various members (see Note 9) including the City. Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements. The City's estimated share of such debt outstanding at June 30, 2006 was \$13.3 million. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

Seattle City Light

NCPA has negotiated a 21-year seasonal power exchange agreement with Seattle City Light for 60 MW of summer capacity and 90,580 MWh of energy and a return of 46 MW of capacity and 108,696 of energy in the winter. The City's share of the summer capacity is 1.6 MW. The net cost to the City is mitigated by the cost difference between supplying energy and receiving free capacity.

California-Oregon Transmission Project

The City is a member of the Transmission Agency of Northern California (TANC), a California joint powers agency. TANC, a combination of cities, Western and four other California Districts and authorities are participants in the California-Oregon Transmission Project (COTP). The COTP is a transmission project between southern Oregon and Central California. COTP provides a transmission path between the electric systems of the Pacific Northwest and those in California. The members of NCPA are entitled to 30.4 percent of the transfer capacity of COTP. The City's share is .21 percent. Each member of NCPA is responsible for developing its own uses for its share of the COTP transfer capability.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

12. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Western Area Power Administration

In addition to commitments for power purchase through NCPA, the City has entered into a contract with Western Area Power Administration (Western). Western is a federal Power Management Agency of the U.S. Department of Energy, which among other things is responsible for marketing electricity generated by the Central Valley Project. The contract with Western was renewed for the period January 1, 2005 through September 30, 2010. The estimated annual commitment for purchasing power is \$127,700. The contract provides an estimated 6,300 MWh at an average cost of \$20MWh. Healdsburg's share is 9.1% of the Western contract.

Other Energy Contracts

The City, through NCPA and its member cities, has also arranged to procure additional power by participating in a contract with CalPine Corporation. The contract, which started in 2002 and expires in December 2011, provides 3 Megawatts of capacity at an aver cost for \$65 per MWh.

13. FACTORS AFFECTING THE UTILITY INDUSTRY:

Assembly Electric Bill 1890

In August 1996, the California legislature unanimously passed a bill related to the restructuring of certain elements of the electric utility industry for Investor Owned Utilities (IOUs). The bill was signed by the governor in September 1996. The bill codifies parts of the California Public Utility Commission's (CPUC) December 20, 1995 policy relating to restructuring, including implementation of direct access, establishment of an Independent System Operations (ISO) and Power Exchange (PX), recovery of competitive transition costs, and funding for public purpose programs. The bill also relates to and affects publicly owned electric utilities, utilities not subject to the CPUC's jurisdiction. The City of Healdsburg is a publicly owned utility under AB 1890 as the City Council retains autonomy and local control. Each publicly owned utility was given the choice of whether or not it would open its service territory to new generation suppliers. The California energy crisis that developed during 2000 has caused a suspension of any consideration of a competitive transition.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006

13. FACTORS AFFECTING THE UTILITY INDUSTRY (CONTINUED):

Financial Difficulties at Investor-Owned Utilities

In early 2001, Pacific Gas and Electric Corporation (PG&E), the major investor-owned power utility in Northern California declared bankruptcy. The City of Healdsburg Electric Utility does not have direct financial exposure to PG&E, however, because of the existing interconnection agreement through NCPA, there was risk that PG&E would not perform transmission service as called for in the agreement. The City, through NCPA, was able to replace the PG&E Interconnection Agreement with a new Transmission Agreement with the California ISO. The agreement became effective on October 1, 2002.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HEALDSBURG
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 1,268,979	\$ 1,268,979	\$ 1,574,157	\$ 305,178
Sales and other taxes	3,460,418	3,460,418	3,901,201	440,783
Charges for services	274,898	274,898	349,228	74,330
Intergovernmental revenues	416,369	416,369	648,583	232,214
Investment income	54,837	54,837	139,544	84,707
Miscellaneous fees and charges	69,573	69,572	71,760	2,188
Other revenues	16,976	16,976	54,490	37,514
TOTAL REVENUES	5,562,050	5,562,049	6,738,963	1,176,914
EXPENDITURES:				
Current:				
General government	214,782	214,782	309,694	(94,912)
Public safety	5,892,425	5,892,425	6,533,860	(641,435)
TOTAL EXPENDITURES	6,107,207	6,107,207	6,843,554	(736,347)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(545,157)	(545,158)	(104,591)	440,567
OTHER FINANCING USES:				
Transfers out	(15,000)	(15,000)	(31,202)	(16,202)
NET CHANGE IN FUND BALANCE	(560,157)	(560,158)	(135,793)	424,365
FUND BALANCE - BEGINNING OF YEAR	4,673,030	4,673,030	4,673,030	-
FUND BALANCE - END OF YEAR	\$ 4,112,873	\$ 4,112,872	\$ 4,537,237	\$ 424,365

See independent auditors' report and note to required supplementary information.

CITY OF HEALDSBURG

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

1. BUDGETS AND BUDGETARY ACCOUNTING:

The City operates under the general laws of the State of California and annually adopts a budget to be effective July 1st for the ensuing fiscal year for certain governmental funds. From the effective date of the budget, which is adopted and controlled at the fund level, the amounts stated therein as proposed expenditures become appropriations to the City's various departments. The City Manager is authorized to transfer budgeted amounts between functional categories. The City Council may amend the budget by resolution during the fiscal year. All annual appropriations lapse at year-end.

Budget information is presented for the General, Gas Tax, Park Fees, TDA, Redevelopment Agency UDAG Loan, Area A Lighting and Landscaping District and Benjamin Way Special Revenue Funds, General, Special Assessment and Redevelopment Agency Debt Service Funds budgeted on a basis consistent with generally accepted accounting principles. No budgetary comparisons are presented for North Area, Airport Grant, Media Center, Redevelopment Agency Housing Bond, Street Development Fees Public Safety and Other Special Revenue Funds, Capital Projects funds and the Permanent Fund as these funds do not have budgets adopted or the budgets adopted are primarily long-term budgets which emphasize capital outlay plans extending over one year. The City prefers to leave its original budget unaltered during the year. This enables the effectiveness of individual departments in meeting budget objectives to be evaluated, and the adequacy of the budget itself to be judged. The only exceptions to this are the appropriations of unanticipated revenues, the revision of appropriations to reflect major economic events materially affecting estimated revenues, and the refocusing of particular programs requiring the reallocation of existing resources. Several supplemental appropriations were approved during the course of the year. Expenditures in excess of budgeted amounts are allowed by law but must be approved individually by the City Council.

See independent auditors' report.

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OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

DEBT SERVICE FUNDS

The Debt Service Funds are used to account for accumulation of resources for the payment of long-term debt principal and interest.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by a government, except for those capital facilities financed by Enterprise Funds.

PERMANENT FUND

The Permanent Fund is used to account and administer funds of the Cultural Center.

CITY OF HEALDSBURG

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
ASSETS					
Cash and investments	\$ 5,397,020	\$ 1,088,056	\$ 2,119,150	\$ 80,127	\$ 8,684,353
Receivables:					
Accounts	277,266	-	2,507	-	279,773
Taxes	3,724	36,293	40,422	-	80,439
Loan	1,253,348	-	-	-	1,253,348
Interest	46,632	8,264	55,065	777	110,738
Special assessments	-	1,605,000	-	-	1,605,000
Due from other governments	100,598	-	-	-	100,598
Restricted cash and investments	-	452,923	7,159,719	-	7,612,642
TOTAL ASSETS	\$ 7,078,588	\$ 3,190,536	\$ 9,376,863	\$ 80,904	\$ 19,726,891
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 69,167	\$ -	\$ 3,498	\$ -	\$ 72,665
Due to other funds	173,417	-	-	-	173,417
Deferred revenue	272,667	1,605,000	-	-	1,877,667
TOTAL LIABILITIES	515,251	1,605,000	3,498	-	2,123,749
FUND BALANCES:					
Reserved for:					
Low and moderate income housing	-	-	9,354,870	-	9,354,870
Debt service	-	1,585,536	-	-	1,585,536
Noncurrent loans receivable	1,092,839	-	-	-	1,092,839
Unreserved, reported in:					
Special revenue funds	5,470,498	-	-	-	5,470,498
Capital projects funds	-	-	18,495	-	18,495
Permanent fund	-	-	-	80,904	80,904
TOTAL FUND BALANCES	6,563,337	1,585,536	9,373,365	80,904	17,603,142
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,078,588	\$ 3,190,536	\$ 9,376,863	\$ 80,904	\$ 19,726,891

See independent auditors' report.

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
REVENUES:					
Property taxes	\$ -	\$ 475,152	\$ 1,485,178	\$ -	\$ 1,960,330
Intergovernmental revenues	602,366	-	-	-	602,366
Special assessments	-	481,342	-	-	481,342
Development fees and permits	109,161	-	-	-	109,161
Investment income	211,275	40,077	320,394	2,738	574,484
Other revenues	775,048	-	4,973	-	780,021
TOTAL REVENUES	1,697,850	996,571	1,810,545	2,738	4,507,704
EXPENDITURES:					
Current:					
General government	10,933	1,180	54,553	111	66,777
Culture and recreation	27,460	-	-	5,000	32,460
Community development	207,513	-	318,538	-	526,051
Debt service:					
Principal retirement	-	420,000	-	-	420,000
Interest and fees	-	326,838	-	-	326,838
TOTAL EXPENDITURES	245,906	748,018	373,091	5,111	1,372,126
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,451,944	248,553	1,437,454	(2,373)	3,135,578
OTHER FINANCING SOURCES (USES):					
Transfers in	206,000	-	-	-	206,000
Transfers out	(547,756)	-	(915,141)	-	(1,462,897)
TOTAL OTHER FINANCING SOURCES (USES)	(341,756)	-	(915,141)	-	(1,256,897)
NET CHANGE IN FUND BALANCES	1,110,188	248,553	522,313	(2,373)	1,878,681
FUND BALANCES - BEGINNING OF YEAR	5,453,149	1,336,983	8,851,052	83,277	15,724,461
FUND BALANCES - END OF YEAR	\$ 6,563,337	\$ 1,585,536	\$ 9,373,365	\$ 80,904	\$ 17,603,142

See independent auditors' report.

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OTHER SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenues derived from specific sources. These funds are required by statute or ordinance to finance particular functions or activities of government. The various funds and sources are:

Gas Tax - Accounts for revenues received from State of California Street and Highway Code Sections 2105, 2106, 2107, and 2107.5 for the purpose of maintenance and construction of the City streets.

North Area - Accounts for revenues received from property owners and/or advanced by the City to plan for infrastructure for the North Area.

Airport Grant - Accounts for revenues received from the State Division of Aeronautics for airport improvements.

Park Fees - Accounts for revenues received from fees collected to pay for parks.

Media Center - Accounts for revenues received from fees imposed for public access television.

Transportation Development Act (TDA) - Accounts for revenues received under State of California Transportation Development Act Articles III, IV and VII, for the purpose of providing pedestrian/bike paths, transit operations, and maintenance and construction of streets and roads.

Redevelopment Agency - Urban Development Action Grant (UDAG) Loan - Accounts for revenues received from the repayment of principal and interest on the Vineyard Plaza loan to Healdsburg Investors utilizing the proceeds of U.S. Department of Housing and & Urban Development UDAG Grant.

Redevelopment Agency - Housing Bond - Accounts for revenues received from repayment of mortgages supported by Sonoma County Home Financing Authority bonds in excess of debt service.

Street Development Fees - Accounts for revenues received from fees imposed on development or intensified use to mitigate the resulting demand for off-site or oversized street improvements.

Area A Lighting and Landscaping District - Accounts for revenues received from Lighting and Landscaping District assessments in Area A and associated maintenance.

Benjamin Way Maintenance District - Accounts for revenues received from the maintenance of private streets and the maintenance thereof.

Public Safety - Accounts for revenues received for special grants and funding for Public Safety.

Other - Accounts for revenues received for grants and annexation fees for capital projects.

CITY OF HEALDSBURG

COMBINING BALANCE SHEET
OTHER SPECIAL REVENUE FUNDS

June 30, 2006

	Gas Tax	North Area	Airport Grant
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 229,748	\$ 13,755	\$ 20,857
Receivables:			
Accounts	-	56,949	-
Taxes	-	-	-
Loans	-	-	-
Interest	1,469	96	586
Due from other governments	22,443	-	78,155
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 253,660</u>	<u>\$ 70,800</u>	<u>\$ 99,598</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ -	\$ 56,949	\$ -
Due to other funds	-	55,000	-
Deferred revenue	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>-</u>	<u>111,949</u>	<u>-</u>
FUND BALANCES (DEFICIT):			
Reserved:			
Noncurrent notes receivable	-	-	-
Unreserved, undesignated	253,660	(41,149)	99,598
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES (DEFICIT)	<u>253,660</u>	<u>(41,149)</u>	<u>99,598</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 253,660</u>	<u>\$ 70,800</u>	<u>\$ 99,598</u>

See independent auditors' report.

<u>Park Fees</u>	<u>Media Center</u>	<u>TDA</u>	<u>Redevelopment Agency UDAG Loan</u>	<u>Redevelopment Agency Housing Bond</u>	<u>Street Development Fees</u>
\$ 297,314	\$ 13,520	\$ 3,134	\$ 3,764,892	\$ 105,426	\$ 18,767
-	2,235	166,084	51,978	-	-
-	-	-	-	-	-
-	-	-	1,028,348	225,000	-
1,728	121	30	33,291	1,346	178
-	-	-	-	-	-
<u>\$ 299,042</u>	<u>\$ 15,876</u>	<u>\$ 169,248</u>	<u>\$ 4,878,509</u>	<u>\$ 331,772</u>	<u>\$ 18,945</u>
\$ -	\$ 2,235	\$ -	\$ -	\$ -	\$ -
-	-	118,417	-	-	-
-	-	47,667	-	225,000	-
-	2,235	166,084	-	225,000	-
-	-	-	1,092,839	-	-
299,042	13,641	3,164	3,785,670	106,772	18,945
299,042	13,641	3,164	4,878,509	106,772	18,945
<u>\$ 299,042</u>	<u>\$ 15,876</u>	<u>\$ 169,248</u>	<u>\$ 4,878,509</u>	<u>\$ 331,772</u>	<u>\$ 18,945</u>

(Continued)

CITY OF HEALDSBURG

COMBINING BALANCE SHEET
OTHER SPECIAL REVENUE FUNDS
(CONTINUED)

June 30, 2006

	Area A Lighting and Landscaping District	Benjamin Way Maintenance District
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 343,854	\$ 4,552
Receivables:		
Accounts	-	20
Taxes	3,724	-
Loans	-	-
Interest	2,841	43
Due from other governments	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 350,419</u>	<u>\$ 4,615</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ 9,983	\$ -
Due to other funds	-	-
Deferred revenue	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>9,983</u>	<u>-</u>
FUND BALANCES (DEFICIT):		
Reserved:		
Noncurrent notes receivable	-	-
Unreserved, undesignated	<u>340,436</u>	<u>4,615</u>
TOTAL FUND BALANCES (DEFICIT)	<u>340,436</u>	<u>4,615</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 350,419</u>	<u>\$ 4,615</u>

See independent auditors' report.

<u>Public Safety</u>	<u>Other</u>	<u>Total Other Special Revenue Funds</u>
\$ 15,567	\$ 565,634	\$ 5,397,020
-	-	277,266
-	-	3,724
-	-	1,253,348
146	4,757	46,632
<u>-</u>	<u>-</u>	<u>100,598</u>
<u>\$ 15,713</u>	<u>\$ 570,391</u>	<u>\$ 7,078,588</u>
\$ -	\$ -	\$ 69,167
-	-	173,417
<u>-</u>	<u>-</u>	<u>272,667</u>
<u>-</u>	<u>-</u>	<u>515,251</u>
-	-	1,092,839
<u>15,713</u>	<u>570,391</u>	<u>5,470,498</u>
<u>15,713</u>	<u>570,391</u>	<u>6,563,337</u>
<u>\$ 15,713</u>	<u>\$ 570,391</u>	<u>\$ 7,078,588</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER SPECIAL REVENUE FUNDS

For the year ended June 30, 2006

	Gas Tax	North Area	Airport Grant
REVENUES:			
Intergovernmental revenues	\$ 224,527	\$ -	\$ 88,155
Development fees and permits	-	12,259	-
Investment income	6,379	306	2,395
Other revenues	-	741	-
	<u>230,906</u>	<u>13,306</u>	<u>90,550</u>
TOTAL REVENUES			
EXPENDITURES:			
Current:			
General government	210	14	84
Culture and recreation	-	-	-
Community development	-	-	-
	<u>210</u>	<u>14</u>	<u>84</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>230,696</u>	<u>13,292</u>	<u>90,466</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	<u>(61,155)</u>	<u>-</u>	<u>(81,264)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(61,155)</u>	<u>-</u>	<u>(81,264)</u>
NET CHANGE IN FUND BALANCES	169,541	13,292	9,202
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>84,119</u>	<u>(54,441)</u>	<u>90,396</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 253,660</u>	<u>\$ (41,149)</u>	<u>\$ 99,598</u>

See independent auditors' report.

<u>Park Fees</u>	<u>Media Center</u>	<u>TDA</u>	<u>Redevelopment Agency UDAG Loan</u>	<u>Redevelopment Agency Housing Bond</u>	<u>Street Development Fees</u>
\$ -	\$ -	\$ 167,425	\$ -	\$ -	\$ -
96,427	-	-	-	-	-
6,508	65	118	160,997	11,144	636
157	26,903	-	404,915	150,000	-
<u>103,092</u>	<u>26,968</u>	<u>167,543</u>	<u>565,912</u>	<u>161,144</u>	<u>636</u>
246	1,063	4	7,984	192	25
-	-	-	-	-	-
-	49,721	-	50,000	75,000	-
<u>246</u>	<u>50,784</u>	<u>4</u>	<u>57,984</u>	<u>75,192</u>	<u>25</u>
<u>102,846</u>	<u>(23,816)</u>	<u>167,539</u>	<u>507,928</u>	<u>85,952</u>	<u>611</u>
95,000	6,000	-	-	-	-
(76,912)	-	(167,425)	-	-	-
<u>18,088</u>	<u>6,000</u>	<u>(167,425)</u>	<u>-</u>	<u>-</u>	<u>-</u>
120,934	(17,816)	114	507,928	85,952	611
178,108	31,457	3,050	4,370,581	20,820	18,334
<u>\$ 299,042</u>	<u>\$ 13,641</u>	<u>\$ 3,164</u>	<u>\$ 4,878,509</u>	<u>\$ 106,772</u>	<u>\$ 18,945</u>

(Continued)

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER SPECIAL REVENUE FUNDS
(CONTINUED)

For the year ended June 30, 2006

	Area A Lighting and Landscaping District	Benjamin Way Maintenance District
	<u> </u>	<u> </u>
REVENUES:		
Intergovernmental revenues	\$ 5,099	\$ -
Development fees and permits	-	-
Investment income	5,703	157
Other revenues	<u>141,892</u>	<u>440</u>
TOTAL REVENUES	<u>152,694</u>	<u>597</u>
EXPENDITURES:		
Current:		
General government	405	6
Culture and recreation	27,460	-
Community development	<u>32,792</u>	<u>-</u>
TOTAL EXPENDITURES	<u>60,657</u>	<u>6</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>92,037</u>	<u>591</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	105,000	-
Transfers out	<u>(105,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	92,037	591
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>248,399</u>	<u>4,024</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u><u>\$ 340,436</u></u>	<u><u>\$ 4,615</u></u>

See independent auditors' report.

<u>Public Safety</u>	<u>Other</u>	<u>Total Other Special Revenue Funds</u>
\$ -	\$ 117,160	\$ 602,366
475	-	109,161
529	16,338	211,275
-	50,000	775,048
<u>1,004</u>	<u>183,498</u>	<u>1,697,850</u>
21	679	10,933
-	-	27,460
-	-	207,513
<u>21</u>	<u>679</u>	<u>245,906</u>
<u>983</u>	<u>182,819</u>	<u>1,451,944</u>
-	-	206,000
-	(56,000)	(547,756)
<u>-</u>	<u>(56,000)</u>	<u>(341,756)</u>
983	126,819	1,110,188
<u>14,730</u>	<u>443,572</u>	<u>5,453,149</u>
<u>\$ 15,713</u>	<u>\$ 570,391</u>	<u>\$ 6,563,337</u>

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GAS TAX SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 227,428	\$ 227,428	\$ 224,527	\$ (2,901)
Investment income	500	500	6,379	5,879
TOTAL REVENUES	227,928	227,928	230,906	2,978
EXPENDITURES:				
Current:				
General government	-	-	210	(210)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	227,928	227,928	230,696	2,768
OTHER FINANCING USES:				
Transfers out	(220,000)	(220,000)	(61,155)	158,845
NET CHANGE IN FUND BALANCE	7,928	7,928	169,541	161,613
FUND BALANCE - BEGINNING OF YEAR	84,119	84,119	84,119	-
FUND BALANCE - END OF YEAR	\$ 92,047	\$ 92,047	\$ 253,660	\$ 161,613

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PARK FEES SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Development fees and permits	\$ 75,000	\$ 75,000	\$ 96,427	\$ 21,427
Investment income	2,600	2,600	6,508	3,908
Other revenues	-	-	157	157
TOTAL REVENUES	77,600	77,600	103,092	25,492
EXPENDITURES:				
Current:				
General government	200	200	246	(46)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	77,400	77,400	102,846	25,446
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	95,000	95,000
Transfers out	(75,000)	(75,000)	(76,912)	(1,912)
TOTAL OTHER FINANCING SOURCES (USES)	(75,000)	(75,000)	18,088	93,088
NET CHANGE IN FUND BALANCE	2,400	2,400	120,934	118,534
FUND BALANCE - BEGINNING OF YEAR	178,108	178,108	178,108	-
FUND BALANCE - END OF YEAR	\$ 180,508	\$ 180,508	\$ 299,042	\$ 118,534

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

TDA SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 166,554	\$ 166,554	\$ 167,425	\$ 871
Investment income	-	-	118	118
TOTAL REVENUES	166,554	166,554	167,543	989
EXPENDITURES:				
Current:				
General government	-	-	4	(4)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	166,554	166,554	167,539	985
OTHER FINANCING USES:				
Transfers out	(166,554)	(166,554)	(167,425)	(871)
NET CHANGE IN FUND BALANCE	-	-	114	114
FUND BALANCE - BEGINNING OF YEAR	3,050	3,050	3,050	-
FUND BALANCE - END OF YEAR	\$ 3,050	\$ 3,050	\$ 3,164	\$ 114

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

REDEVELOPMENT AGENCY UDAG LOAN SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 111,000	\$ 111,000	\$ 160,997	\$ 49,997
Other revenues	268,000	268,000	404,915	136,915
TOTAL REVENUES	<u>379,000</u>	<u>379,000</u>	<u>565,912</u>	<u>186,912</u>
EXPENDITURES:				
Current:				
General government	3,575	3,575	7,984	(4,409)
Community development	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>53,575</u>	<u>53,575</u>	<u>57,984</u>	<u>(4,409)</u>
EXCESS OF REVENUES OVER (Under) EXPENDITURES	325,425	325,425	507,928	182,503
FUND BALANCE - BEGINNING OF YEAR	<u>4,370,581</u>	<u>4,370,581</u>	<u>4,370,581</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 4,696,006</u>	<u>\$ 4,696,006</u>	<u>\$ 4,878,509</u>	<u>\$ 182,503</u>

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

AREA A LIGHTING AND LANDSCAPING DISTRICT SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 144,131	\$ 144,131	\$ 5,099	\$ (139,032)
Investment income	1,100	1,100	5,703	4,603
Other revenue	-	-	141,892	141,892
TOTAL REVENUES	145,231	145,231	152,694	7,463
EXPENDITURES:				
Current:				
General government	-	3,500	405	3,095
Culture and recreation	-	63,126	27,460	35,666
Community development	-	8,886	32,792	(23,906)
TOTAL EXPENDITURES	-	75,512	60,657	14,855
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	145,231	69,719	92,037	22,318
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	105,000	105,000
Transfers out	-	-	(105,000)	(105,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCE	145,231	69,719	92,037	22,318
FUND BALANCE - BEGINNING OF YEAR	248,399	248,399	248,399	-
FUND BALANCE - END OF YEAR	\$ 393,630	\$ 318,118	\$ 340,436	\$ 22,318

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

BENJAMIN WAY MAINTENANCE DISTRICT SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 157	\$ 157
Other revenues	440	440	440	-
TOTAL REVENUES	440	440	597	157
EXPENDITURES:				
Current:				
General government	440	440	6	434
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	591	591
FUND BALANCE - BEGINNING OF YEAR	4,024	4,024	4,024	-
FUND BALANCE - END OF YEAR	\$ 4,024	\$ 4,024	\$ 4,615	\$ 591

See independent auditors' report.

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OTHER AND MAJOR DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of resources for, and the payment of long-term debt principal and interest. The various Debt Service Funds are:

OTHER DEBT SERVICE FUNDS:

General Debt Service - Accounts for the long-term debt service of the City.

Special Assessment Debt Service - Accounts for the long-term debt service of the City's special assessment districts.

MAJOR DEBT SERVICE FUND:

Redevelopment Agency Debt Service - Accounts for the long-term debt service of the Redevelopment Agency.

CITY OF HEALDSBURG
 COMBINING BALANCE SHEET
 OTHER DEBT SERVICE FUNDS

June 30, 2006

	General	Special Assessment	Total Other Debt Service Funds
ASSETS			
Cash and investments	\$ 1,069,999	\$ 18,057	\$ 1,088,056
Receivables:			
Taxes	36,293	-	36,293
Interest	8,035	229	8,264
Special assessments	-	1,605,000	1,605,000
Restricted cash and investments	-	452,923	452,923
TOTAL ASSETS	\$ 1,114,327	\$ 2,076,209	\$ 3,190,536
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ -	\$ 1,605,000	\$ 1,605,000
FUND BALANCES:			
Reserved for:			
Debt service	1,114,327	471,209	1,585,536
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,114,327	\$ 2,076,209	\$ 3,190,536

See independent auditors' report.

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
OTHER DEBT SERVICE FUNDS

For the year ended June 30, 2005

	General	Special Assessment	Total Other Debt Service Funds
REVENUES:			
Property taxes	\$ 475,152	\$ -	\$ 475,152
Special assessments	-	481,342	481,342
Investment income	30,900	9,177	40,077
	<u>506,052</u>	<u>490,519</u>	<u>996,571</u>
TOTAL REVENUES			
EXPENDITURES:			
Current:			
General government	1,147	33	1,180
Debt service:			
Principal retirement	310,000	110,000	420,000
Interest and fees	86,668	240,170	326,838
	<u>397,815</u>	<u>350,203</u>	<u>748,018</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	108,237	140,316	248,553
FUND BALANCES - BEGINNING OF YEAR	<u>1,006,090</u>	<u>330,893</u>	<u>1,336,983</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 1,114,327</u></u>	<u><u>\$ 471,209</u></u>	<u><u>\$ 1,585,536</u></u>

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL DEBT SERVICE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 535,500	\$ 535,500	\$ 475,152	\$ (60,348)
Investment income	2,000	2,000	30,900	28,900
TOTAL REVENUES	<u>537,500</u>	<u>537,500</u>	<u>506,052</u>	<u>(31,448)</u>
EXPENDITURES:				
Current:				
General government	-	-	1,147	(1,147)
Debt service:				
Principal retirement	310,000	310,000	310,000	-
Interest and fees	<u>190,063</u>	<u>190,063</u>	<u>86,668</u>	<u>103,395</u>
TOTAL EXPENDITURES	<u>500,063</u>	<u>500,063</u>	<u>397,815</u>	<u>102,248</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	37,437	37,437	108,237	70,800
FUND BALANCE - BEGINNING OF YEAR	<u>1,006,090</u>	<u>1,006,090</u>	<u>1,006,090</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,043,527</u>	<u>\$ 1,043,527</u>	<u>\$ 1,114,327</u>	<u>\$ 70,800</u>

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SPECIAL ASSESSMENT DEBT SERVICE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ 340,806	\$ 340,806	\$ 481,342	\$ 140,536
Investment income	3,000	3,000	9,177	6,177
TOTAL REVENUES	<u>343,806</u>	<u>343,806</u>	<u>490,519</u>	<u>146,713</u>
EXPENDITURES:				
Current:				
General government	-	-	33	(33)
Debt service:				
Principal retirement	100,000	100,000	110,000	(10,000)
Interest and fees	<u>276,241</u>	<u>276,241</u>	<u>240,170</u>	<u>36,071</u>
TOTAL EXPENDITURES	<u>376,241</u>	<u>376,241</u>	<u>350,203</u>	<u>26,038</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(32,435)	(32,435)	140,316	172,751
FUND BALANCE - BEGINNING OF YEAR	<u>330,893</u>	<u>330,893</u>	<u>330,893</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 298,458</u>	<u>\$ 298,458</u>	<u>\$ 471,209</u>	<u>\$ 172,751</u>

See independent auditors' report.

CITY OF HEALDSBURG

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

REDEVELOPMENT AGENCY DEBT SERVICE FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 10,000	\$ 10,000	\$ 111,789	\$ 101,789
EXPENDITURES:				
Current:				
General government	-	-	512	(512)
Debt service:				
Principal retirement	905,000	905,000	905,000	-
Interest and fees	2,187,838	2,187,838	2,298,098	(110,260)
TOTAL EXPENDITURES	3,092,838	3,092,838	3,203,610	(110,772)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,082,838)	(3,082,838)	(3,091,821)	(8,983)
OTHER FINANCING SOURCES:				
Transfers in	3,092,836	3,092,836	3,132,301	39,465
NET CHANGE IN FUND BALANCE	9,998	9,998	40,480	30,482
FUND BALANCE - BEGINNING OF YEAR	3,127,524	3,127,524	3,127,524	-
FUND BALANCE - END OF YEAR	\$ 3,137,522	\$ 3,137,522	\$ 3,168,004	\$ 30,482

See independent auditors' report.

OTHER CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by a government, except for those capital facilities financed by Enterprise Funds.

Area A Special Assessment District - Accounts for revenues received from a prospective sale of assessment land and oversizing advances from Enterprise funds.

Redevelopment Agency Low/Moderate Income Capital Projects Fund - Accounts for revenues received from tax increments for low to moderate income housing projects.

CITY OF HEALDSBURG
 COMBINING BALANCE SHEET
 OTHER CAPITAL PROJECTS FUNDS

June 30, 2006

	Area A Special Assessment District	Redevelopment Agency Low/Moderate Income	Total Other Capital Projects Funds
ASSETS			
Cash and investments	\$ 15,838	\$ 2,103,312	\$ 2,119,150
Receivables:			
Accounts	2,507	-	2,507
Taxes	-	40,422	40,422
Interest	150	54,915	55,065
Restricted cash and investments	-	7,159,719	7,159,719
TOTAL ASSETS	\$ 18,495	\$ 9,358,368	\$ 9,376,863
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ -	\$ 3,498	\$ 3,498
FUND BALANCES:			
Reserved:			
Low and moderate income housing	-	9,354,870	9,354,870
Unreserved, reported in:			
Capital projects funds	18,495	-	18,495
TOTAL FUND BALANCES	18,495	9,354,870	9,373,365
TOTAL LIABILITIES AND FUND BALANCES	\$ 18,495	\$ 9,358,368	\$ 9,376,863

See independent auditors' report.

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
OTHER CAPITAL PROJECTS FUNDS

For the year ended June 30, 2005

	Area A Special Assessment District	Redevelopment Agency Low/Moderate Income	Total Other Capital Projects Funds
REVENUES:			
Property taxes	\$ -	\$ 1,485,178	\$ 1,485,178
Investment income	537	319,857	320,394
Other revenues	-	4,973	4,973
TOTAL REVENUES	537	1,810,008	1,810,545
EXPENDITURES:			
Current:			
General government	21	54,532	54,553
Community development	-	318,538	318,538
TOTAL EXPENDITURES	21	373,070	373,091
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	516	1,436,938	1,437,454
OTHER FINANCING USES:			
Transfers out	-	(915,141)	(915,141)
NET CHANGE IN FUND BALANCES	516	521,797	522,313
FUND BALANCES - BEGINNING OF YEAR	17,979	8,833,073	8,851,052
FUND BALANCES - END OF YEAR	\$ 18,495	\$ 9,354,870	\$ 9,373,365

See independent auditors' report.

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OTHER ENTERPRISE FUNDS

The Enterprise Funds account for the financing of self-supporting activities which render services to the general public on a user charge basis or a fixed payment schedule. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, operations, maintenance, financing and related debt service, and billings and collections. The various Enterprise Funds are:

Planning and Building - Accounts for the provision of planning and building development within the City.

Transit - Accounts for the provision of public transit service to the residents of the City.

Airport - Accounts for the operation of the City airport.

Meeting Center - Accounts for the provision of group meetings and conference facilities to the residents of the City wherein the primary revenue sources are rental fees and service charges.

School Services - Accounts for the provision of services to the Healdsburg Schools.

Community Services - Accounts for the activities of the government's parks maintenance and community cultural activity operations.

CITY OF HEALDSBURG

COMBINING STATEMENT OF NET ASSETS
OTHER ENTERPRISE FUNDS

June 30, 2006

	Planning and Building	Transit
ASSETS		
CURRENT ASSETS:		
Cash and investments	\$ 1,262,391	\$ 745
Accounts receivable	250	9,756
Taxes receivable	-	-
Interest receivable	10,807	-
Due from other funds	-	118,417
Inventory	-	-
	<u>1,273,448</u>	<u>128,918</u>
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS:		
Capital assets:		
Land	-	-
Building	-	-
Machinery and equipment	-	-
Operations	-	-
Construction in progress	-	-
Less: accumulated depreciation	-	-
	<u>-</u>	<u>-</u>
TOTAL NONCURRENT ASSETS		
	<u>-</u>	<u>-</u>
TOTAL ASSETS		
	<u>1,273,448</u>	<u>128,918</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	11,490	407
Deposits from others	105,410	504
Due to other funds	-	78,000
	<u>116,900</u>	<u>78,911</u>
TOTAL CURRENT LIABILITIES		
	<u>116,900</u>	<u>78,911</u>
NET ASSETS		
Invested in capital assets, net of related debt	-	-
Unrestricted	1,156,548	50,007
	<u>1,156,548</u>	<u>50,007</u>
TOTAL NET ASSETS		
	<u>\$ 1,156,548</u>	<u>\$ 50,007</u>

See independent auditors' report.

<u>Airport</u>	<u>Meeting Center</u>	<u>School Services</u>	<u>Community Services</u>	<u>Total</u>
\$ 115,443	\$ 2,940	\$ 7,026	\$ 589,891	\$ 1,978,436
24,695	4,748	8,500	228	48,177
-	-	-	206,005	206,005
801	-	-	5,722	17,330
-	-	-	150,000	268,417
26,252	-	-	719	26,971
<u>167,191</u>	<u>7,688</u>	<u>15,526</u>	<u>952,565</u>	<u>2,545,336</u>
119,834	231,972	-	3,506,053	3,857,859
186,451	1,194,412	-	2,434,040	3,814,903
209,510	98,184	-	429,672	737,366
1,202,027	20,000	-	-	1,222,027
363,749	-	-	178,448	542,197
(740,009)	(462,308)	-	(1,560,329)	(2,762,646)
<u>1,341,562</u>	<u>1,082,260</u>	<u>-</u>	<u>4,987,884</u>	<u>7,411,706</u>
<u>1,508,753</u>	<u>1,089,948</u>	<u>15,526</u>	<u>5,940,449</u>	<u>9,957,042</u>
37,221	7,574	6,180	33,598	96,470
7,019	102,937	-	4,567	220,437
1,628	72,000	-	-	151,628
<u>45,868</u>	<u>182,511</u>	<u>6,180</u>	<u>38,165</u>	<u>468,535</u>
1,341,562	1,082,260	-	4,987,884	7,411,706
121,323	(174,823)	9,346	914,400	2,076,801
<u>\$ 1,462,885</u>	<u>\$ 907,437</u>	<u>\$ 9,346</u>	<u>\$ 5,902,284</u>	<u>\$ 9,488,507</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENSES AND
AND CHANGES IN NET ASSETS - OTHER ENTERPRISE FUNDS

For the year ended June 30, 2006

	Planning and Building	Transit
OPERATING REVENUES:		
Charges for services	\$ -	\$ 18,675
Development fees	585,286	-
Rental income	-	-
Other revenues	116,328	-
	<u>701,614</u>	<u>18,675</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Operations	448,094	137,327
Administrative	73,568	48,773
Depreciation	-	-
	<u>521,662</u>	<u>186,100</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	<u>179,952</u>	<u>(167,425)</u>
NONOPERATING REVENUES (EXPENSES):		
Taxes	-	-
Intergovernmental grants	-	44,848
Investment income	39,242	-
Interest expense	-	-
	<u>39,242</u>	<u>44,848</u>
TOTAL NONOPERATING REVENUES (EXPENSES)		
INCOME (LOSS) BEFORE TRANSFERS	219,194	(122,577)
TRANSFERS IN	-	167,425
TRANSFERS OUT	(1,000)	-
	<u>218,194</u>	<u>44,848</u>
CHANGE IN NET ASSETS		
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>938,354</u>	<u>5,159</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 1,156,548</u>	<u>\$ 50,007</u>

See independent auditors' report.

Airport	Meeting Center	School Services	Community Services	Total
\$ 198,386	\$ 21,968	\$ 55,170	\$ 2,958	\$ 297,157
-	-	-	-	585,286
104,148	218,607	18,640	7,806	349,201
3,364	-	1,916	41,829	163,437
<u>305,898</u>	<u>240,575</u>	<u>75,726</u>	<u>52,593</u>	<u>1,395,081</u>
239,560	263,284	75,330	703,593	1,867,188
29,478	8,310	44,145	284,870	489,144
30,898	25,298	-	106,755	162,951
<u>299,936</u>	<u>296,892</u>	<u>119,475</u>	<u>1,095,218</u>	<u>2,519,283</u>
<u>5,962</u>	<u>(56,317)</u>	<u>(43,749)</u>	<u>(1,042,625)</u>	<u>(1,124,202)</u>
-	-	-	1,140,735	1,140,735
-	-	-	353,950	398,798
-	-	-	21,825	61,067
<u>(2,688)</u>	<u>-</u>	<u>(104)</u>	<u>-</u>	<u>(2,792)</u>
<u>(2,688)</u>	<u>-</u>	<u>(104)</u>	<u>1,516,510</u>	<u>1,597,808</u>
3,274	(56,317)	(43,853)	473,885	473,606
106,264	19,739	23,729	189,900	507,057
<u>(3,459)</u>	<u>-</u>	<u>-</u>	<u>(361,807)</u>	<u>(366,266)</u>
106,079	(36,578)	(20,124)	301,978	614,397
<u>1,356,806</u>	<u>944,015</u>	<u>29,470</u>	<u>5,600,306</u>	<u>8,874,110</u>
<u>\$ 1,462,885</u>	<u>\$ 907,437</u>	<u>\$ 9,346</u>	<u>\$ 5,902,284</u>	<u>\$ 9,488,507</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS

For the year ended June 30, 2006

	Planning and Building	Transit
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 701,685	\$ 8,919
Payments to suppliers	(315,323)	(42,168)
Payments to employees	<u>(189,621)</u>	<u>(146,588)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>196,741</u>	<u>(179,837)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Taxes	-	-
Intergovernmental grants	-	44,848
Cash received from other funds	-	127,008
Cash paid to other funds	<u>(1,000)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,000)</u>	<u>171,856</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	-	-
Interest paid	<u>-</u>	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>36,128</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	231,869	(7,981)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,030,522</u>	<u>8,726</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,262,391</u></u>	<u><u>\$ 745</u></u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 179,952	\$ (167,425)
Depreciation	-	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	71	(9,756)
(Increase) decrease in inventory	-	-
Increase (decrease) in accounts payable and accrued liabilities	(20,095)	(2,614)
Increase (decrease) in deposits	<u>36,813</u>	<u>(42)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 196,741</u></u>	<u><u>\$ (179,837)</u></u>

See independent auditors' report.

<u>Airport</u>	<u>Meeting Center</u>	<u>School Services</u>	<u>Community Services</u>	<u>Total</u>
\$ 287,648	\$ 241,747	\$ 89,794	\$ 53,616	\$ 1,383,409
(230,513)	(90,626)	(75,123)	(652,524)	(1,406,277)
<u>(25,853)</u>	<u>(181,242)</u>	<u>(44,145)</u>	<u>(337,344)</u>	<u>(924,793)</u>
31,282	(30,121)	(29,474)	(936,252)	(947,661)
-	-	-	1,109,118	1,109,118
-	-	-	353,950	398,798
106,264	33,061	23,729	189,900	479,962
<u>(31,871)</u>	<u>-</u>	<u>-</u>	<u>(428,896)</u>	<u>(461,767)</u>
74,393	33,061	23,729	1,224,072	1,526,111
(32,210)	-	-	(39,660)	(71,870)
<u>(1,421)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,421)</u>
(33,631)	-	-	(39,660)	(73,291)
-	-	-	19,128	55,256
72,044	2,940	(5,745)	267,288	560,415
43,399	-	12,771	322,603	1,418,021
<u>\$ 115,443</u>	<u>\$ 2,940</u>	<u>\$ 7,026</u>	<u>\$ 589,891</u>	<u>\$ 1,978,436</u>
\$ 5,962	\$ (56,317)	\$ (43,749)	\$ (1,042,625)	\$ (1,124,202)
30,898	25,298	-	106,755	162,951
(18,250)	1,172	14,068	1,023	(11,672)
(11,747)	-	-	-	(11,747)
26,142	(3,251)	207	2,200	2,589
<u>(1,723)</u>	<u>2,977</u>	<u>-</u>	<u>(3,605)</u>	<u>34,420</u>
<u>\$ 31,282</u>	<u>\$ (30,121)</u>	<u>\$ (29,474)</u>	<u>\$ (936,252)</u>	<u>\$ (947,661)</u>

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INTERNAL SERVICE FUNDS

The Internal Service Funds are used to finance and account for special activities and services performed by organizational units within a governmental jurisdiction for other organizational units within the same governmental jurisdiction. The Internal Service Funds are:

Insurance and Benefit Service - Accounts for insurance, employee fringe benefits, and accrued compensated absences charged to the individual funds.

Vehicle Maintenance Service - Accounts for acquisition and maintenance of City vehicles charged to the individual funds.

Information Services - Accounts for acquisition and maintenance of City data processing equipment and software charged to the individual funds.

Building Maintenance Service - Accounts for maintenance costs for public buildings maintained by the City charged to the individual funds.

CITY OF HEALDSBURG

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2006

	Insurance and Benefit	Vehicle Maintenance
ASSETS		
CURRENT ASSETS:		
Cash and investments	\$ 2,432,978	\$ 2,545,867
Accounts receivable	11,663	6,283
Notes receivable	-	-
Interest receivable	18,176	20,361
Inventory	-	57,339
TOTAL CURRENT ASSETS	2,462,817	2,629,850
NONCURRENT ASSETS:		
Capital assets:		
Equipment	-	4,169,799
Less: accumulated depreciation	-	(2,523,340)
TOTAL NONCURRENT ASSETS	-	1,646,459
TOTAL ASSETS	2,462,817	4,276,309
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	324,114	31,436
Claims payable	64,147	-
Compensated absences	1,586,794	-
TOTAL CURRENT LIABILITIES	1,975,055	31,436
NET ASSETS		
Invested in capital assets, net of related debt	-	1,646,459
Unrestricted	487,762	2,598,414
TOTAL NET ASSETS	\$ 487,762	\$ 4,244,873

See independent auditors' report.

<u>Information Services</u>	<u>Building Maintenance</u>	<u>Total</u>
\$ 967,391	\$ 311,854	\$ 6,258,090
-	525	18,471
26,996	-	26,996
7,788	1,670	47,995
230	-	57,569
<u>1,002,405</u>	<u>314,049</u>	<u>6,409,121</u>
1,131,504	-	5,301,303
<u>(893,361)</u>	<u>-</u>	<u>(3,416,701)</u>
<u>238,143</u>	<u>-</u>	<u>1,884,602</u>
<u>1,240,548</u>	<u>314,049</u>	<u>8,293,723</u>
27,407	75,613	458,570
-	41,118	105,265
<u>-</u>	<u>-</u>	<u>1,586,794</u>
<u>27,407</u>	<u>116,731</u>	<u>2,150,629</u>
238,143	-	1,884,602
<u>974,998</u>	<u>197,318</u>	<u>4,258,492</u>
<u>\$ 1,213,141</u>	<u>\$ 197,318</u>	<u>\$ 6,143,094</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF REVENUES, EXPENSES AND
AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

For the year ended June 30, 2006

	Insurance and Benefit	Vehicle Maintenance
OPERATING REVENUES:		
Charges for services	\$ 6,037,545	\$ 1,270,695
Other revenues	-	16,017
	<u>6,037,545</u>	<u>1,286,712</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Operations	-	474,849
Administrative	2,594	13,073
Insurance costs	6,029,062	-
Depreciation	-	318,075
	<u>6,031,656</u>	<u>805,997</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	5,889	480,715
NONOPERATING REVENUES:		
Investment income	68,194	75,042
	<u>74,083</u>	<u>555,757</u>
INCOME (LOSS) BEFORE TRANSFERS		
OTHER FINANCING SOURCES (USES):		
Transfers in	-	375,806
Transfers out	-	-
	<u>-</u>	<u>375,806</u>
TOTAL OTHER FINANCING SOURCES (USES)		
CHANGE IN NET ASSETS	74,083	931,563
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>413,679</u>	<u>3,313,310</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 487,762</u>	<u>\$ 4,244,873</u>

See independent auditors' report.

<u>Information Services</u>	<u>Building Maintenance</u>	<u>Total</u>
\$ 948,679	\$ 846,819	\$ 9,103,738
5,426	27,116	48,559
<u>954,105</u>	<u>873,935</u>	<u>9,152,297</u>
896,964	866,240	2,238,053
53,162	16,869	85,698
-	-	6,029,062
94,437	-	412,512
<u>1,044,563</u>	<u>883,109</u>	<u>8,765,325</u>
(90,458)	(9,174)	386,972
<u>28,078</u>	<u>6,415</u>	<u>177,729</u>
<u>(62,380)</u>	<u>(2,759)</u>	<u>564,701</u>
97,510	22,874	496,190
(6,135)	-	(6,135)
<u>91,375</u>	<u>22,874</u>	<u>490,055</u>
28,995	20,115	1,054,756
<u>1,184,146</u>	<u>177,203</u>	<u>5,088,338</u>
<u>\$ 1,213,141</u>	<u>\$ 197,318</u>	<u>\$ 6,143,094</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2006

	Insurance and Benefit	Vehicle Maintenance
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 6,036,775	\$ 1,286,552
Payments to suppliers	(5,814,798)	(407,822)
Payments to employees	<u> -</u>	<u> (79,148)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u> 221,977</u>	<u> 799,582</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from other funds	-	375,806
Cash paid to other funds	<u> -</u>	<u> -</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u> -</u>	<u> 375,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	<u> -</u>	<u> (584,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u> 60,767</u>	<u> 68,072</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282,744	659,009
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u> 2,150,234</u>	<u> 1,886,858</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u> \$ 2,432,978</u></u>	<u><u> \$ 2,545,867</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 5,889	\$ 480,715
Depreciation	-	318,075
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(770)	(160)
(Increase) decrease in inventory	-	(11,259)
Increase (decrease) in accounts payable and accrued liabilities	<u> 216,858</u>	<u> 12,211</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u> \$ 221,977</u></u>	<u><u> \$ 799,582</u></u>

See independent auditors' report.

Information Services	Building Maintenance	Total
\$ 958,034	\$ 873,935	\$ 9,155,296
(730,319)	(813,103)	(7,766,042)
(209,908)	(38,740)	(327,796)
<u>17,807</u>	<u>22,092</u>	<u>1,061,458</u>
97,510	22,874	496,190
(6,135)	-	(6,135)
<u>91,375</u>	<u>22,874</u>	<u>490,055</u>
(20,982)	-	(605,433)
<u>26,035</u>	<u>5,586</u>	<u>160,460</u>
114,235	50,552	1,106,540
<u>853,156</u>	<u>261,302</u>	<u>5,151,550</u>
<u>\$ 967,391</u>	<u>\$ 311,854</u>	<u>\$ 6,258,090</u>
\$ (90,458)	\$ (9,174)	386,972
94,437	-	412,512
3,929	-	2,999
846	-	(10,413)
<u>9,053</u>	<u>31,266</u>	<u>269,388</u>
<u>\$ 17,807</u>	<u>\$ 22,092</u>	<u>\$ 1,061,458</u>

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FIDUCIARY FUNDS

The Trust Funds are used to account for assets held by the City in a fiduciary capacity for individuals, governmental entities and others. Such funds are operated by carrying out the specifications of trust indentures, statutes, ordinances or other governing regulations. The various Fiduciary Funds are:

Industrial Development Authority - Accounts for and administer funds of the Industrial Development Authority.

Redevelopment Agency - Downtown Business District (DBD) - Accounts for and administer funds of the Downtown Business District.

Senior Center Trust - Accounts for and administer funds of the Senior Center Trust.

Community Benefit Trust - Accounts for and administer funds of the Community Benefit Trust.

Plaza Flowers Veterans Trust - Accounts for and administer funds for purchasing flowers for the Plaza to honor Veterans.

CITY OF HEALDSBURG

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

June 30, 2006

	Industrial Development Authority	Redevelopment Agency DBD
ASSETS:		
Cash and investments	\$ 5,505	\$ 20,767
Accounts receivable	-	250
Interest receivable	52	34
	<hr/>	<hr/>
TOTAL ASSETS	5,557	21,051
LIABILITIES:		
Accounts payable	-	1,194
	<hr/>	<hr/>
NET ASSETS:		
Held in trust for other purposes	\$ 5,557	\$ 19,857
	<hr/> <hr/>	<hr/> <hr/>

See independent auditors' report.

Senior Center Trust	Community Benefit Trust	Plaza Flowers Veterans Trust	Total
\$ 124,408	\$ 724,398	\$ 5,534	\$ 880,612
-	-	-	250
<u>1,174</u>	<u>6,883</u>	<u>52</u>	<u>8,195</u>
125,582	731,281	5,586	889,057
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,194</u>
<u>\$ 125,582</u>	<u>\$ 731,281</u>	<u>\$ 5,586</u>	<u>\$ 887,863</u>

CITY OF HEALDSBURG

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

For the year ended June 30, 2006

	Industrial Development Authority	Redevelopment Agency DBD
ADDITIONS:		
Contributions	\$ -	\$ 25,000
Investment income	186	-
Fees and charges	-	35,485
Transfers in	-	-
	<hr/>	<hr/>
TOTAL ADDITIONS	186	60,485
DEDUCTIONS:		
Community development	<hr/> 7	<hr/> 62,103
CHANGE IN NET ASSETS	179	(1,618)
NET ASSETS - BEGINNING OF YEAR	<hr/> 5,378	<hr/> 21,475
NET ASSETS - END OF YEAR	<hr/> <u>\$ 5,557</u>	<hr/> <u>\$ 19,857</u>

See independent auditors' report.

Senior Center Trust	Community Benefit Trust	Plaza Flowers Veterans Trust	Total
\$ -	\$ -	\$ -	\$ 25,000
4,216	24,389	202	28,993
1,238	-	2,000	38,723
-	50,000		50,000
<u>5,454</u>	<u>74,389</u>	<u>2,202</u>	<u>142,716</u>
168	63,703	62	126,043
<u>5,286</u>	<u>10,686</u>	<u>2,140</u>	<u>16,673</u>
<u>120,296</u>	<u>720,595</u>	<u>3,446</u>	<u>871,190</u>
<u>\$ 125,582</u>	<u>\$ 731,281</u>	<u>\$ 5,586</u>	<u>\$ 887,863</u>

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STATISTICAL SECTION

This part of the City of Healdsburg's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
<u>Financial Trends</u> <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	S2
<u>Revenue Capacity</u> <i>These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax and the electric utility.</i>	S8
<u>Debt Capacity</u> <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	S15
<u>Demographic and Economic Information</u> <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	S21
<u>Operating Information</u> <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	S23

CITY OF HEALDSBURG
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities:				
Invested in capital assets, net of related debt	\$ 9,518	\$ 12,454	\$ 13,258	\$ 13,292
Restricted	16,275	11,503	8,786	11,805
Unrestricted	3,743	9,812	12,611	11,909
<i>Total governmental activities net assets</i>	<u>\$ 29,536</u>	<u>\$ 33,769</u>	<u>\$ 34,655</u>	<u>\$ 37,006</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 60,799	\$ 58,677	\$ 64,371	\$ 67,371
Restricted	6,242	6,025	4,004	1,508
Unrestricted	21,027	27,587	27,912	31,013
<i>Total business-type activities net assets</i>	<u>\$ 88,068</u>	<u>\$ 92,289</u>	<u>\$ 96,287</u>	<u>\$ 99,892</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 70,317	\$ 71,131	\$ 77,629	\$ 80,663
Restricted	22,517	17,528	12,790	13,313
Unrestricted	24,770	37,399	40,523	42,922
<i>Total primary government net assets</i>	<u>\$ 117,604</u>	<u>\$ 126,058</u>	<u>\$ 130,942</u>	<u>\$ 136,898</u>

Note: The City of Healdsburg implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

CITY OF HEALDSBURG
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses:				
<u>Governmental activities:</u>				
General government	\$ 878	\$ 1,191	\$ 709	\$ 1,014
Public safety	4,940	5,022	5,841	6,577
Culture and recreation	27	25	19	32
Community development	5,551	2,852	4,147	4,667
Unallocated infrastructure depreciation	23	23	25	25
Interest on long-term debt	1,790	2,535	2,735	2,657
<i>Total governmental activities expenses</i>	<u>13,209</u>	<u>11,648</u>	<u>13,476</u>	<u>14,972</u>
<u>Business-type activities:</u>				
Water	3,082	3,250	3,593	4,180
Wastewater	2,484	2,674	2,882	3,491
Electric	8,547	7,954	9,294	9,372
Streets	1,193	1,250	1,352	1,392
Other Programs	1,863	1,907	2,089	2,483
<i>Total business-type activities</i>	<u>17,169</u>	<u>17,035</u>	<u>19,210</u>	<u>20,918</u>
<i>Total primary government expenses</i>	<u>\$ 30,378</u>	<u>\$ 28,683</u>	<u>\$ 32,686</u>	<u>\$ 35,890</u>
Program revenues:				
<u>Governmental activities:</u>				
Charges for services:				
General government	\$ 462	\$ 539	\$ 764	\$ 815
Public safety	386	387	442	484
Culture and recreation	13	3	-	-
Community development	-	-	-	-
Operating grants and contributions	1,496	1,575	1,874	1,958
Capital grants and contributions	136	1,592	125	143
<i>Total governmental activities program revenues</i>	<u>2,493</u>	<u>4,096</u>	<u>3,205</u>	<u>3,400</u>
<u>Business-type activities:</u>				
Charges for services:				
Water	3,783	4,410	3,953	4,269
Wastewater	4,080	4,212	4,324	5,116
Electric	8,569	8,444	9,310	9,006
Streets	989	835	853	1,112
Other Programs	1,172	1,123	1,226	1,395
Operating grants and contributions	758	932	1,022	1,218
Capital grants and contributions	2,286	499	138	526
<i>Total business-type activities program revenues</i>	<u>21,637</u>	<u>20,455</u>	<u>20,826</u>	<u>22,642</u>
<i>Total primary government program revenues</i>	<u>\$ 24,130</u>	<u>\$ 24,551</u>	<u>\$ 24,031</u>	<u>\$ 26,042</u>

Note: The City of Healdsburg implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

CITY OF HEALDSBURG
Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net revenues (expenses):				
Governmental activities	\$ (10,716)	\$ (7,552)	\$ (10,271)	\$ (11,572)
Business-type activities	4,468	3,420	1,616	1,724
<i>Total net revenues (expenses)</i>	<u>\$ (6,248)</u>	<u>\$ (4,132)</u>	<u>\$ (8,655)</u>	<u>\$ (9,848)</u>
General revenues and other changes in net assets				
<u>Governmental activities:</u>				
Taxes:				
Property taxes	\$ 6,834	\$ 7,388	\$ 8,946	\$ 9,475
Franchise taxes	323	286	304	325
Sales tax	2,793	2,818	2,279	3,045
Transient occupancy taxes	94	-	-	-
Motor vehicle in-lieu	661	720	115	44
Gain from sale of capital assets	390	-	148	-
Investment income	732	890	1,037	1,695
Transfers	(24,511)	(318)	(1,672)	(663)
<i>Total governmental activities</i>	<u>(12,684)</u>	<u>11,784</u>	<u>11,157</u>	<u>13,921</u>
<u>Business-type activities:</u>				
Investment income	561	484	710	1,218
Transfers	24,511	318	1,672	663
<i>Total business-type activities</i>	<u>25,072</u>	<u>802</u>	<u>2,382</u>	<u>1,881</u>
<i>Total primary government</i>	<u>\$ 12,388</u>	<u>\$ 12,586</u>	<u>\$ 13,539</u>	<u>\$ 15,802</u>
Changes in net assets				
Governmental activities	\$ (23,400)	\$ 4,232	\$ 886	\$ 2,349
Business-type activities	29,540	4,222	3,998	3,605
<i>Total primary government</i>	<u>\$ 6,140</u>	<u>\$ 8,454</u>	<u>\$ 4,884</u>	<u>\$ 5,954</u>

Note: The City of Healdsburg implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

CITY OF HEALDSBURG
Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund:				
Reserved	\$ 3	\$ 4	\$ -	\$ -
Unreserved	<u>3,743</u>	<u>3,968</u>	<u>4,673</u>	<u>4,537</u>
<i>Total general fund</i>	<u>\$ 3,746</u>	<u>\$ 3,972</u>	<u>\$ 4,673</u>	<u>\$ 4,537</u>
All other governmental funds				
Reserved	\$ 41,007	\$ 35,214	\$ 33,257	\$ 33,439
Unreserved, reported in:				
Special revenue funds	3,265	3,590	4,274	5,470
Capital projects funds	359	2,768	4,323	2,936
Permanent funds	<u>97</u>	<u>88</u>	<u>83</u>	<u>81</u>
<i>Total all other governmental funds</i>	<u>\$ 44,728</u>	<u>\$ 41,660</u>	<u>\$ 41,937</u>	<u>\$ 41,926</u>

Note: The City of Healdsburg has elected to show only four years of data for this schedule.

CITY OF HEALDSBURG
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(in thousands)

	Fiscal Year			
	2003	2004	2005	2006
Revenues:				
Taxes	\$ 6,834	\$ 7,388	\$ 8,946	\$ 9,475
Sales and other taxes	3,515	3,414	2,697	3,901
Charges for services	283	311	327	349
Intergovernmental	1,834	1,755	1,616	1,251
Special assessments	324	342	397	482
Development fees and permits	119	86	113	109
Investment income	668	641	1,066	1,621
Miscellaneous fees and charges	93	355	77	72
Other	616	1,682	562	865
<i>Total revenues</i>	<u>14,286</u>	<u>15,974</u>	<u>15,801</u>	<u>18,125</u>
Expenditures:				
Current:				
General government	687	933	582	677
Public safety	4,573	4,601	5,523	6,534
Culture and recreation	27	25	20	32
Community development	2,682	5,039	4,240	4,123
Capital outlay	5,628	4,348	934	2,270
Debt service:				
Principal retirement	1,300	1,065	1,205	1,325
Interest and fiscal charges	1,463	2,209	2,687	2,625
Bond issue costs	417	94	-	-
Advance to refund bond escrow agent	-	208	-	-
<i>Total expenditures</i>	<u>16,777</u>	<u>18,522</u>	<u>15,191</u>	<u>17,586</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,491)</u>	<u>(2,548)</u>	<u>610</u>	<u>539</u>
Other financing sources (uses):				
Transfers in	19,066	11,582	6,657	4,704
Transfers out	(23,573)	(11,967)	(8,344)	(5,390)
Issuance of bonds	-	3,620	3,299	-
Payment to bond escrow agent	-	(3,470)	(1,807)	-
Bond discount	(242)	(58)	-	-
Sale of capital assets	-	-	563	-
Proceeds from long-term debt	19,370	-	-	-
<i>Total other financing sources (uses)</i>	<u>14,621</u>	<u>(293)</u>	<u>368</u>	<u>(686)</u>
Net change in fund balances	<u>\$ 12,130</u>	<u>\$ (2,841)</u>	<u>\$ 978</u>	<u>\$ (147)</u>
Debt service as a percentage of noncapital expenditures	29%	25%	27%	26%

Note: The City of Healdsburg has elected to show only four years of data for this schedule.

CITY OF HEALDSBURG
Governmental Activities Major Tax Revenues By Sources
Last Seven Fiscal Years

Fiscal Year	Property Tax ⁽¹⁾	Sales Tax	Franchise Tax	Vehicle		Transient Occupancy Tax ⁽²⁾	Total
				License	Fee		
2000	\$ 4,826,240	\$ 2,468,452	\$ 185,688	\$ 489,116		\$ 505,291	\$ 8,474,787
2001	5,416,899	2,730,137	236,590	560,880		537,923	9,482,429
2002	5,995,988	3,020,815	277,732	627,274		665,250	10,587,059
2003	6,834,237	2,901,105	322,529	661,106		94,110	10,813,087
2004	7,388,206	2,931,402	286,149	524,319		-	11,130,076
2005	9,124,394	2,850,049	304,290	270,441		-	12,549,174
2006	10,398,001	3,008,514	324,924	83,327		23,408	13,838,174

Notes:

(1) Property tax includes the Redevelopment Agency.

As of fiscal year 2005 and 2006, the vehicle license fee in lieu is now a permanent shift in the property tax.

(2) Prior to fiscal year 2002-03, the 10% Transient Occupancy Tax (TOT) was a general fund revenue source.

In fiscal year 2002-03, voters approved a measure to make TOT a special tax for Community Services.

In November, 2004, voters approved an additional 2% TOT increase in an effort to maintain current Police and Fire services. This 2% increase was effective June, 1 2006. The TOT rate is 12%.

(3) The City of Healdsburg has elected to show 7 years of data for this schedule.

CITY OF HEALDSBURG
Assessed Value and Estimated Actual Value of Taxable Property
Last Nine Fiscal Years
(in thousands)

Fiscal Year Ended June 30	City			Taxable Assessed Value	Redevelopment Agency			Taxable Assessed Value	Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions		Secured	Unsecured	Less: Exemptions		
1998	\$ 586,832	\$ 33,221	\$ (14,185)	\$ 605,868	\$ 385,576	\$ 25,320	\$ (7,227)	\$ 403,669	0.375%
1999	617,721	38,246	(14,318)	641,649	461,685	51,169	(7,205)	505,649	0.364%
2000	665,586	47,428	(14,354)	698,660	428,072	43,137	(7,248)	463,961	0.415%
2001	734,835	56,077	(14,401)	776,511	403,801	30,429	(7,255)	426,975	0.450%
2002	855,622	55,855	(14,727)	896,750	511,313	51,863	(7,126)	556,050	0.413%
2003	958,459	61,168	(14,690)	1,004,937	568,898	48,453	(7,064)	610,287	0.423%
2004	1,051,348	65,952	(15,093)	1,102,207	623,690	59,215	(7,088)	675,817	0.416%
2005	1,156,126	63,340	(15,611)	1,203,855	666,577	55,390	(7,241)	714,726	0.476%
2006	1,294,557	64,153	(15,460)	1,343,250	737,613	56,117	(7,080)	786,650	0.488%

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Note: Information for fiscal year 1997 is not available from the County of Sonoma.

CITY OF HEALDSBURG
Direct and Overlapping Property Tax Rates
Last Seven Fiscal Years
(Rate per \$100 of assessed value)

Fiscal Year Ended June 30	City Direct Rates				Overlapping Rates			
	Basic Rate	General Obligation Debt Service	Redevelopment Debt Service	Redevelopment Program	Total Direct Rate	Healdsburg Unified Bonds	Dam/Russian River Project	So. Co. Junior College Bond
2000	\$0.0400	\$0.0500	\$0.1800	\$0.1500	\$0.42	\$0.0686	\$0.0060	\$0.0000
2001	0.0400	0.0500	0.1700	0.1900	0.45	0.6500	0.0070	0.0000
2002	0.0400	0.0500	0.1600	0.1700	0.42	0.0600	0.0070	0.0250
2003	0.0400	0.0400	0.1300	0.2100	0.42	0.0600	0.0070	0.0250
2004	0.0400	0.0400	0.1500	0.1900	0.42	0.1028	0.0070	0.0250
2005	0.1100	0.0300	0.1600	0.1800	0.48	0.0975	0.0070	0.0250
2006	0.1200	0.0900	0.1500	0.1300	0.49	0.1005	0.0070	0.0250

Note: In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of Bonds that benefit the area.

Note: The City of Healdsburg has elected to show only seven years of data for this schedule.

CITY OF HEALDSBURG
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2006		1997	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Simi Winery	\$383,160	32.9%	\$167,410	46.14%
Hotel Healdsburg	211,703	18.18% (1)	-	0.00% (1)
Healdsburg Senior Living	113,492	9.74% (1)	-	0.00% (1)
Davis, Mark & Linda	91,625	7.87% (3)	-	0.00% (3)
Syar Industries	89,805	7.71%	33,571	9.25%
Shami, Mitri & Suad	56,606	4.86%	28,550	7.87%
Seghesio Wineries, Inc.	56,015	4.81% (2)	-	0.00% (2)
Dry Creek Inn, LTD	55,482	4.76%	47,849	13.19%
Grove Street, LLC	53,801	4.62% (1)	-	0.00% (1)
Healdsburg Investors, LTD	52,968	4.55%	85,414	23.54%
Totals	\$1,164,657	100%	\$362,794	100%

Note: The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

- (1) Business did not exist in 1997.
- (2) Business not in top 25 property tax payers in 1997.
- (3) Business information not available for 1997.

CITY OF HEALDSBURG
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of Levy</u>	
		<u>Amount</u>	<u>Percent of Levy</u>
1997	\$3,559,983	\$3,559,983	100.0%
1998	3,728,001	3,728,001	100.0%
1999	4,103,525	4,103,525	100.0%
2000	4,647,271	4,647,271	100.0%
2001	5,182,699	5,182,699	100.0%
2002	5,676,311	5,676,311	100.0%
2003	6,488,479	6,488,479	100.0%
2004	7,069,951	7,069,951	100.0%
2005	7,435,124	7,435,124	100.0%
2006	8,251,526	8,251,526	100.0%

CITY OF HEALDSBURG
Schedule of Electric Utility Customers, Energy Sales and Revenue
Last Ten Fiscal Years

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Number of Customers</u>										
Residential	3,892	3,933	3,872	4,192	4,351	4,381	4,387	4,400	4,426	4,449
Industrial & heavy commercial	70	83	87	80	78	100	89	99	101	105
Commercial	760	781	819	834	817	855	865	858	874	896
Municipal	54	65	64	66	74	72	77	72	75	77
Outdoor Lighting	40	41	42	60	43	20	19	32	18	32
Total	<u>4,816</u>	<u>4,903</u>	<u>4,884</u>	<u>5,232</u>	<u>5,363</u>	<u>5,428</u>	<u>5,437</u>	<u>5,461</u>	<u>5,494</u>	<u>5,559</u>
<u>Energy Sales (MWH)</u>										
Residential	22,389	22,822	23,552	23,446	25,028	24,596	25,015	25,892	26,235	26,208
Industrial & heavy commercial	2,351	2,676	3,485	3,197	3,695	3,142	2,945	2,652	3,079	2,045
Commercial	33,222	34,764	34,323	33,417	35,099	34,326	35,676	37,449	38,736	38,942
Municipal	4,852	4,754	4,959	4,975	4,540	4,794	4,628	4,775	4,731	4,900
Outdoor Lighting	585	584	585	585	583	585	583	583	583	583
Total	<u>63,399</u>	<u>65,600</u>	<u>66,904</u>	<u>65,620</u>	<u>68,945</u>	<u>67,443</u>	<u>68,847</u>	<u>71,351</u>	<u>73,364</u>	<u>72,678</u>
<u>Revenue (in millions)</u>										
Residential	\$2.660	\$2.749	\$2.891	\$2.883	\$3.073	\$3.154	\$3.200	\$3.315	\$3.366	\$3.354
Industrial & heavy commercial	0.217	0.296	0.377	0.342	0.393	0.378	0.367	0.331	0.360	0.229
Commercial	3.466	3.667	3.679	3.632	3.801	4.013	4.148	4.099	4.568	4.635
Municipal	0.370	0.375	0.407	0.401	0.375	0.434	0.418	0.397	0.449	0.435
Outdoor Lighting	0.037	0.039	0.042	0.041	0.040	0.042	0.042	0.042	0.042	0.042
Total	<u>\$6.750</u>	<u>\$7.126</u>	<u>\$7.396</u>	<u>\$7.299</u>	<u>\$7.682</u>	<u>\$8.021</u>	<u>\$8.175</u>	<u>\$8.184</u>	<u>\$8.785</u>	<u>\$8.695</u>
Total average rate per mwh	<u>\$0.106</u>	<u>\$0.109</u>	<u>\$0.111</u>	<u>\$0.111</u>	<u>\$0.111</u>	<u>\$0.119</u>	<u>\$0.119</u>	<u>\$0.115</u>	<u>\$0.120</u>	<u>\$0.120</u>

CITY OF HEALDSBURG
Schedule of Electricity Sold and Revenue per Megawatt Hour
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MWH Sold										
July	5,633	5,711	5,562	5,648	5,939	5,956	6,229	6,113	6,595	6,325
August	5,545	5,867	6,421	5,649	6,085	5,359	6,199	6,821	6,367	6,387
September	5,671	5,937	6,358	4,870	6,319	5,957	6,168	6,408	7,283	6,590
October	5,485	5,642	5,444	5,595	5,903	5,661	5,937	5,838	6,051	5,854
November	5,255	5,541	5,604	5,585	5,759	5,305	5,932	5,464	5,809	6,014
December	5,054	5,331	5,522	5,175	5,756	5,545	5,176	5,874	6,083	6,124
January	5,501	5,635	5,903	6,243	5,942	6,340	6,203	5,769	6,470	6,244
February	5,068	5,318	5,305	5,192	5,710	5,476	5,444	5,977	6,180	5,981
March	4,938	5,127	5,096	5,219	5,131	5,260	4,780	5,683	5,146	5,535
April	4,908	4,880	5,438	5,480	5,166	5,159	6,119	5,570	5,756	5,773
May	4,945	5,193	4,948	5,328	5,186	5,438	4,934	5,802	5,845	5,506
June	5,403	5,417	5,303	5,636	6,053	5,985	5,726	6,033	5,779	6,344
Total	<u>63,406</u>	<u>65,599</u>	<u>66,904</u>	<u>65,620</u>	<u>68,949</u>	<u>67,441</u>	<u>68,847</u>	<u>71,352</u>	<u>73,364</u>	<u>72,677</u>
Total Billings										
July	\$ 625,541	\$ 656,492	\$ 671,528	\$ 692,743	\$ 722,003	\$ 780,420	\$ 807,825	\$ 791,151	\$ 711,827	\$ 852,912
August	638,438	699,997	780,065	688,545	735,508	697,647	800,312	882,496	708,539	840,127
September	644,785	699,392	749,469	585,033	773,672	786,546	804,981	824,884	787,393	856,913
October	617,658	665,868	670,085	685,507	724,567	732,969	760,045	754,070	643,711	783,802
November	621,274	650,609	668,750	670,965	694,730	689,792	778,722	567,221	596,860	633,226
December	517,247	514,425	549,073	529,404	584,830	593,797	552,882	625,634	694,119	676,659
January	567,330	572,904	608,149	642,128	599,428	690,829	673,403	619,909	1,407,682	690,152
February	519,189	522,153	514,981	520,977	578,460	593,782	582,690	649,620	488,355	632,755
March	414,694	509,542	510,713	527,653	518,509	566,423	503,378	605,831	496,073	596,087
April	468,136	474,375	542,747	537,206	508,492	544,544	649,836	577,260	617,779	616,684
May	480,457	510,582	486,301	518,346	504,507	563,299	516,598	632,974	713,446	707,877
June	645,139	648,465	644,267	699,600	736,195	781,609	743,948	653,404	747,436	808,512
Total	<u>\$ 6,759,888</u>	<u>\$ 7,124,804</u>	<u>\$ 7,396,128</u>	<u>\$ 7,298,107</u>	<u>\$ 7,680,901</u>	<u>\$ 8,021,657</u>	<u>\$ 8,174,620</u>	<u>\$ 8,184,454</u>	<u>\$ 8,613,220</u>	<u>\$ 8,695,706</u>
Revenue/KWH										
July	\$ 0.11105	\$ 0.11495	\$ 0.12074	\$ 0.12270	\$ 0.12156	\$ 0.13103	\$ 0.12969	\$ 0.12942	\$ 0.10793	\$ 0.13485
August	0.11513	0.11931	0.12147	0.12190	0.12087	0.13018	0.12910	0.12937	0.11128	0.13154
September	0.11370	0.11780	0.11788	0.12010	0.12243	0.13203	0.13051	0.12873	0.10811	0.13003
October	0.11261	0.11802	0.12309	0.12250	0.12274	0.12947	0.12802	0.12916	0.10638	0.13389
November	0.11830	0.11742	0.11933	0.12020	0.12063	0.13002	0.13128	0.10381	0.10275	0.10529
December	0.10234	0.09650	0.09943	0.10230	0.10160	0.10708	0.10682	0.10650	0.11411	0.11049
January	0.10313	0.10167	0.10302	0.10290	0.10087	0.10896	0.10851	0.10746	0.21757	0.10530
February	0.10244	0.09819	0.09707	0.10030	0.10130	0.10843	0.10703	0.10869	0.79022	0.10579
March	0.08398	0.09938	0.10022	0.10110	0.10105	0.10768	0.10531	0.10660	0.96400	0.10769
April	0.09538	0.09721	0.09981	0.09800	0.09843	0.10555	0.10620	0.10363	0.10733	0.10682
May	0.09716	0.09832	0.09828	0.09730	0.09728	0.10358	0.10470	0.10910	0.12206	0.12856
June	0.11940	0.11971	0.12149	0.12410	0.12162	0.13059	0.12993	0.10830	0.12934	0.12745
Average	<u>\$ 0.10661</u>	<u>\$ 0.10861</u>	<u>\$ 0.11055</u>	<u>\$ 0.11122</u>	<u>\$ 0.11140</u>	<u>\$ 0.11894</u>	<u>\$ 0.11874</u>	<u>\$ 0.11471</u>	<u>\$ 0.11740</u>	<u>\$ 0.11965</u>

**CITY OF HEALDSBURG
Top Ten Electric Customers
Current Calendar Year and Nine Years Ago**

Electric Customer	2006		1997	
	Electric Charges	Percent of Total Electric Revenues	Electric Charges	Percent of Total Electric Revenues
Syar	\$290,257	3.13800%	\$286,018	4.09668%
Safeway	\$167,183	1.80744%	\$188,287	2.69687%
Healdsburg District Hospital	\$151,486	1.63774%	(1) -	0.00000%
Simi Winery	\$147,973	1.59975%	\$136,374	1.95330%
Hotel Healdsburg	\$124,701	1.34816%	(1) -	0.00000%
Big John's Market	\$119,972	1.29703%	\$90,320	1.29366%
Nu Forest Products	\$81,683	0.88309%	\$62,887	0.90074%
City of Healdsburg	\$74,430	0.80467%	(2) -	0.00000%
Healdsburg Unified School	\$73,177	0.79113%	\$62,439	0.89433%
Rite Aid Corp.	\$64,108	0.69308%	\$59,637	0.85419%
	<u>\$1,294,968</u>	<u>14.0%</u>	<u>\$885,961</u>	<u>12.7%</u>

**CITY OF HEALDSBURG
Electric Rates
Last Five Fiscal Years**

Type of Customer	Fiscal Year Ended June 30	Monthly Base Rate	Rate per KWH
Residential	2001-2006	324 KWH @	\$0.12168
		Balance @	\$0.13987
Commercial	2001-2006	\$0.15614 per KWH	\$0.15614

Note: The top ten electric customers are categorized by type.

(1) Customer not in business in 1997.

(2) Information is not available.

CITY OF HEALDSBURG
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			Business-type Activities		Debt Per Capita	
	General Obligation Bonds	Tax Allocation Bonds	Special Assessments	Total Governmental Activities	Certificates of Participation		Total Primary Government
1997	\$6,460	\$5,330	\$3,406	\$15,196	\$4,425	\$19,621	\$1.99
1998	6,615	4,935	3,290	14,840	4,180	19,020	1.88
1999	6,470	4,520	3,165	14,155	3,920	18,075	1.76
2000	6,310	4,080	2,940	13,330	3,640	16,970	1.59
2001	6,135	3,620	2,755	12,510	3,350	15,860	1.39
2002	5,945	23,475	2,460	31,880	420	32,300	2.77
2003	5,720	42,420	2,230	50,370	18,665	69,035	5.93
2004	5,635	41,640	2,065	49,340	18,205	67,545	5.80
2005	5,345	42,595	1,715	49,655	17,735	67,390	5.76
2006	5,035	41,690	1,605	48,330	43,865	92,195	7.88

Note: Percentage of personal income not available.

CITY OF HEALDSBURG
Ratio of General Bonded Debt Outstanding
Last Nine Fiscal Years
(In Thousands, except Per Capita)

Fiscal Year Ended June 30	Outstanding General Bonded Debt			Percent of Assessed Value ⁽¹⁾	Per Capita
	General Obligation Bonds	Tax Allocation Bonds	Total		
1998	6,615	4,935	11,550	1.092%	640
1999	6,470	4,520	10,990	1.008%	645
2000	6,310	4,080	10,390	0.903%	605
2001	6,135	3,620	9,755	0.790%	554
2002	5,945	23,475	29,420	0.663%	527
2003	5,720	42,420	48,140	0.569%	511
2004	5,635	41,640	47,275	0.511%	491
2005	5,345	42,595	47,940	0.444%	482
2006	5,035	41,690	46,725	0.375%	457

Note: General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).
Information for 1997 is not presented as assessed values from the County of Sonoma is not available.
Special assessments are not included.

(1) Assessed value has been used because the actual value of taxable property is not readily available in California.

CITY OF HEALDSBURG
Direct and Overlapping Debt
June 30, 2006

2005-2006 Assessed Valuation	\$ 1,361,249,921
Redevelopment Agency Incremental Valuation	688,509,168
<i>Adjusted Assessed Valuation:</i>	<u>\$ 672,740,753</u>

	<u>Percentage Applicable⁽¹⁾</u>	<u>Total Outstanding Debt 6/30/06</u>	<u>City's Share of Debt</u>
<u>Overlapping Debt Repaid with Property Taxes and Assessments:</u>			
Sonoma County Joint Community College District	1.317%	\$ 141,526,697	\$ 1,863,907
Healdsburg Unified School District	30.867%	20,409,998	6,299,954
Healdsburg Unified School District School Facilities Improvements District No. 1	44.636%	18,274,951	8,157,207
City of Healdsburg 1915 Act Bonds	100%	1,620,000	1,620,000
			-
<i>Total overlapping debt repaid with property taxes and assessments</i>			<u>\$ 17,941,068</u>
<u>Overlapping General Fund Debt:</u>			
Sonoma County General Fund Obligations	1.331%	\$ 37,965,000	\$ 505,314
Sonoma County Pension Obligations	1.331%	296,535,000	3,946,881
Sonoma County Office of Education Certificates of Participation	1.331%	3,610,000	48,049
Sonoma County Joint Community College District General Fund Obligations	1.317%	2,625,000	34,571
			-
<i>Total overlapping general fund debt</i>			<u>\$ 4,534,815</u>
<i>Total overlapping debt</i>			\$ 22,475,883
<u>Direct Debt:</u>			
City of Healdsburg General Obligation Bonds	100%	\$ 5,035,000	<u>\$ 5,035,000</u>
<i>Total direct debt</i>		<u>\$ 5,035,000</u>	\$ 5,035,000
<i>Total direct and overlapping debt</i>			<u>⁽²⁾ \$ 27,510,883</u>

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed valuation that is within the City's boundaries and dividing it by each unit's total taxable assessed valuation.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:

Direct Debt (\$5,035,000).....0.37%

Ratios to Adjust Assessed Valuation:

Total Direct and Overlapping Debt4.09%

State School Building Aid Repayable as of 6/30/06: \$0

CITY OF HEALDSBURG
Legal Debt Margin Information
Last Nine Fiscal Years

	Fiscal Year			
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Assessed valuation	\$ 605,867,271	\$ 641,649,307	\$ 698,659,995	\$ 776,511,143
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$ 151,466,818	\$ 160,412,327	\$ 174,664,999	\$ 194,127,786
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	22,720,023	24,061,849	26,199,750	29,119,168
Total net debt applicable to limit: General obligation bonds	<u>6,615,000</u>	<u>6,470,000</u>	<u>6,310,000</u>	<u>6,135,000</u>
Legal debt margin	<u>\$ 16,105,023</u>	<u>\$ 17,591,849</u>	<u>\$ 19,889,750</u>	<u>\$ 22,984,168</u>
Total debt applicable to the limit as a percentage of debt limit	41%	37%	32%	27%

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Assessed valuation	\$ 896,750,774	\$ 1,004,937,097	\$ 1,102,206,452	\$ 1,203,854,951	\$ 1,343,249,917
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$ 224,187,694	\$ 251,234,274	\$ 275,551,613	\$ 300,963,738	\$ 335,812,479
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	33,628,154	37,685,141	41,332,742	45,144,561	50,371,872
Total net debt applicable to limit: General obligation bonds	<u>5,945,000</u>	<u>5,720,000</u>	<u>5,635,000</u>	<u>5,345,000</u>	<u>5,035,000</u>
Legal debt margin	<u>\$ 27,683,154</u>	<u>\$ 31,965,141</u>	<u>\$ 35,697,742</u>	<u>\$ 39,799,561</u>	<u>\$ 45,336,872</u>
Total debt applicable to the limit as a percentage of debt limit	21%	18%	16%	13%	11%

Note: The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.
Information for 1997 is not presented as assessed values from the County of Sonoma is not available.

CITY OF HEALDSBURG
Pledged-Revenue Coverage-Water
Last Ten Fiscal Years
(In Thousands)

Fiscal Year Ended June 30	Water Revenue Bonds					Coverage
	Water Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		
				Principal	Interest	
1997	\$ 1,743,579	\$ 1,224,254	\$ 519,325	\$ 100,000	\$ 391,613	\$ 1.06
1998	1,906,386	1,307,539	598,847	137,145	456,722	1.01
1999	2,247,927	1,527,216	720,711	162,144	422,330	1.23
2000	2,467,536	1,522,137	945,399	155,144	405,496	1.69
2001	3,221,247	2,169,590	1,051,657	165,000	812,483	1.08
2002	3,026,603	1,787,977	1,238,626	244,287	467,993	1.74
2003	3,782,580	2,054,734	1,727,846	280,000	759,269	1.66
2004	4,410,089	2,097,146	2,312,943	395,000	680,810	2.15
2005	3,953,043	2,483,306	1,469,737	405,000	622,615	1.43
2006	4,268,669	3,128,861	1,139,808	145,000	608,186	1.51

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest or depreciation expenses.

CITY OF HEALDSBURG
Pledged-Revenue Coverage-Sewer
Last Ten Fiscal Years
(In Thousands)

Fiscal Year Ended June 30	Sewer Revenue Bonds					
	Sewer Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
1997	\$ 1,388,040	\$ 932,598	\$ 455,442	\$ -	\$ 31,374	\$ 14.52
1998	1,677,288	1,090,577	586,711	14,683	216,382	2.54
1999	1,925,606	1,104,217	821,389	14,683	49,808	12.74
2000	2,143,545	1,244,247	899,298	14,684	48,215	14.30
2001	3,251,756	1,428,812	1,822,944	-	263,346	6.92
2002	3,273,173	2,476,220	796,953	54,090	180,010	3.40
2003	4,080,199	1,764,716	2,315,483	60,000	175,953	9.81
2004	4,211,621	1,909,949	2,301,672	65,000	181,481	9.34
2005	4,323,805	2,142,034	2,181,771	65,000	178,462	8.96
2006	5,115,748	2,765,120	2,350,628	70,000	225,861	7.95

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest or depreciation expenses.

CITY OF HEALDSBURG
Demographic and Economic Statistics
Last Nine Calendar Years

Calendar Year	Population ⁽¹⁾	Property Taxable Assessed Value (in thousands) ⁽³⁾	Property Average Assessed Value ⁽³⁾	Unemployment Rate ⁽²⁾
1998	10,100	\$1,009,537	\$99,954	0.0%
1999	10,250	\$1,147,298	111,932	0.0%
2000	10,700	\$1,162,621	108,656	3.7%
2001	11,381	\$1,203,486	105,745	4.1%
2002	11,652	\$1,452,800	124,682	5.6%
2003	11,634	\$1,615,224	138,837	6.1%
2004	11,654	1,778,024	152,568	5.5%
2005	11,693	1,918,581	164,079	4.9%
2006	11,704	2,129,900	181,981	3.9%

Note: Unemployment rate for 2006 is a preliminary rate through October, 2006.
Unemployment rate information is not available for 1998 and 1999.
Information for 1997 is not presented as assessed values from the County of Sonoma is not available.

Sources: (1) State of California Department of Finance
(2) State of California Employment Development Department
(3) County of Sonoma Auditor-Controller

**CITY OF HEALDSBURG
Top Ten Principal Employers
Current Year and Nine Years Ago**

Employer	2006		1997	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Healdsburg School District	342	2.92		
Healdsburg District Hospital	204	1.74		
City of Healdsburg	180	1.54		
Beam Wine Estates	167	1.43		
Healdsburg Senior Living Community	100	0.85		
Alliance Medical Center	98	0.84		
Big John's Market	80	0.68		
Safeway Stores, Inc. #998	77	0.66		
Syar Industries, Inc.	75	0.64		
E & M Electric	71	0.61		
City of Healdsburg Population:	11,704		9,875	

Note: "Total Employment" as used above represents the total employment of all employers located within City limits. Information for 1997 is not available.

CITY OF HEALDSBURG
Full-time Equivalents City Employees
by Function
Last Ten Fiscal Years

<u>Function</u>	Full-time and Part-time Employees as of June 30									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Administration	4.70	4.70	4.70	4.70	4.70	4.70	5.70	5.10	4.85	4.85
Finance	16.00	16.00	15.25	11.00	11.00	12.00	12.50	13.00	13.00	14.00
Community Services	5.50	5.50	5.50	8.00	9.00	9.00	12.00	11.50	11.50	11.50
Electric Utility	11.00	10.00	10.00	14.24	15.00	14.00	14.00	14.00	14.50	18.00
Fire	8.00	8.00	8.00	8.00	8.50	8.50	8.50	7.50	7.00	10.75
Planning & Building	3.00	4.50	4.00	5.00	7.50	7.00	7.00	7.00	6.00	7.00
Police	25.00	25.00	25.00	26.60	26.60	27.60	27.60	27.00	24.00	30.00
Public Works	<u>27.00</u>	<u>28.50</u>	<u>30.00</u>	<u>30.00</u>	<u>28.00</u>	<u>30.00</u>	<u>30.00</u>	<u>30.00</u>	<u>31.00</u>	<u>37.00</u>
Total positions:	100.20	102.20	102.45	107.54	110.30	112.80	117.30	115.10	111.85	133.10

CITY OF HEALDSBURG
Operating Indicators
by Function
Last Four Fiscal Years

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police:				
Arrests	945	814	778	844
Parking citations issued	2,315	3,435	1,599	3,115
Fire:				
Number of emergency calls	1,362	1,423	1,455	1,400
Inspections	1,674	1,130	1,183	1,100
Public works:				
Street resurfacing (miles)	0.995	0.769	0.040	0.00
Potholes/pavement repaired (sq. ft.)	13,614	21,418	30,273	18,369
Planning and building:				
Commercial building permits	123	117	119	127
New construction commercial building permits	8	10	9	4
Residential building permits	359	399	380	320
New construction residential building permits	25	36	26	46
Parks and recreation:				
Number of recreation classes	10	15	15	165
Number of facility rentals	185	179	173	157
(1) Water:				
Average daily production (millions of gallons)	2.4	2.6	2.3	2.4
(1) Wastewater:				
Average daily sewage treatment (millions of gallons)	1.3	1.3	1.6	1.9

Note:

The City of Healdsburg has elected to show only four years of data on this schedule.

(1) Water and wastewater operating indicators are per calendar year.

Water and wastewater 2006 operating indicators are through October, 2006.

CITY OF HEALDSBURG
Capital Asset Statistics
by Function
Last Four Fiscal Years

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police:				
Police stations	1	1	1	1
Fire:				
Fire stations	1	1	1	1
Public works:				
Streets (miles)	43.2	43.2	43.7	44.1
Streetlights	2,024	2,024	2,044	2,064
Traffic signals	13	13	13	12
Parks and recreation:				
Parks	8	8	9	9
Senior centers	1	1	1	1
Swimming pools	1	1	1	1
Tennis courts	2	2	2	2
Meeting centers	1	1	1	1
Museums	1	1	1	1
Boys & girls clubs	1	1	1	1
(1) Water:				
Water mains (miles)	60.08	60.16	60.36	60.47
Maximum daily capacity (hundred cubic feet)	45.2	45.2	45.2	45.2
(1) Wastewater:				
Sanitary sewers (miles)	(2)	(2)	51.4	51.5
Storm sewers (miles)	(2)	(2)	26.4	26.3
Maximum daily treatment capacity (millions of gallons/day) / (dry weather/wet weather)	1.6 / 6.5	1.6 / 6.5	1.6 / 6.5	1.6 / 6.5
Electric:				
Number of distribution stations	1	1	1	1
Miles of service lines	62.0	62.5	63.0	63.5

Note:

The City of Healdsburg has elected to show only four years of data on this schedule.

(1) Water and wastewater capital asset statistics are per calendar year.

Water and wastewater 2006 capital asset statistics are through October, 2006.

(2) Information for 2003 and 2004 is not available for sanitary sewers (miles) and storm sewers (miles).