

**REDEVELOPMENT AGENCY
OF THE CITY OF HEALDSBURG**

FINANCIAL STATEMENTS

JUNE 30, 2011

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
Financial Statements
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Redevelopment Agency of the City of Healdsburg
Healdsburg, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary fund of the Redevelopment Agency of the City of Healdsburg (Agency), a component unit of the City of Healdsburg, California, as of and for the fiscal year ended June 30, 2011 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency'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 as to 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, each major fund, and the fiduciary fund of the Redevelopment Agency of the City of Healdsburg as of June 30, 2011 and, the respective changes in the financial position thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, and Statement No. 59, *Financial Instruments Omnibus*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the Agency's internal control over financial reporting and on 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.

Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 41 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The Calculation of Excess Surplus and the Budgetary Comparison Schedules of the Major Debt Service and Capital Projects funds are presented for purposes of additional analysis and are not required parts of the financial statements. The Calculation of Excess Surplus and the Budgetary Comparison Schedules for the Major Debt Service and Capital Projects Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 6, 2011

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 36,619,027
Restricted cash and investments with fiscal agent	7,230,467
Lease receivable	588,272
Taxes receivable	36,678
Interest receivable	77,129
Notes and loans receivable	7,691,764
Prepaid assets	9,750
Due from the City of Healdsburg	3,695,000
Deferred charges - net of accumulated amortization	1,215,068
Capital assets - not being depreciated	7,142,342
Capital assets - net of accumulated depreciation	<u>3,696,376</u>
Total Assets	<u>68,001,873</u>
LIABILITIES	
Accounts payable and accrued liabilities	50,640
Interest payable	1,182,333
Long-term debt:	
Due in one year	1,090,219
Due in more than one year	<u>53,483,034</u>
Total Liabilities	<u>55,806,226</u>
NET ASSETS	
Restricted for:	
Debt Service	7,775,834
Housing	14,986,650
Unrestricted	<u>(10,566,837)</u>
Total Net Assets	<u>\$ 12,195,647</u>

See accompanying notes to basic financial statements

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REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Community development	\$ 3,864,746	\$ 487,652	\$ -	\$ -	\$ (3,377,094)
Pass-through payments	3,416,557				(3,416,557)
Interest and trustee fees on long-term debt	2,645,293				(2,645,293)
Total Expenditures	<u>\$ 9,926,596</u>	<u>\$ 487,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(9,438,944)</u>
General Revenues:					
Taxes:					
Incremental property taxes					9,031,936
Use of money and property					508,682
Transfers from the City of Healdsburg					414,359
Total General Revenues and Transfers					<u>9,954,977</u>
Special Item - Cooperation Agreement					<u>(8,436,435)</u>
Change in Net Assets					(7,920,402)
Net Assets - Beginning of Fiscal Year					19,968,599
Prior period adjustments					147,450
Net Assets - Beginning of Fiscal Year, restated					<u>20,116,049</u>
Net Assets - End of Fiscal Year					<u>\$ 12,195,647</u>

See accompanying notes to basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds	
	UDAG Loan	Housing Bond
ASSETS		
Cash and investments	\$ 7,107,498	\$ 463,883
Restricted cash and investments with fiscal agent		
Lease receivable	52,355	
Taxes receivable		
Notes and loans receivable	984,606	604,475
Interest receivable	14,744	904
Prepaid items		
Due from the City of Healdsburg		
Total Assets	\$ 8,159,203	\$ 1,069,262
LIABILITIES		
Accounts payable and accrued liabilities	\$ -	\$ -
Deferred revenue	292,013	604,475
Total Liabilities	292,013	604,475
FUND BALANCES		
Nonspendable	692,593	
Restricted:		
Housing		464,787
Debt service		
Redevelopment	7,174,597	
Total Fund Balances	7,867,190	464,787
Total Liabilities and Fund Balances	\$ 8,159,203	\$ 1,069,262

See accompanying notes to basic financial statements

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ 1,682,490	\$ 19,551,270	\$ 7,813,886	\$ 36,619,027
7,230,467			7,230,467
	535,917		588,272
36,678			36,678
	12,391	6,090,292	7,691,764
3,282	28,597	29,602	77,129
5,250		4,500	9,750
	3,695,000		3,695,000
<u>\$ 8,958,167</u>	<u>\$ 23,823,175</u>	<u>\$ 13,938,280</u>	<u>\$ 55,948,087</u>
\$ -	\$ 29,748	\$ 20,892	\$ 50,640
	548,308	6,090,292	7,535,088
	578,056	6,111,184	7,585,728
5,250		4,500	702,343
		7,822,596	8,287,383
8,952,917			8,952,917
	23,245,119		30,419,716
<u>8,958,167</u>	<u>23,245,119</u>	<u>7,827,096</u>	<u>48,362,359</u>
<u>\$ 8,958,167</u>	<u>\$ 23,823,175</u>	<u>\$ 13,938,280</u>	<u>\$ 55,948,087</u>

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REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - Governmental Funds \$ 48,362,359

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 10,838,718

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the funds:

Note receivable - deferred revenue	6,999,171
Lease receivable - deferred revenue	535,917
Prepaid items - deferred charges	1,215,068
Long-term debt	(54,573,253)
Accrued interest	(1,182,333)
	(1,182,333)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 12,195,647

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 For The Fiscal Year Ended June 30, 2011

	Special Revenue Funds	
	UDAG Loan	Housing Bond
REVENUES		
Property tax increment	\$ -	\$ -
Use of money and property	71,708	8,980
Rental income	487,652	
Program income		75,000
Total Revenues	<u>559,360</u>	<u>83,980</u>
EXPENDITURES		
Current:		
Community development	119,481	
Pass-through agreements		
Capital outlay		
Debt service:		
Bond issuance cost		
Principal		
Interest and fiscal charges		
Total Expenditures	<u>119,481</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>439,879</u>	<u>83,980</u>
OTHER FINANCING SOURCES (USES)		
Payments to refunded bond escrow agent		
Original issue discount		
Proceeds from debt issuance		
Proceeds from sale of property		
Transfers from the City of Healdsburg		
Transfers in		
Transfers out		
Total Other Financing Sources (Uses)		
NET CHANGE IN FUND BALANCES	439,879	83,980
FUND BALANCES, BEGINNING OF FISCAL YEAR	<u>7,427,311</u>	<u>380,807</u>
FUND BALANCES, END OF FISCAL YEAR	<u>\$ 7,867,190</u>	<u>\$ 464,787</u>

See accompanying notes to basic financial statements

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ 7,225,549	\$ -	\$ 1,806,387	\$ 9,031,936
13,082	128,926	46,742	269,438
		175,638	487,652
			250,638
<u>7,238,631</u>	<u>128,926</u>	<u>2,028,767</u>	<u>10,039,664</u>
166,922	2,429,562	438,860	3,154,825
3,416,557			3,416,557
	5,923	60,492	66,415
293,932			293,932
1,040,000			1,040,000
2,071,882			2,071,882
<u>6,989,293</u>	<u>2,435,485</u>	<u>499,352</u>	<u>10,043,611</u>
249,338	(2,306,559)	1,529,415	(3,947)
(2,809,101)			(2,809,101)
(170,222)			(170,222)
21,065,000			21,065,000
		1,098,730	1,098,730
	380,689	33,670	414,359
950,605	13,653,197		14,603,802
(13,653,197)	(125,412)	(825,193)	(14,603,802)
<u>5,383,085</u>	<u>13,908,474</u>	<u>307,207</u>	<u>19,598,766</u>
5,632,423	11,601,915	1,836,622	19,594,819
3,325,744	11,643,204	5,990,474	28,767,540
<u>\$ 8,958,167</u>	<u>\$ 23,245,119</u>	<u>\$ 7,827,096</u>	<u>\$ 48,362,359</u>

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The schedule below reconciles the Net Change in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ 19,594,819

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	161,030
Depreciation expense not reported in governmental funds	(261,666)
Transfer of assets per Cooperation Agreement	(8,436,435)
Book value of capital assets sold	(1,549,092)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Repayment of long-term debt principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	1,040,000
Bond proceeds are deducted from fund balance	(21,065,000)
Payments to escrow agent are added back to fund balance	2,809,101
Deferred charges and original issue discount are added back to fund balance	464,154

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change during current period):

Deferred charges - amortization	(237,789)
Interest payable	(335,622)

NOTES RECEIVABLE

Notes receivable issued are expenditures, and principal payments on notes receivable are a revenue in the governmental funds; however, in the government-wide statements, these transactions increase or decrease the notes receivable and accrue interest on notes receivable.

Notes receivable-difference between collected, given and written off	(343,146)
Interest receivable	239,244

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (7,920,402)

See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

	Healdsburg Downtown Business District Private-Purpose Trust Fund <hr/>
ASSETS	
Cash and investments	\$ 28,298
Total Assets	<hr/> 28,298 <hr/>
LIABILITIES	
Accounts payable	28,298
Total Liabilities	<hr/> 28,298 <hr/>
NET ASSETS	<hr/> \$ - <hr/>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Healdsburg Downtown Business District Private-Purpose Trust Fund <hr/>
ADDITIONS	
Fees and charges	<u>\$ 28,298</u>
TOTAL ADDITIONS	<u>28,298</u>
DEDUCTIONS	
Community development	<u>119,530</u>
TOTAL DEDUCTIONS	<u>119,530</u>
CHANGE IN NET ASSETS	(91,232)
NET ASSET AT BEGINNING OF FISCAL YEAR	<u>91,232</u>
NET ASSET AT END OF FISCAL YEAR	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Redevelopment Agency of the City of Healdsburg (Agency) was created in July 1980, under the provisions of the Community Redevelopment Law (California Health and Safety Code, commencing with Section 33000), primarily to eliminate and reduce economic and physical blight presently existing within the City of Healdsburg (the City). Financial activity of the Agency commenced in July 1980. The result of this activity is the Agency's Redevelopment Plan (the Plan). Under the Plan, approved June 16, 1981, the Agency proposed to assist in the development of property within the Sotoyome Project Area. The Agency functions as an independent entity and its policies are determined by the City Council of the City of Healdsburg (City) in a separate capacity as members of the Agency Board (the Board). All staff work is performed by officials and staff of the City, or by consultants to the Agency.

The Agency is authorized to finance the Plan from various sources, including assistance from the City, state and federal governments, property tax increments, interest income, rental income and the issuance of Agency notes and bonds.

The financial statements of the Agency include the financial activities of the Agency and the Healdsburg Downtown Business District (the District), shown as Private Purpose Trust Fund. The District's financial operations are closely related to the Agency and the Board has a continuing oversight responsibility on the basis of budget adoption, taxing authority, funding, and appointment of the governing boards.

The Agency is an integral part of the City of Healdsburg and, accordingly, the accompanying financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

B. Basis of Presentation

Government-wide Statements

The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. Separate statements for each fund category – governmental, and fiduciary are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

Fiduciary funds are used to account for assets held by the Agency in a trustee capacity or as an agent for individuals, private organizations, other government units, and/or other funds.

C. Major Funds

Governmental Accounting Standards Board (GASB) Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total of all fund types. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

UDAG Loan Special Revenue Fund – is used to account for the proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes. This fund accounts for program revenue generated under the Agency's Urban Development Action Grant (UDAG) program.

Housing Bond Special Revenue Fund – is used to account for proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes. This fund accounts for surplus funds returned to the Agency from the retirement of housing mortgage revenue bonds.

Debt Service Fund – is used to account for the accumulated resources for, and the payment of, long-term liabilities, interest, and related costs.

Commercial & Industrial Capital Projects Fund – is used to account for financial resources to be used for redevelopment projects.

Low/Moderate Income Housing Capital Projects Fund – is used to account for financial resources to be used for low and moderate incoming housing projects.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The fiduciary fund is used to account for assets held by the Agency in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Downtown Business District Private Purpose Trust Fund - is used to account for assets held by the Agency in a trustee capacity for the Healdsburg Downtown Business District.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

E. Accounting Policies

Revenue

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounting Policies (Continued)

Revenue (Continued)

- a. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.
- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City.

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

Property Valuations and Tax Levies

The California Community Redevelopment Law provides that assessed valuations of a redevelopment project are, in effect, frozen at the level existing when the redevelopment plan is adopted, and all property taxes produced from this valuation continue to flow to all public agencies levying taxes on property in the project. Taxes produced from any increase in the assessed valuation of a project over the “frozen base” may be allocated to a redevelopment agency to pay or repay costs incurred on behalf of the project. The assessed valuation of a project may be temporarily or permanently reduced below the frozen base as a result of ownership of property by a redevelopment agency pending resale to a developer (temporary), or because a permanent reduction of the assessed valuation will cause a concurrent reduction of the frozen base so that the production of tax increment income from new development will not be impaired.

Tax Levy Dates

All lien dates attach annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounting Policies (Continued)

Revenue (Continued)

Tax Collections

The county tax collector is responsible for all property tax collections. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments; the first installment is due on November 1 of the fiscal year and is delinquent if not paid by December 10, the second installment is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

F. Budgets and Budgetary Accounting

From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various Agency departments. The Board of Directors may amend the budget by resolution during each fiscal year. The Executive Director may transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the Agency are subject to annual review by the Board of Directors; hence, they legally are one year contracts with an option for renewal for another fiscal year.

Budget amounts, as adjusted, reported for the governmental funds of the Agency are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statement No. 54 and No. 59 during the fiscal year ended June 30, 2011.

Government Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Government Accounting Standards Board Statement No. 54 (GASB 54), “*Fund Balance Reporting and Governmental Fund Type Definitions*,” The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and is clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section of this footnote.

The definitions of the special revenue fund type, capital projects fund type, and debt service fund type are also clarified by the provisions on this statement.

Government Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, “*Financial Instrument Omnibus*”. This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

J. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Equity (Continued)

- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Agency’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Agency’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the Agency’s funds that include amounts not contained in the other classifications.

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget amendments that occur throughout the fiscal year.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

The governmental funds balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The capital assets reported in the *Statement of Net Assets* are as follows:

Land		\$ 7,020,188
Construction in progress		122,154
Depreciable infrastructure, net of accumulated depreciation		395,864
Depreciable buildings, net of accumulated depreciation		3,300,512
		\$ 10,838,718

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets (Continued)

Deferred charges and deferred loss on refunding are not available to pay for current period expenditures and therefore are not reported as governmental fund assets. These deferred charges and deferred loss on refunding net of accumulated amortization are as follows:

Deferred issuance costs, net of accumulated amortization of \$407,863	<u>\$ 1,215,068</u>
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Certain notes and rent receivables are not available to pay for current period expenditures, and therefore, are offset by deferred revenue in the governmental funds.

Note receivable - deferred revenue	<u>\$ 6,999,171</u>
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Lease/rent receivable - deferred revenue	<u>\$ 535,917</u>
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Certain liabilities, including bonds, notes, and advances payable and interest on advances and bonds, are not due and payable in the current period, and therefore, are not reported in the funds. These liabilities are as follows:

Bonds payable	\$ 55,095,000
Bond discount	(355,308)
Deferred loss on refunding	(166,439)
Accrued interest payable	1,182,333
	<u>\$ 55,755,586</u>

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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 and reported as depreciation expense. The details of this difference are as follows:

The book value of capital assets sold	\$ (1,549,092)
Capital outlay capitalized for fiscal year	161,030
Current fiscal year depreciation	(261,666)
The book value of capital assets transferred to the City per Cooperation Agreement	<u>(8,436,435)</u>
	<u>\$ (10,086,163)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities. (Continued)

Another element of that reconciliation states that “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”. The details of this adjustment are as follows:

Bond proceeds	\$ (21,065,000)
Payments to escrow agent for refund of 1995 bonds	2,809,101
Deferred charges and OID in new debt issue	464,154
Debt principal payments	1,040,000
Amortization of deferred loss on refunding	(27,393)
Amortization of deferred charges	(157,429)
Amortization of bond discount	(52,967)
Change in accrued interest payable	<u>(335,622)</u>
Total long-term debt adjustment	<u>\$ (17,325,156)</u>

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$36,619,027
Restricted cash and investments with fiscal agent	7,230,467
Statement of fiduciary fund net assets:	
Cash and investments	<u>28,298</u>
Total cash and investments	<u>\$43,877,792</u>

Cash and investments as of June 30, 2011 consist of the following:

Pooled cash and investments with the City of Healdsburg	\$36,647,325
Investments	<u>7,230,467</u>
Total cash and investments	<u>\$43,877,792</u>

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency'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 Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bankers Acceptances	180 days	40%	30%
Certificates of Deposits	5 years	Unlimited	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper, Prime Quality	270 days	25%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$50,000,000
Medium Term Notes, Prime Quality	5 years	30%	None
Money Market Funds, Prime Quality	N/A	20%	10%
Mutual Funds, Prime Quality	N/A	20%	10%
Passbook Savings and Money Market Accounts (Insured)	Unlimited	Unlimited	None
U.S. Treasury Obligations	5 years	Unlimited	None
U.S. Government Agency Issues	5 years	Unlimited	None

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency'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.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit with Bank or Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances, Prime Quality	360 days	None	None
Commercial Paper, Prime Quality	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

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 Agency 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 flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months
Held by Bond Trustees:						
Money Market Funds	\$ 7,230,467	\$ 7,230,467	\$ -	\$ -	\$ -	\$ -
Totals	\$ 7,230,467	\$ 7,230,467	\$ -	\$ -	\$ -	\$ -

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – 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 Agency’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Held by Bond Trustee:							
Money Market Funds	\$ 7,230,467	N/A	\$ -	\$ 7,230,467	\$ -	\$ -	\$ -
Totals	<u>\$ 7,230,467</u>		<u>\$ -</u>	<u>\$ 7,230,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than State Investment Pool, Money Market Funds, U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

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 Agency’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 fair 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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency pools its cash with the City including deposit accounts.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

As of June 30, 2011, Agency investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Funds:	
Goldman Financial SQ Government Portfolio	<u>\$ 7,230,467</u>

See the City of Healdsburg's Comprehensive Financial Report for more information relating to custodial credit risk for amounts reported as cash and investments pooled with the City of Healdsburg.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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.

NOTE 4 – NOTES RECEIVABLE

Notes receivable in the amount of \$7,691,764 (including accrued interest of \$1,394,895) at June 30, 2011 consisted of the following:

Housing Loans - Individuals	\$ 2,136,159
Housing Loan - Habitat for Humanity	315,000
Housing Loan - Eden Housing	3,639,133
Housing Loan - Burbank Housing	2,812,563
RDA - UDAG Loan	692,593 *
RDA - First Time Home Buyer Loans	604,475
RDA - Sprinkler Retrofit Loans	292,013
RDA - Grease Interceptor Rebate Program	<u>12,391</u>
Subtotal	10,504,327
Less:	
Allowance for uncollectible loan	<u>2,812,563</u>
Total	<u>\$ 7,691,764</u>

* Amount of loan is not offset by either deferred revenue or allowance in the governmental funds.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – LEASE RECEIVABLE

In April 1986, the Agency entered into a Disposition and Development Agreement with a developer for the construction of real property. As part of the agreement, the Agency agreed to lease to the Developer a commercial parcel. The term of the lease is forty (40) years. The lease allowed for the deferral of a percentage of the rental payments for the first twenty years of the lease. The deferred balance at June 30, 2011 is \$535,917. If any deferred amount is still owed to the Agency at the end of year 30, the amounts will be paid in equal annual payment over the remaining ten (10) years of the lease term.

In July 1997, the Agency entered into a Disposition and Development Agreement with a developer for the construction of real property. As part of the agreement, the Agency agreed to lease to the Developer the commercial parcel. The term of the lease is forty (40) years. The lease allowed for the deferral of a percentage of the rental payments for the first twenty years of the lease. The deferred balance at June 30, 2011 is \$0. If any deferred amount is still owed to the Agency at the end of year 30, the amounts will be paid in equal payment over the remaining ten (10) years of the lease term.

NOTE 6 – CAPITAL ASSETS

Capital assets are defined by the Agency as assets with an estimated useful life in excess of one year. Infrastructure assets are capitalized if the original cost exceeds \$20,000. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these capital assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

GASB Statement No.34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	July 1, 2010 Balance	Additions	Deletions	Transfers per Cooperation Agreement	June 30, 2011 Balance
Capital assets, not being depreciated:					
Land	\$ 12,804,601	\$ 38,876	\$ (1,549,092)	\$ (4,274,197)	\$ 7,020,188
Construction in progress		122,154			122,154
Total capital assets, not being depreciated	<u>12,804,601</u>	<u>161,030</u>	<u>(1,549,092)</u>	<u>(4,274,197)</u>	<u>7,142,342</u>
Capital assets, being depreciated:					
Infrastructure	1,332,175			(432,631)	899,544
Buildings	8,615,742			(5,103,953)	3,511,789
Total capital assets, being depreciated	<u>9,947,917</u>			<u>(5,536,584)</u>	<u>4,411,333</u>
Less accumulated depreciation for:					
Infrastructure	(372,955)	(237,546)		106,821	(503,680)
Buildings	(1,454,682)	(24,120)		1,267,525	(211,277)
Total accumulated depreciation	<u>(1,827,637)</u>	<u>(261,666)</u>		<u>1,374,346</u>	<u>(714,957)</u>
Total capital assets, being depreciated, net	<u>8,120,280</u>	<u>(261,666)</u>		<u>(4,162,238)</u>	<u>3,696,376</u>
Capital assets, net	<u>\$ 20,924,881</u>	<u>\$ (100,636)</u>	<u>\$ (1,549,092)</u>	<u>\$ (8,436,435)</u>	<u>\$ 10,838,718</u>

Depreciation is charged as Community Development expense in the Statement of Activities.

NOTE 7 – DEFERRED CHARGES

Deferred charges consist of issuance costs for debt issues. The total costs deferred as a result of the issuance of various tax allocation refunding bonds were \$1,622,931. The amortization period varies from 276 to 360 months. Accumulated amortization as of June 30, 2011 was \$407,863 with amortization expense for the fiscal year of \$157,429.

NOTE 8 – DEFERRED LOSS ON REFUNDING

The Agency recorded a deferred loss on the refunding of its 2002 Series A tax allocation bonds in the amount of \$243,140. The amortization period is 352 months which is the lesser of the remaining period of the old debt or the remaining period of the new debt. Accumulated amortization as of June 30, 2011 was \$76,701, with amortization expense for the fiscal year of \$8,292. There was a deferred loss on the refunding of its 1995 bonds in the amount of \$19,101.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 – INTERFUND ACTIVITY

The following represents the interfund activity of the Agency for the fiscal year ended June 30, 2011.

A. Transfers

With Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditure on behalf of another fund or transfer funds for debt service payments. During 2010-2011 there was a transfer from the Debt Service fund to the Commercial & Industrial fund to move bond proceeds of the 2010 issue earmarked for projects.

Funds	Transfers In	Transfers Out
Major Funds:		
Commercial & Industrial Capital Projects Fund	\$ 13,653,197	\$ 125,412
Low/Moderate Income Housing Capital Projects Fund		825,193
Debt Service Fund	950,605	13,653,197
	<u>\$ 14,603,802</u>	<u>\$ 14,603,802</u>

NOTE 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the Agency for the fiscal year ended June 30, 2011:

	July 1, 2010 Balance	Additions	Reductions	June 30, 2011 Balance	Due within one year
Bonds payable:					
1995 Tax Allocation Bonds	\$ 2,895,000	\$ -	\$ (2,895,000)	\$ -	\$ -
2002 Series A Tax Allocation Bonds	12,020,000		(325,000)	11,695,000	335,000
2002 Series B Tax Allocation Bonds	1,605,000		(45,000)	1,560,000	45,000
2002 Series C Tax Allocation Bonds	4,740,000		(130,000)	4,610,000	135,000
2003 Series A Tax Allocation Bonds	11,130,000		(295,000)	10,835,000	305,000
2003 Series B Tax Allocation Bonds	5,470,000		(140,000)	5,330,000	145,000
2010 Tax Allocation Bonds		21,065,000		21,065,000	150,000
Subtotal	37,860,000	21,065,000	(3,830,000)	55,095,000	1,115,000
Less: Deferred loss on refunding	(174,731)	(19,101)	27,393	(166,439)	(8,292)
Less: bond discount	(188,871)	(170,222)	52,967	(355,308)	(16,489)
	<u>\$ 37,496,398</u>	<u>\$ 20,875,677</u>	<u>\$ (3,749,640)</u>	<u>\$ 54,573,253</u>	<u>\$ 1,090,219</u>

The Agency's Bond transactions and balances are summarized below.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

A. 1995 Tax Allocation Bonds:

In December 1995, the Agency issued \$3,900,000 of 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 semiannual debt service payments on June 1 and December 1 of each year with principal maturing annually December 1, 1996 through 2025. Debt service payments will be made from tax increment revenue received by the Agency.

In December 2010, the Agency issued \$21,065,000 of Tax Allocation Bonds which redeemed in full the remaining outstanding balance of the 1995 bonds in the amount of \$2,790,000.

B. 2002 Series A Tax Allocation Bonds:

In March 2002, the Healdsburg Financing Authority issued \$14,290,000 of 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 semiannual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2002 through 2031. Debt service payments will be made from tax increment revenue received by the Agency.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 335,000	\$ 573,638	\$ 908,638
2013	350,000	559,720	909,720
2014	365,000	544,289	909,289
2015	380,000	527,716	907,716
2016	400,000	510,356	910,356
2017-2021	2,295,000	2,231,155	4,526,155
2022-2026	2,930,000	1,577,897	4,507,897
2027-2031	3,765,000	725,829	4,490,829
2032	875,000	22,422	897,422
Totals	<u>\$ 11,695,000</u>	<u>\$ 7,273,022</u>	<u>\$ 18,968,022</u>

C. 2002 Series B Tax Allocation Bonds:

In August 2004, the Agency issued \$1,800,000 of Series B 2002 Tax Allocation Bonds. The Bonds were issued for the purpose of providing funds to 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.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

C. 2002 Series B Tax Allocation Bonds:

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 45,000	\$ 73,031	\$ 118,031
2013	45,000	70,893	115,893
2014	50,000	68,637	118,637
2015	50,000	66,263	116,263
2016	55,000	63,769	118,769
2017-2021	310,000	277,162	587,162
2022-2026	390,000	194,037	584,037
2027-2031	500,000	89,063	589,063
2032	115,000	2,731	117,731
Totals	<u>\$ 1,560,000</u>	<u>\$ 905,586</u>	<u>\$ 2,465,586</u>

D. 2002 Series C Tax Allocation Bonds:

In March 2002, the Agency issued \$5,630,000 of 2002 Series C Tax Allocation Bonds. The Bonds were issued to finance improvements in the Sotoyome Project Area. Interest on the bonds varies from 1.7% to 5.125% with semiannual debt service payments on February 1 and August 1 of each year with principal maturing annually each August 1, through 2031. Debt service payments will be made from tax increment revenue received by the Agency and allocated to the Low/Moderate Income Housing Capital Projects Fund.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 135,000	\$ 226,012	\$ 361,012
2013	140,000	220,425	360,425
2014	145,000	214,275	359,275
2015	150,000	207,712	357,712
2016	155,000	200,925	355,925
2017-2021	905,000	878,565	1,783,565
2022-2026	1,155,000	620,736	1,775,736
2027-2031	1,480,000	285,206	1,765,206
2032	345,000	8,841	353,841
Totals	<u>\$ 4,610,000</u>	<u>\$ 2,862,697</u>	<u>\$ 7,472,697</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

E. 2003 Series A Tax Allocation Bonds:

In April 2003, the Agency issued \$13,000,000 of 2003 Series A Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or for 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 semiannual debt service payments on February 1 and August 1 of each year with principal maturing annually each August 1, through 2031. Debt service payments will be made from tax increment revenue received by the Agency.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 305,000	\$ 623,022	\$ 928,022
2013	315,000	607,243	922,243
2014	325,000	590,954	915,954
2015	335,000	574,157	909,157
2016	345,000	556,852	901,852
2017-2021	1,900,000	2,473,838	4,373,838
2022-2026	2,275,000	1,859,664	4,134,664
2027-2031	4,095,000	920,094	5,015,094
2032	940,000	28,247	968,247
Totals	<u>\$10,835,000</u>	<u>\$ 8,234,071</u>	<u>\$19,069,071</u>

F. 2003 Series B Tax Allocation Bonds:

In April 2003, the Agency issued \$6,370,000 of 2003 Series B Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or for 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 semiannual debt service payments on February 1 and August 1 of each year with principal maturing annually each August 1, through 2031. Debt service payments will be made from tax increment revenue received by the Agency and allocated to the Low/Moderate Income Housing Capital Projects Fund.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

F. 2003 Series B Tax Allocation Bonds:

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 145,000	\$ 311,154	\$ 456,154
2013	155,000	302,514	457,514
2014	160,000	293,442	453,442
2015	170,000	283,938	453,938
2016	180,000	273,858	453,858
2017-2021	1,045,000	1,199,000	2,244,000
2022-2026	1,340,000	848,796	2,188,796
2027-2031	1,735,000	391,925	2,126,925
2032	400,000	12,020	412,020
Totals	<u>\$ 5,330,000</u>	<u>\$ 3,916,647</u>	<u>\$ 9,246,647</u>

G. 2010 Tax Allocation Bonds:

On December 16, 2010 the Agency issued \$21,065,000 of Tax Allocation Bonds. The bonds were issued to: 1) refund the outstanding balance of the 1995 Tax Allocation Bonds in the amount of \$2,790,000, 2) finance improvements within the Sotoyome Project Area, 3) fund a reserve account, 4) fund a capitalized interest amount, and 5) pay costs of issuance.

The issue consists of \$5.26 million in Serial bonds maturing August 1, 2011 through August 1, 2023 with interest rates ranging from 2%-4.625%. There is also \$15.805 million in term bonds maturing on August 1, 2025, 2030, and 2034 at interest rates ranging from 5.00%-5.375%.

Serial bonds maturing after August 1, 2020 are subject to optional redemption. Term bonds maturity in 2025, 2030, and 2034 are subject to mandatory redemption from sinking fund payments made.

The bonds are secured by a pledge and lien of the Agency's tax increment revenue.

The current refunding of the 1995 bonds reduced total debt service payments over the next 15 years by approximately \$285 thousand. These savings resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$13 thousand.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

G. 2010 Tax Allocation Bonds (Continued):

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year, Ended June 30,	Principal	Interest	Total
2012	\$ 150,000	\$ 1,041,750	\$ 1,191,750
2013	155,000	1,037,925	1,192,925
2014	160,000	1,033,200	1,193,200
2015	165,000	1,028,325	1,193,325
2016	165,000	1,023,375	1,188,375
2017-2021	2,330,000	4,924,720	7,254,720
2022-2026	3,785,000	4,261,305	8,046,305
2027-2031	3,770,000	3,311,243	7,081,243
2032-2035	10,385,000	1,315,395	11,700,395
Totals	<u>\$ 21,065,000</u>	<u>\$ 18,977,238</u>	<u>\$ 40,042,238</u>

NOTE 11 – CONTINGENT LIABILITIES

During fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various “budget trailer bills” were passed by the state legislature to balance the state’s budget, including bills that required California redevelopment agencies to transfer funds to the Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the SERAF legislation, together with the effect of this legislation on the Agency.

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit on behalf on all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions. Accordingly, the Agency supports the CRA’s class action lawsuit to overturn the provisions of AB 26 4x.

The Agency made its contribution of \$566,607 for the fiscal year 2010-2011.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – CONTINGENT LIABILITIES (CONTINUED)

The Agency is involved in litigation arising in the normal course of business. In the opinion of the Agency's counsel and management, this litigation will not have a material adverse effect on the financial condition on the Agency.

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

If the City, as the Agency's sponsoring community, does not elect to continue the Agency under the provisions of the Continuation Act, the Agency will be deemed dissolved effective October 1, 2011. Under the provisions of the Dissolution Act, an "Enforceable Payment Obligation Schedule" (EOPS) will be adopted by the Agency and presented to the County Auditor-Controller for certification. The last official act of the Agency will be to provide a draft "Recognized Obligation Payment Schedule" (ROPS) to a successor agency. The ROPS is subject to an independent audit and a review by an independent oversight board. Once audited and accepted by the oversight board, the County Auditor & Controller is directed to retain an amount of tax increment sufficient to meet the ongoing cost of enforceable obligations, and then distribute the remainder of revenues to the affected taxing agencies.

If the City elects to continue the Agency, the City Council must enact a non-binding resolution of its intent to continue the Agency no later than October 1, 2011, and it must also enact an ordinance agreeing to comply with the Continuation Act no later than November 1, 2011. Pursuant to the Continuation Act, the City must then make an annual payment, which may be reimbursed by the Agency. The required payment, which was calculated by the State Department of Finance and released to the City on August 1, 2011, will be \$2,431,220 for FY 2011-12. Subsequent remittance payments will be calculated using a statutory ratio that will be applied to the FY 2011-12 payment and adjusted for inflation and other items. The Agency estimates that the payment for FY 2012-13 will be \$572,052.

The City has not recorded any liability related to these Acts in these financial statements. At the close of FY 2010-11 the amount of the required payment was not yet known. The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision. If the Supreme Court upholds these Acts, the realization of any costs related to the Continuation Act is subject to an action by the City Council taken subsequent to the issuance of this report.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – CONTINGENT LIABILITIES (CONTINUED)

Should the City Council elect to discontinue the Agency, it would then be dissolved and its rights, obligations and responsibilities would be assigned to a successor agency. If the Supreme Court upholds these Acts, the City Council will consider the ordinance required for continuation of the Agency subsequent to the issuance of this report.

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Expenditures exceeded appropriations in the Debt Service Fund by \$5,866.

NOTE 13 – NET ASSETS AND FUND BALANCES

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. Fund Balances

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. The Agency does not have any committed, assigned or unassigned fund balances at June 30, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances (Continued)

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

The following are descriptions of the fund balances of the Agency at June 30, 2011,

a) Nonspendable

The Agency has classified as nonspendable that portion of fund balance in its UDAG, Debt Service, and Low/Mod Housing Special Revenue Funds that represent \$702,343 notes and loans, and prepaid items. These funds are not available for spending.

b) Restricted

The Agency's Low/Mod Housing and Housing Bond Special Revenue Funds report \$8,287,383 as restricted fund balance as the amount of available balance in this fund can only be spent for affordable housing per the California Health and Safety Code.

The Agency's Debt Service Fund reports \$8,952,917 as restricted fund balance as these are reserves required by the various debt indentures.

The Commercial & Industrial Fund reflects a restricted fund balance in the amount of \$23,245,119. This balance can be used for redevelopment purposes as specified in the Plan and California Community Redevelopment law.

The UDAG Loan Fund has restricted net assets of \$7,174,597 which can be used for purposes as specified in the Urban Development Action Grant.

NOTE 14 – SUBSEQUENT EVENTS

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 12). On August 22, 2011, the Board of Directors of the Redevelopment Agency adopted the Enforceable Obligation Payment schedule. This schedule is required by the Dissolution Act. No other actions have been taken in light of the stay orders issued by the California Supreme Court California Redevelopment Assn. v. Matosantos (S194861). If the Dissolution Act and Continuation Act are upheld, the Agency will be required to make a determination to continue or to dissolve the Agency. These actions will be taken subsequent to the issuance of this report.

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

The Agency reported a prior period adjustment in its governmental activities as a result of underreported rents/lease receivable from a disposition and development agreement. The Agency had miscalculated the deferred rents per the agreement. (See Note 5)

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16 – RELATED PARTY TRANSACTIONS

The Agency has no employees and utilizes the staff of the City of Healdsburg. Such staff personnel are members of the Public Employees' Retirement System (PERS) administered by the State of California into which the City and its employees contribute. Specific attribution of the Agency's retirement obligation is not possible. Reference is made to the notes to the basic financial statements in the Comprehensive Annual Financial Report of the City of Healdsburg for a detailed discussion of the status of the City's retirement plan and funding capabilities.

The Agency reimburses the City for overhead costs incurred.

In January 2011, the Agency and the City entered into a Cooperation Agreement whereby the City will purchase and receive certain assets, liabilities, options, rents, leases, projects, and other agreements. Under this Cooperation Agreement, the City will be able to assist the Agency in carrying out its intended purpose – revitalize and eliminate blight in certain areas within the Agency as well as provide affordable housing.

NOTE 17 – COOPERATION AGREEMENT – SPECIAL ITEM

During the fiscal year ended June 30, 2011, the Agency entered into a Cooperative Agreement with the City of Healdsburg. Per the Agreement, the Agency was to transfer certain assets, liabilities, options, rents, leases, and other agreements to the City. The City will then be able to assist the Agency in carrying out its intended purpose.

The Agency transferred various leases, easements, a disposition and development agreement, and capital assets. The total amount of assets transferred was \$8,436,435.

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REQUIRED SUPPLEMENTAL INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
UDAG LOAN SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Use of money and property	\$ 79,000	\$ 99,000	\$ 71,708	\$ (27,292)
Rental income		300,000	487,652	187,652
Total Revenues	<u>79,000</u>	<u>399,000</u>	<u>559,360</u>	<u>160,360</u>
EXPENDITURES				
Current:				
Community development	562	119,481	119,481	
Total Expenditures	<u>562</u>	<u>119,481</u>	<u>119,481</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>78,438</u>	<u>279,519</u>	<u>439,879</u>	<u>160,360</u>
OTHER FINANCING SOURCES (USES)				
Transfers out to the City of Healdsburg		(7,200,000)		7,200,000
Total Other Financing Sources (Uses)		<u>(7,200,000)</u>		<u>7,200,000</u>
NET CHANGE IN FUND BALANCE	78,438	(6,920,481)	439,879	7,360,360
FUND BALANCE, BEGINNING OF FISCAL YEAR	<u>7,427,311</u>	<u>7,427,311</u>	<u>7,427,311</u>	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ 7,505,749</u>	<u>\$ 506,830</u>	<u>\$ 7,867,190</u>	<u>\$ 7,360,360</u>

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
HOUSING BOND SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Program income	\$ -	\$ -	\$ 75,000	\$ 75,000
Use of money and property	7,000	7,000	8,980	1,980
Total Revenues	<u>7,000</u>	<u>7,000</u>	<u>83,980</u>	<u>76,980</u>
OTHER FINANCING SOURCES (USES)				
Transfers to the City of Healdsburg		(450,000)		450,000
Total Other Financing Sources (Uses)		<u>(450,000)</u>		<u>450,000</u>
NET CHANGE IN FUND BALANCE	7,000	(443,000)	83,980	526,980
FUND BALANCE, BEGINNING OF FISCAL YEAR	<u>380,807</u>	<u>380,807</u>	<u>380,807</u>	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ 387,807</u>	<u>\$ (62,193)</u>	<u>\$ 464,787</u>	<u>\$ 526,980</u>

OTHER SUPPLEMENTAL INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	\$ 7,181,697	\$ 7,225,549	\$ 43,852
Use of money and property	17,092	13,082	(4,010)
Total Revenues	<u>7,198,789</u>	<u>7,238,631</u>	<u>39,842</u>
EXPENDITURES			
Current:			
Community development	138,137	166,922	(28,785)
Pass-through agreements	3,490,648	3,416,557	74,091
Debt service:			
Bond issue costs	318,200	293,932	24,268
Principal	3,830,000	3,830,000	
Interest and fiscal charges	2,015,543	2,090,983	(75,440)
Total Expenditures	<u>9,792,528</u>	<u>9,798,394</u>	<u>(5,866)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,593,739)</u>	<u>(2,559,763)</u>	<u>33,976</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(13,653,197)	(13,653,197)	
Transfers in	950,605	950,605	
Proceeds from debt issuance		21,065,000	21,065,000
Original issue discount		(170,222)	(170,222)
Total Other Financing Sources (Uses)	<u>(12,702,592)</u>	<u>8,192,186</u>	<u>20,894,778</u>
NET CHANGE IN FUND BALANCE	(15,296,331)	5,632,423	20,928,754
FUND BALANCE, BEGINNING OF FISCAL YEAR	<u>3,325,744</u>	<u>3,325,744</u>	
FUND BALANCE, END OF FISCAL YEAR	<u>\$ (11,970,587)</u>	<u>\$ 8,958,167</u>	<u>\$ 20,928,754</u>

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMERCIAL & INDUSTRIAL CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ 10,693	\$ 128,926	\$ 118,233
Total Revenues	10,693	128,926	118,233
EXPENDITURES			
Current:			
Community development	3,467,950	2,429,562	1,038,388
Capital outlay	100,000	5,923	94,077
Total Expenditures	3,567,950	2,435,485	1,132,465
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,557,257)	(2,306,559)	1,250,698
OTHER FINANCING SOURCES (USES)			
Transfers in	13,653,197	13,653,197	
Transfers to the City of Healdsburg	(23,380,697)		23,380,697
Transfers from the City of Healdsburg		380,689	380,689
Transfers out	(125,412)	(125,412)	
Total Other Financing Sources (Uses)	(9,852,912)	13,908,474	23,761,386
NET CHANGE IN FUND BALANCE	(13,410,169)	11,601,915	25,012,084
FUND BALANCE, BEGINNING OF FISCAL YEAR	11,643,204	11,643,204	
FUND BALANCE, END OF FISCAL YEAR	\$ (1,766,965)	\$ 23,245,119	\$ 25,012,084

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOW/MODERATE INCOME HOUSING CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	\$ 1,829,770	\$ 1,806,387	\$ (23,383)
Use of money and property	11,997	46,742	34,745
Program income		175,638	175,638
Total Revenues	1,841,767	2,028,767	187,000
EXPENDITURES			
Current:			
Community development	463,839	438,860	24,979
Capital outlay	1,825,000	60,492	1,764,508
Total Expenditures	2,288,839	499,352	1,789,487
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(447,072)	1,529,415	1,976,487
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of property		1,098,730	1,098,730
Transfers to the City of Healdsburg	(2,046,252)		2,046,252
Transfers from the City of Healdsburg		33,670	33,670
Transfers out	(825,193)	(825,193)	
Total Other Financing Sources (Uses)	(2,871,445)	307,207	3,178,652
NET CHANGE IN FUND BALANCE	(3,318,517)	1,836,622	5,155,139
FUND BALANCE, BEGINNING OF FISCAL YEAR	5,990,474	5,990,474	
FUND BALANCE, END OF FISCAL YEAR	\$ 2,671,957	\$ 7,827,096	\$ 5,155,139

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG

Computation of Low and Moderate Income Housing Fund Excess/Surplus

For the Fiscal Year Ended June 30, 2011

	<u>Low and Moderate Housing Funds All Project Funds</u>
Fund balance at June 30, 2011	\$ 7,827,096
Less unavailable amounts:	
Debt proceeds on deposit	<u>(1,961,100)</u>
Available low and moderate income housing funds	5,865,996
Limitation (greater of \$1,000,000 or four years set-aside)	
Set-aside for last four years:	
2009-2010	1,849,064
2008-2009	1,796,491
2007-2008	1,721,984
2006-2007	<u>1,623,605</u>
Total set-aside	<u>6,991,144</u>
Base limitation	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 6,991,144</u>
Computed Excess/Surplus	<u>NONE</u>



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

Board of Directors
Redevelopment Agency of the City of Healdsburg
Healdsburg, California

We have audited the financial statements of the governmental activities, each major fund, and the fiduciary fund of the Redevelopment Agency of the City of Healdsburg (Agency), a component unit of the City of Healdsburg, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Agency's Board of Directors, management, the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 6, 2011



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE

Members of the Governing Board
Redevelopment Agency of the City of Healdsburg
Healdsburg, California

Compliance

We have audited the Redevelopment Agency of the City of Healdsburg (Agency)'s compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the Agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on State laws and regulations occurred. An audit includes examining, on a test basis, evidence about Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Agency's compliance with those requirements.

In our opinion, the Redevelopment Agency of the City of Healdsburg complied, in all material respects, with the compliance requirements referred to above that are applicable to the compliance requirements for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Agency's Board of Directors, management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 6, 2011