

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**Financial Statements**  
**June 30, 2010**

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# MOSS, LEVY & HARTZHEIM LLP

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CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS:**

RONALD A. LEVY, C.P.A.  
CRAIG A. HARTZHEIM, C.P.A.  
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE 400  
BEVERLY HILLS, CA 90210  
PHONE: (310) 273-2745  
FAX: (310) 273-1689  
EMAIL: mlhbh@mlhcpas.com

## 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, 2010 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, 2010 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 Government Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies Contained in the AICPA Statements on Auditing Standards*, effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, 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 budgetary comparison information on page 37 and 38 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 basic financial statements. The budgetary comparison schedules for the Debt Service Fund, Commercial & Industrial Capital Projects Fund and Low/Moderate Income Housing Capital Projects Fund are presented for purposes of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules for the Capital Projects Funds and the Debt Service Fund 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.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California  
December 15, 2010

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 15,393,765
Restricted cash and investments with fiscal agent	10,040,753
Accounts receivable	447,224
Taxes receivable	107,458
Interest receivable	54,321
Notes and loans receivable	7,826,542
Prepaid assets	3,092
Due from the City of Healdsburg	2,408,788
Deferred charges - net of accumulated amortization	1,253,296
Capital assets - not being depreciated	12,804,601
Capital assets - net of accumulated depreciation	<u>8,120,280</u>
Total Assets	<u>58,460,120</u>

LIABILITIES	
Accounts payable and accrued liabilities	22,863
Interest payable	846,711
Long-term debt:	
Due in one year	1,040,000
Due in more than one year	<u>36,581,947</u>
Total Liabilities	<u>38,491,521</u>

NET ASSETS	
Restricted for:	
Debt Service	2,479,033
Projects	5,355,085
Housing	12,059,216
Unrestricted	<u>75,265</u>
Total Net Assets	<u>\$ 19,968,599</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, 2010

		Program Revenue			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets
Governmental Activities					
Expenses:					
Community development	\$ (2,227,791)	\$ 386,364	\$ -	\$ -	\$ (1,841,427)
Pass-through payments	(5,686,681)				(5,686,681)
Interest and trustee fees on long-term debt	(2,169,719)				(2,169,719)
Total Expenditures	\$ (10,084,191)	\$ 386,364	\$ -	\$ -	(9,697,827)
General Revenues:					
Taxes:					
Incremental property taxes					9,245,320
Use of money and property					547,673
Other revenues					25,387
Transfers to the City of Healdsburg					(903,819)
Total General Revenues and Transfers					8,914,561
Change in Net Assets					(783,266)
Net Assets - Beginning of Fiscal Year					15,580,606
Prior period adjustments					5,171,259
Net Assets - Beginning of Fiscal Year, restated					20,751,865
Net Assets - End of Fiscal Year					\$ 19,968,599

See accompanying notes to basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	Special Revenue Funds	
	UDAG Loan	Housing Bond
<b>ASSETS</b>		
Cash and investments	\$ 6,643,872	\$ 380,807
Restricted cash and investments with fiscal agent		
Accounts receivable	58,757	
Taxes receivable		
Notes and loans receivable	918,450	839,350
Interest receivable	1,213	
Prepaid items		
Due from the City of Healdsburg		
	<u>7,622,292</u>	<u>1,220,157</u>
Total Assets	<u>\$ 7,622,292</u>	<u>\$ 1,220,157</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ -	\$ -
Due to the City of Healdsburg		
Deferred revenue	194,981	839,350
	<u>194,981</u>	<u>839,350</u>
Total Liabilities	<u>194,981</u>	<u>839,350</u>
<b>FUND BALANCES</b>		
Reserved for:		
Prepaid items		
Noncurrent notes receivable	723,469	
Low and moderate income housing		
Unreserved, undesignated	6,703,842	380,807
	<u>7,427,311</u>	<u>380,807</u>
Total Fund Balances	<u>7,427,311</u>	<u>380,807</u>
Total Liabilities and Fund Balances	<u>\$ 7,622,292</u>	<u>\$ 1,220,157</u>

See accompanying notes to basic financial statements

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ 225,896	\$ 4,189,455	\$ 3,953,735	\$ 15,393,765
3,096,756	4,966,618	1,977,379	10,040,753
	388,467		447,224
	72,198	35,260	107,458
		6,068,742	7,826,542
	26,554	26,554	54,321
3,092			3,092
	3,466,788		3,466,788
<u>\$ 3,325,744</u>	<u>\$ 13,110,080</u>	<u>\$ 12,061,670</u>	<u>\$ 37,339,943</u>
\$ -	\$ 20,409	\$ 2,454	\$ 22,863
	1,058,000		1,058,000
	388,467	6,068,742	7,491,540
	1,466,876	6,071,196	8,572,403
3,092			3,092
			723,469
		5,990,474	5,990,474
<u>3,322,652</u>	<u>11,643,204</u>	<u>5,990,474</u>	<u>22,050,505</u>
<u>3,325,744</u>	<u>11,643,204</u>	<u>5,990,474</u>	<u>28,767,540</u>
<u>\$ 3,325,744</u>	<u>\$ 13,110,080</u>	<u>\$ 12,061,670</u>	<u>\$ 37,339,943</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, 2010

Fund Balances - Governmental Funds \$ 28,767,540

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. 20,924,881

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	7,103,073
Rent receivable - deferred revenue	388,467
Prepaid items - deferred charges	1,253,296
Long-term debt	(37,621,947)
Accrued interest on bonds payable	(846,711)
	(846,711)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 19,968,599

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, 2010

	Special Revenue Funds	
	UDAG Loan	Housing Bond
REVENUES		
Property tax increment	\$ -	\$ -
Use of money and property	103,698	7,262
Rental income	386,363	
Program income		
Other revenues		
Total Revenues	<u>490,061</u>	<u>7,262</u>
EXPENDITURES		
Current:		
Community development	15,958	150,000
Pass-through agreements		
Capital outlay		
Debt service:		
Principal		
Interest and fiscal charges		
Total Expenditures	<u>15,958</u>	<u>150,000</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>474,103</u>	<u>(142,738)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of property		
Transfers to the City of Healdsburg		
Transfers in		
Transfers out		
Total Other Financing Sources (Uses)	<u>                    </u>	<u>                    </u>
NET CHANGE IN FUND BALANCES	474,103	(142,738)
FUND BALANCES, BEGINNING OF FISCAL YEAR	<u>6,953,208</u>	<u>523,545</u>
FUND BALANCES, END OF FISCAL YEAR	<u>\$ 7,427,311</u>	<u>\$ 380,807</u>

See accompanying notes to basic financial statements

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ -	\$ 7,396,256	\$ 1,849,064	\$ 9,245,320
2,930	70,475	51,349	235,714
	1		386,364
	75,000	65,511	140,511
		25,387	25,387
<u>2,930</u>	<u>7,541,732</u>	<u>1,991,311</u>	<u>10,033,296</u>
	1,768,725	501,890	2,436,573
	5,686,681		5,686,681
	80,000	549,000	629,000
1,000,000			1,000,000
2,056,457			2,056,457
<u>3,056,457</u>	<u>7,535,406</u>	<u>1,050,890</u>	<u>11,808,711</u>
<u>(3,053,527)</u>	<u>6,326</u>	<u>940,421</u>	<u>(1,775,415)</u>
		247,088	247,088
	(627,741)	(276,078)	(903,819)
2,969,301			2,969,301
	(2,147,941)	(821,360)	(2,969,301)
<u>2,969,301</u>	<u>(2,775,682)</u>	<u>(850,350)</u>	<u>(656,731)</u>
(84,226)	(2,769,356)	90,071	(2,432,146)
<u>3,409,970</u>	<u>14,412,560</u>	<u>5,900,403</u>	<u>31,199,686</u>
<u>\$ 3,325,744</u>	<u>\$ 11,643,204</u>	<u>\$ 5,990,474</u>	<u>\$ 28,767,540</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, 2010

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	\$	(2,432,146)
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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		602,190
Depreciation expense not reported in governmental funds		(270,507)

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		1,000,000

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		(73,284)
Interest payable		(39,978)

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		118,500
Interest receivable		311,959
		311,959

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	(783,266)
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**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2010**

	Healdsburg Downtown Business District Private-Purpose Trust Fund <hr/>
<b>ASSETS</b>	
Cash and investments	\$ 94,114
Total Assets	<hr/> 94,114 <hr/>
<b>LIABILITIES</b>	
Accounts payable	2,882
Total Liabilities	<hr/> 2,882 <hr/>
<b>NET ASSETS</b>	<hr/> <b>\$ 91,232</b> <hr/>

See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Healdsburg Downtown Business District Private-Purpose Trust Fund <hr/>
ADDITIONS	
Contributions	\$ 59,000
Interest income	243
Fees and charges	<hr/> 52,744
TOTAL ADDITIONS	<hr/> 111,987
DEDUCTIONS	
Community development	<hr/> 56,880
TOTAL DEDUCTIONS	<hr/> 56,880
CHANGE IN NET ASSETS	55,107
NET ASSET AT BEGINNING OF YEAR	<hr/> 36,125
NET ASSET AT END OF YEAR	<hr/> <hr/> \$ 91,232

See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010**

**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 expandable 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, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

*GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets*

This Statement is effective for periods beginning after June 15, 2009. The Statement addresses accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. Implementation of GASB Statement No. 51 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

*GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments*

This Statement is effective for periods beginning after June 15, 2009. The Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local government. Implementation of GASB Statement No. 53 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

*GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

*GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies*

This Statement is effective for periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Implementation of GASB Statement No. 58 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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	\$ 12,804,601
Depreciable infrastructure, net of accumulated depreciation	959,222
Depreciable buildings, net of accumulated depreciation	7,161,058
	\$ 20,924,881

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 \$454,510	\$ 1,078,565
Deferred loss on refunding, net of accumulated amortization of \$68,409	\$ 174,731

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	\$ 7,103,073
Rent receivable - deferred revenue	\$ 388,467

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	\$ 37,860,000
Bond discount	(238,053)
Accrued interest payable	846,711
	\$ 38,468,658

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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.**

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:

Capital outlay capitalized for fiscal year	\$	602,190
Current fiscal year depreciation		(270,507)
		331,683
	\$	331,683

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:

Debt principal repayments	\$	1,000,000
Amortization of deferred loss on refunding		(8,292)
Amortization of deferred charges		(52,992)
Amortization of bond discount		(12,000)
Change in accrued interest payable		(39,978)
		886,738
Total long-term debt adjustment	\$	886,738

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$15,393,765
Restricted cash and investments with fiscal agent	10,040,753
Statement of fiduciary fund net assets:	
Cash and investments	<u>94,114</u>
Total cash and investments	<u>\$25,528,632</u>

Cash and investments as of June 30, 2010 consist of the following:

Pooled with the City of Healdsburg	\$13,138,950
Investments	<u>12,389,682</u>
Total cash and investments	<u>\$25,528,632</u>

**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

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**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.

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
State Investment Pool	\$ 2,348,929	\$ 2,348,929	\$ -	\$ -	\$ -	\$ -
Held by Bond Trustees:						
Money Market Funds	10,040,753	10,040,753				
Totals	<u>\$ 12,389,682</u>	<u>\$ 12,389,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**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.

**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
State Investment Pool	\$ 2,348,929	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,348,929
Held by Bond Trustee: Money Market Funds	<u>10,040,753</u>	N/A		<u>10,040,753</u>			
Totals	<u>\$ 12,389,682</u>		<u>\$ -</u>	<u>\$10,040,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,348,929</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

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk (Continued)**

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.

As of June 30, 2010, 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:	
Wells Fargo Treasury Plus Money Market	\$ 3,096,756
Fidelity Institutional Money Market	6,943,997
	<u>\$ 10,040,753</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 \$7,826,542 at June 30, 2010 consisted of the following:

Housing Loans - Individuals	\$ 2,082,609
Housing Loan - Habitat for Humanity	449,000
Housing Loan - Eden Housing	3,537,133
Housing Loan - Burbank Housing	2,790,621
RDA - UDAG Loan	723,469
RDA - First Time Home Buyer Loans	839,350
RDA - Sprinkler Retrofit Loans	194,981
Subtotal	<u>10,617,163</u>
Less:	
Allowance for uncollectible loan	<u>2,790,621</u>
Total	<u>\$ 7,826,542</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 5 – 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.

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	July 1, 2009 Balance	Additions	Deletions	Reclassification	June 30, 2010 Balance
Capital assets, not being depreciated:					
Land	\$ 12,804,601	\$ -	\$ -	\$ -	\$ 12,804,601
Construction in progress	697,646			(697,646)	
Total capital assets, not being depreciated	<u>13,502,247</u>			<u>(697,646)</u>	<u>12,804,601</u>
Capital assets, being depreciated:					
Infrastructure	1,332,175				1,332,175
Buildings	7,315,906	602,190		697,646	8,615,742
Total capital assets, being depreciated	<u>8,648,081</u>	<u>602,190</u>		<u>697,646</u>	<u>9,947,917</u>
Less accumulated depreciation for:					
Infrastructure	(346,311)	(26,644)			(372,955)
Buildings	(1,210,819)	(243,863)			(1,454,682)
Total accumulated depreciation	<u>(1,557,130)</u>	<u>(270,507)</u>			<u>(1,827,637)</u>
Total capital assets, being depreciated, net	<u>7,090,951</u>	<u>331,683</u>		<u>697,646</u>	<u>8,120,280</u>
Capital assets, net	<u>\$ 20,593,198</u>	<u>\$ 331,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,924,881</u>

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

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2010**

**NOTE 6 – 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 \$1,533,075. The amortization period varies from 339 to 360 months. Accumulated amortization as of June 30, 2010 was \$454,510 with amortization expense for the fiscal year of \$52,992.

**NOTE 7 – 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, 2010 was \$68,409, with amortization expense for the fiscal year of \$8,292.

**NOTE 8 – INTERFUND ACTIVITY**

The following represents the interfund activity of the Agency for the fiscal year ended June 30, 2010.

**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.

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
Commercial & Industrial Capital Projects Fund	\$ -	\$ 2,147,941
Low/Moderate Income Housing Capital Projects Fund		821,360
Debt Service Fund	<u>2,969,301</u>	
	<u>\$ 2,969,301</u>	<u>\$ 2,969,301</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 9 – LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions of the Agency for the fiscal year ended June 30, 2010:

	July 1, 2009			Prior Period	June 30, 2010	Due within
	Balance	Additions	Reductions	Adjustment	Balance	one year
Bonds payable:						
1995 Tax Allocation Bonds	\$ 2,995,000	\$ -	\$ (100,000)	\$ -	\$ 2,895,000	\$ 105,000
2002 Series A Tax Allocation Bonds	12,335,000		(315,000)		12,020,000	325,000
2002 Series B Tax Allocation Bonds	1,645,000		(40,000)		1,605,000	45,000
2002 Series C Tax Allocation Bonds	4,865,000		(125,000)		4,740,000	130,000
2003 Series A Tax Allocation Bonds	11,415,000		(285,000)		11,130,000	295,000
2003 Series B Tax Allocation Bonds	5,605,000		(135,000)		5,470,000	140,000
Subtotal	38,860,000		(1,000,000)		37,860,000	1,040,000
Less: bond discount	(188,871)		12,000	(61,182)	(238,053)	(12,000)
	<u>\$ 38,671,129</u>	<u>\$ -</u>	<u>\$ (988,000)</u>	<u>\$ (61,182)</u>	<u>\$ 37,621,947</u>	<u>\$ 1,028,000</u>

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

**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.

The scheduled annual minimum debt service requirements at June 30, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 105,000	\$ 148,980	\$ 253,980
2012	115,000	143,369	258,369
2013	120,000	137,288	257,288
2014	130,000	130,725	260,725
2015	140,000	123,637	263,637
2016-2020	840,000	495,600	1,335,600
2021-2025	1,165,000	234,543	1,399,543
2026	280,000	7,350	287,350
Totals	<u>\$ 2,895,000</u>	<u>\$ 1,421,492</u>	<u>\$ 4,316,492</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 9 – LONG-TERM OBLIGATIONS (Continued)**

**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, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 325,000	\$ 586,676	\$ 911,676
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
2016-2020	2,190,000	2,342,281	4,532,281
2021-2025	2,790,000	1,722,800	4,512,800
2026-2030	3,580,000	914,043	4,494,043
2031-2032	<u>1,705,000</u>	<u>88,536</u>	<u>1,793,536</u>
Totals	<u>\$ 12,020,000</u>	<u>\$ 7,859,699</u>	<u>\$ 19,879,699</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, 2010**

**NOTE 9 – LONG-TERM OBLIGATIONS (Continued)**

**C. 2002 Series B Tax Allocation Bonds:**

The scheduled annual minimum debt service requirements at June 30, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 45,000	\$ 75,169	\$ 120,169
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
2016-2020	295,000	291,531	586,531
2021-2025	375,000	212,206	587,206
2026-2030	475,000	112,219	587,219
2031-2032	225,000	10,806	235,806
Totals	<u>\$ 1,605,000</u>	<u>\$ 980,755</u>	<u>\$ 2,585,755</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, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 130,000	\$ 231,247	\$ 361,247
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
2016-2020	860,000	922,300	1,782,300
2021-2025	1,100,000	677,858	1,777,858
2026-2030	1,410,000	359,262	1,769,262
2031-2032	670,000	34,851	704,851
Totals	<u>\$ 4,740,000</u>	<u>\$ 3,093,942</u>	<u>\$ 7,833,942</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 9 – 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, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 295,000	\$ 637,347	\$ 932,347
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
2016-2020	1,840,000	2,580,801	4,420,801
2021-2025	2,190,000	1,992,720	4,182,720
2026-2030	3,690,000	1,153,538	4,843,538
2031-2032	1,835,000	111,636	1,946,636
Totals	<u>\$ 11,130,000</u>	<u>\$ 8,871,418</u>	<u>\$ 20,001,418</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, 2010**

**NOTE 9 – LONG-TERM OBLIGATIONS (Continued)**

**F. 2003 Series B Tax Allocation Bonds:**

The scheduled annual minimum debt service requirements at June 30, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 140,000	\$ 318,445	\$ 458,445
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
2016-2020	995,000	1,257,982	2,252,982
2021-2025	1,275,000	926,723	2,201,723
2026-2030	1,645,000	493,265	2,138,265
2031-2032	785,000	47,629	832,629
Totals	<u>\$ 5,470,000</u>	<u>\$ 4,235,092</u>	<u>\$ 9,705,092</u>

**NOTE 10 – CONTINGENT LIABILITY**

**SERAF Contingency:**

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.

SERAF Contributions for the Fiscal year 2010-2011

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.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 10 – CONTINGENT LIABILITY (CONTINUED)**

**SERAF Contingency (Continued):**

The Agency's estimated SERAF contribution for Fiscal 2010-2011 is \$566,100. However, 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.

If the class action lawsuit is unsuccessful, and if the Agency is required to make these SERAF contributions, Agency officials have estimated that the Agency will have sufficient funds to make the required contributions, as follows:

Fiscal year 2010-2011

\$556,100 of tax increment funds currently held in the Capital Projects and Debt Service Funds will be sufficient for the Agency to make its estimated contributions of \$566,100 for the fiscal year 2010-2011.

**NOTE 11 – SUBSEQUENT EVENTS**

**Low/Moderate Income Housing Loan**

The Agency provides down payment assistance through loans of amounts not to exceed \$75,000 to Low/Moderate Income Housing Families. One of the homes has been taken over by the bank trustee and likely will be foreclosed on or sold at auction in the fiscal year 2010-2011. The Agency may not receive any repayment on its trust deed from the sale proceeds.

**NOTE 12 – RELATED PARTY TRANSACTION**

**Loan Receivable – Loan Forgiven**

The Agency had issued a housing loan in 2004 as a second trust deed for the purchase of a property. Subsequently the debtor's parent became a Council Member (Board Member). The property was sold to the Agency in 2009-2010 and the equity of the house was insufficient to pay off the housing loan in full, and the remaining balance of the loan was forgiven by the Agency. The amount of the loan forgiven is calculated to be approximately \$40,000.

**REDEVELOPMENT AGENCY OF THE CITY OF HEALDSBURG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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 consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which is legally segregated for low and moderate income housing projects as required by the California Health and Safety Code or debt service expenditures as required under bond indenture.

**NOTE 14 – PRIOR PERIOD ADJUSTMENTS**

Government –Wide financial statements

A prior period adjustment of \$1,050,678 was recorded due to the understatement of deferred charges, deferred loss on refunding and, bond discounts related to the issuance of various tax allocation bonds.

A prior period adjustment of \$4,120,581 was recorded due to the understatement of rents receivable of \$388,467, loans and related interest receivables of \$3,537,133 related to Eden Housing and \$194,981 of Sprinkler Retrofit Loans, that were not recorded in prior years.

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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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Use of money and property	\$ 130,000	\$ 130,000	\$ 103,698	\$ (26,302)
Rental income	340,000	340,000	386,363	46,363
Total Revenues	<u>470,000</u>	<u>470,000</u>	<u>490,061</u>	<u>20,061</u>
<b>EXPENDITURES</b>				
Current:				
Community development	<u>63,443</u>	<u>63,443</u>	<u>15,958</u>	<u>47,485</u>
Total Expenditures	<u>63,443</u>	<u>63,443</u>	<u>15,958</u>	<u>47,485</u>
NET CHANGE IN FUND BALANCE	406,557	406,557	474,103	67,546
FUND BALANCE, BEGINNING OF FISCAL YEAR	<u>6,953,208</u>	<u>6,953,208</u>	<u>6,953,208</u>	
FUND BALANCE, END OF FISCAL YEAR	<u><u>\$ 7,359,765</u></u>	<u><u>\$ 7,359,765</u></u>	<u><u>\$ 7,427,311</u></u>	<u><u>\$ 67,546</u></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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Use of money and property	\$ 5,000	\$ 5,000	\$ 7,262	\$ 2,262
Total Revenues	5,000	5,000	7,262	2,262
EXPENDITURES				
Current:				
Community development			150,000	(150,000)
Total Expenditures			150,000	(150,000)
NET CHANGE IN FUND BALANCE	5,000	5,000	(142,738)	(147,738)
FUND BALANCE, BEGINNING OF FISCAL YEAR	523,545	523,545	523,545	
FUND BALANCE, END OF FISCAL YEAR	\$ 528,545	\$ 528,545	\$ 380,807	\$ (147,738)

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, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Use of money and property	\$ 10,000	\$ 2,930	\$ (7,070)
Total Revenues	<u>10,000</u>	<u>2,930</u>	<u>(7,070)</u>
<b>EXPENDITURES</b>			
Debt service:			
Principal	1,000,000	1,000,000	
Interest and fiscal charges	<u>2,043,364</u>	<u>2,056,457</u>	<u>(13,093)</u>
Total Expenditures	<u>3,043,364</u>	<u>3,056,457</u>	<u>(13,093)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,033,364)</u>	<u>(3,053,527)</u>	<u>(20,163)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>3,040,864</u>	<u>2,969,301</u>	<u>(71,563)</u>
Total Other Financing Sources (Uses)	<u>3,040,864</u>	<u>2,969,301</u>	<u>(71,563)</u>
<b>NET CHANGE IN FUND BALANCE</b>	7,500	(84,226)	(91,726)
<b>FUND BALANCE, BEGINNING OF FISCAL YEAR</b>	<u>3,409,970</u>	<u>3,409,970</u>	
<b>FUND BALANCE, END OF FISCAL YEAR</b>	<u>\$ 3,417,470</u>	<u>\$ 3,325,744</u>	<u>\$ (91,726)</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, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax increment	\$ 7,301,255	\$ 7,396,256	\$ 95,001
Use of money and property	185,000	70,475	(114,525)
Rental income		1	1
Program income		75,000	75,000
<b>Total Revenues</b>	<b>7,486,255</b>	<b>7,541,732</b>	<b>55,477</b>
<b>EXPENDITURES</b>			
Current:			
Community development	2,707,033	1,768,725	938,308
Pass-through agreements	5,676,054	5,686,681	(10,627)
Capital outlay		80,000	(80,000)
<b>Total Expenditures</b>	<b>8,383,087</b>	<b>7,535,406</b>	<b>847,681</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(896,832)</b>	<b>6,326</b>	<b>903,158</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to the City of Healdsburg	(3,570,849)	(627,741)	2,943,108
Transfers out	(2,220,304)	(2,147,941)	72,363
<b>Total Other Financing Sources (Uses)</b>	<b>(5,791,153)</b>	<b>(2,775,682)</b>	<b>3,015,471</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(6,687,985)</b>	<b>(2,769,356)</b>	<b>3,918,629</b>
<b>FUND BALANCE, BEGINNING OF FISCAL YEAR</b>	<b>14,412,560</b>	<b>14,412,560</b>	
<b>FUND BALANCE, END OF FISCAL YEAR</b>	<b>\$ 7,724,575</b>	<b>\$ 11,643,204</b>	<b>\$ 3,918,629</b>

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, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Property tax increment	\$ 1,825,314	\$ 1,849,064	\$ 23,750
Use of money and property	55,000	51,349	(3,651)
Program income		65,511	65,511
Other revenue		25,387	25,387
<b>Total Revenues</b>	<b>1,880,314</b>	<b>1,991,311</b>	<b>110,997</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Community development	640,940	501,890	139,050
Capital outlay		549,000	(549,000)
<b>Total Expenditures</b>	<b>640,940</b>	<b>1,050,890</b>	<b>(409,950)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,239,374</b>	<b>940,421</b>	<b>(298,953)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of property		247,088	247,088
Transfers to the City of Healdsburg	(2,520,183)	(276,078)	2,244,105
Transfers out	(820,560)	(821,360)	(800)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,340,743)</b>	<b>(850,350)</b>	<b>2,490,393</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2,101,369)</b>	<b>90,071</b>	<b>2,191,440</b>
<b>FUND BALANCE, BEGINNING OF FISCAL YEAR</b>	<b>5,900,403</b>	<b>5,900,403</b>	
<b>FUND BALANCE, END OF FISCAL YEAR</b>	<b>\$ 3,799,034</b>	<b>\$ 5,990,474</b>	<b>\$ 2,191,440</b>



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# MOSS, LEVY & HARTZHEIM LLP

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CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:  
RONALD A. LEVY, C.P.A.  
CRAIG A. HARTZHEIM, C.P.A.  
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE 400  
BEVERLY HILLS, CA 90210  
PHONE: (310) 273-2745  
FAX: (310) 273-1689  
EMAIL: mlhbh@mlhpcas.com

**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, 2010, and have issued our report thereon, dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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*.

We noted certain other matters that we reported to management of the City of Healdsburg in a separate letter dated December 15, 2010.

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, LLP  
Beverly Hills, California  
December 15, 2010