

**HEALDSBURG REDEVELOPMENT AGENCY**

**COMPONENT UNIT FINANCIAL  
STATEMENTS**

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

**JUNE 30, 2009**



# HEALDSBURG REDEVELOPMENT AGENCY

## TABLE OF CONTENTS

June 30, 2009

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 8
Basic Financial Statements:	9
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12 - 13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16 - 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Fiduciary Net Assets	19
Statement of Changes in Fiduciary Net Assets	20
Notes to Basic Financial Statements	21 - 40

HEALDSBURG REDEVELOPMENT AGENCY

TABLE OF CONTENTS  
(CONTINUED)

June 30, 2009

	<u>Page Number</u>
Required Supplementary Information:	41
Budgetary Comparison Schedule: UDAG Loan Special Revenue Fund	43
Note to Required Supplementary Information	44
Supplementary Information:	45
Computation of Low/Moderate Income Housing Fund - Excess Surplus	46
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	47 - 48



**DIEHL, EVANS & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

5 CORPORATE PARK, SUITE 100  
IRVINE, CALIFORNIA 92606-5165  
(949) 399-0600 • FAX (949) 399-0610  
[www.diehlevents.com](http://www.diehlevents.com)

MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA  
\*PHILIP H. HOLTkamp, CPA  
\*THOMAS M. PERLOWSKI, CPA  
\*HARVEY J. SCHROEDER, CPA  
KENNETH R. AMES, CPA  
WILLIAM C. PENTZ, CPA

\*A PROFESSIONAL CORPORATION

November 16, 2009

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Healdsburg Redevelopment Agency  
Healdsburg, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Healdsburg Redevelopment Agency (the Agency), a component unit of the City of Healdsburg, California, as of and for the year ended June 30, 2009, 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2009, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The computation of the excess surplus of the Low/Moderate Income Housing Fund is presented for additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Diery, Evans and Company, LLP*

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2009

As management of the Redevelopment Agency of the City of Healdsburg, (the Agency), we offer readers of the Agency's financial statements this narrative overview of the financial activities of the Agency as of and for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information, which can be found in the financial statements, which follow this discussion.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Redevelopment Agency's basic financial statements. The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in the net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., investment income that was earned but not received).

The government-wide financial statements present information about the functions of the Redevelopment Agency that is principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Agency include the administration of the Agency and its housing and community development projects.

The Agency is considered a blended component unit, which means it is a separate legal entity, but its financial activity is additionally reported in the government-wide financial statements of its primary government, the City of Healdsburg.

The government-wide financial statements can be found immediately following this discussion and analysis.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

For the year ended June 30, 2009

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

Fund financial statements – A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, as other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

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

Because of the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains five individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the Redevelopment Agency's UDAG Loan and Housing Bond Special Revenue Funds, the Debt Service Fund, and the Commercial & Industrial and Low/Moderate Income Housing Capital Projects Funds, all of which are considered to be major funds.

The Agency adopts an annual appropriated budget for its major funds. The basic financial statements include a budgetary comparison statement for each major fund to demonstrate compliance with the annual budget. The budgetary comparison statement is provided in the required supplementary section of this report.

The basic governmental fund financial statements can be found immediately following the government-wide financial statements.

Notes to the basic financial statements – The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the basic fund financial statements.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

For the year ended June 30, 2009

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

The largest portion of the Agency's net assets reflects its investments in capital assets (e.g., land, buildings, improvements other than buildings, and infrastructure), less any related outstanding debt used to acquire those assets. The Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**NET ASSETS**  
JUNE 30, 2009 and 2008

	2009	2008
Current and other assets	\$ 35,547,640	\$ 38,313,744
Capital assets	20,593,198	20,262,247
Total Assets	56,140,838	58,575,991
Current and other liabilities	1,889,103	1,917,557
Long-term liabilities	38,671,129	39,632,608
Total Liabilities	40,560,232	41,550,165
Net Assets:		
Restricted	15,580,606	17,025,826
Total Net Assets	\$ 15,580,606	\$ 17,025,826

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

For the year ended June 30, 2009

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**CHANGE IN NET ASSETS  
JUNE 30, 2009 and 2008**

	2009	2008
Revenues:		
Program Revenues:		
Charges for services	\$ 402,361	\$ 426,515
General		
Property taxes	8,982,454	8,609,919
Investment earnings	692,177	1,267,831
Other revenue	92,558	2,034,118
Total Revenues	10,169,550	12,338,383
Expenses:		
General government	211,217	246,628
Community development	9,308,188	9,780,498
Interest on long-term liabilities	2,095,365	2,127,512
Total Expenses	11,614,770	12,154,638
Change in Net Assets	\$ (1,445,220)	\$ 183,745

The following items impacted the Agency-wide revenues for the fiscal year ended June 30, 2009:

- Incremental tax revenues were up slightly (4%) from the previous fiscal year. This increase is similar to prior years.
- Investment earnings were down (45%) from the previous fiscal year. The downturn in the economy has largely affected the financial markets.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

For the year ended June 30, 2009

**GOVERNMENTAL FUND FINANCIAL ANALYSIS**

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Agency's financial requirements.

The Redevelopment Agency Housing Set-Aside Special Revenue Fund is also known as the "Low/Moderate Income Housing Capital Projects Fund". By statute, twenty percent of the gross tax increment revenues that come to the Redevelopment Agency are to be used to increase and maintain the supply of low and moderate-income housing. This fund accounts for the receipt and use of these restricted revenues. During the fiscal year, revenues were derived from tax increment and use of money and property. Expenditures were primarily for Affordable Housing/Improvement Programs.

The Redevelopment Agency Debt Service Fund is used to accumulate resources for the payment of principal and interest on debt of the Agency. During the fiscal year, interest expenditures amounted to \$2,100,935.

The Redevelopment Agency Commercial & Industrial Capital Projects Fund is used to account for the Agency's general administration and operating costs as well as the Agency's capital improvement projects, except for those accounted for in the Agency's Housing fund.

**BUDGETARY HIGHLIGHTS**

During the year, with the recommendation from the Agency's staff, the Agency's Board revised the Agency budget several times. Adjustments were made on a routine basis as the Agency's staff requested additional appropriations to cover the cost of projects that either had change orders for additional work, or the estimated cost at the beginning of the project was under-estimated. At mid-year adjustments were made as department heads requested increases or decreases to their budgets to maintain their current level of services. At year-end, budgets were adjusted for unanticipated expenditures. The Agency's Board approves all amendments that either increase or decrease appropriations.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital assets – The Agency's investment in capital assets for its governmental activities, as of June 30, 2009, amounted to \$20,593,198, net of accumulated depreciation. The investment in capital assets includes land, buildings, improvements and infrastructure.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

For the year ended June 30, 2009

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

Long-term liabilities – The Agency's governmental activities had \$38,860,000 in tax allocation bonds outstanding at June 30, 2009. In fiscal year 2009, the Agency's outstanding long-term liabilities decreased by \$970,000 as a result of the normal maturity of existing debt.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City of Healdsburg, 401 Grove Street, Healdsburg, CA 95448-4723.

See independent auditors' report.

## **BASIC FINANCIAL STATEMENTS**

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2009

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments (Note 2)	\$ 13,389,083
Receivables:	
Taxes, including interest, penalties and liens	43,160
Notes	3,790,459
Accounts	48,192
Interest	53,977
Due from the City of Healdsburg	3,193,000
Deferred charges	325,084
Restricted assets:	
Restricted cash and investments (Note 2)	14,704,685
Capital assets, not depreciated (Note 4)	13,502,247
Capital assets, depreciated (Note 4)	<u>7,090,951</u>
 TOTAL ASSETS	 <u>56,140,838</u>
LIABILITIES:	
Accounts payable and accrued liabilities	831,103
Due to the City of Healdsburg	1,058,000
Long-term liabilities:	
Due within one year (Note 6)	1,000,000
Due in more than one year (Note 6)	<u>37,671,129</u>
 TOTAL LIABILITIES	 <u>40,560,232</u>
NET ASSETS:	
Restricted - Debt service	3,409,970
Restricted - Community development	<u>12,170,636</u>
 TOTAL NET ASSETS	 <u>\$ 15,580,606</u>

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

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>PRIMARY GOVERNMENT:</b>					
Governmental activities:					
General government	\$ 211,217	\$ -	\$ -	\$ -	\$ (211,217)
Community development	9,308,188	402,361	-	-	(8,905,827)
Interest expense	2,095,365	-	-	-	(2,095,365)
 Total governmental activities	 <u>\$ 11,614,770</u>	 <u>\$ 402,361</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>(11,212,409)</u>
 <b>GENERAL REVENUES:</b>					
Taxes:					
Tax increment					8,982,454
Investment earnings					692,177
Other revenues					<u>92,558</u>
 Total general revenues					<u>9,767,189</u>
 CHANGE IN NET ASSETS					(1,445,220)
 NET ASSETS AT BEGINNING OF YEAR					<u>17,025,826</u>
 NET ASSETS AT END OF YEAR					<u>\$ 15,580,606</u>

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

HEALDSBURG REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

		Special Revenue Funds	
		UDAG Loan	Housing Bond
ASSETS			
Cash and investments		\$ 6,033,744	\$ 522,459
Receivables:			
Taxes		-	-
Notes		849,959	675,000
Accounts		48,192	-
Interest		21,313	1,086
Due from the City of Healdsburg		-	-
Restricted cash and investments		-	-
		\$ 6,953,208	\$ 1,198,545
TOTAL ASSETS			
		\$ 6,953,208	\$ 1,198,545
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued liabilities		\$ -	\$ -
Due to the City of Healdsburg		-	-
Deferred revenue		-	675,000
		-	675,000
TOTAL LIABILITIES			
		-	675,000
FUND BALANCES:			
Reserved for:			
Noncurrent notes receivable		849,959	-
Low and moderate income housing		-	-
Debt service		-	-
Multi-year programs		-	-
Unreserved:			
Reported in special revenue funds		6,103,249	523,545
Reported in capital projects funds		-	-
		6,953,208	523,545
TOTAL FUND BALANCES			
		6,953,208	523,545
TOTAL LIABILITIES AND FUND BALANCES			
		\$ 6,953,208	\$ 1,198,545

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

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ 313,216	\$ 4,030,678	\$ 2,488,986	\$ 13,389,083
-	34,528	8,632	43,160
-	75,000	2,190,500	3,790,459
-	-	-	48,192
-	27,122	4,456	53,977
-	3,193,000	-	3,193,000
3,096,754	8,203,905	3,404,026	14,704,685
<u>\$ 3,409,970</u>	<u>\$ 15,564,233</u>	<u>\$ 8,096,600</u>	<u>\$ 35,222,556</u>
\$ -	\$ 18,673	\$ 5,697	\$ 24,370
-	1,058,000	-	1,058,000
-	75,000	2,190,500	2,940,500
<u>-</u>	<u>1,151,673</u>	<u>2,196,197</u>	<u>4,022,870</u>
-	-	-	849,959
-	-	5,900,403	5,900,403
3,409,970	-	-	3,409,970
-	8,203,905	-	8,203,905
-	-	-	6,626,794
-	6,208,655	-	6,208,655
<u>3,409,970</u>	<u>14,412,560</u>	<u>5,900,403</u>	<u>31,199,686</u>
<u>\$ 3,409,970</u>	<u>\$ 15,564,233</u>	<u>\$ 8,096,600</u>	<u>\$ 35,222,556</u>

**(This page left blank intentionally**

HEALDSBURG REDEVELOPMENT AGENCY

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

June 30, 2009

Fund balances for governmental funds		\$ 31,199,686
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		20,593,198
Certain receivables (i.e. loans, accrued unpaid interest on advances and accounts) are not available to pay for current-period expenditures and, therefore are deferred in the governmental funds.		2,940,500
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets:		
Tax allocation bonds payable	\$ (38,860,000)	
Bond discount	188,871	
Deferred charges for issuance costs	<u>325,084</u>	
		(38,346,045)
Accrued liabilities in the Statement of Net Assets differ from the amounts reported in governmental funds due to accrued interest on the tax allocation bonds payable		<u>(806,733)</u>
Net assets of governmental activities		<u><u>\$ 15,580,606</u></u>

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

HEALDSBURG REDEVELOPMENT AGENCY

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

For the year ended June 30, 2009

	Special Revenue Funds	
	UDAG Loan	Housing Bond
REVENUES:		
Tax increment revenue	\$ -	\$ -
Investment income	177,727	12,319
Rental income	402,361	-
Other revenues	15,458	-
TOTAL REVENUES	<u>595,546</u>	<u>12,319</u>
EXPENDITURES:		
Current:		
General government	14,145	548
Community development	50,000	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
TOTAL EXPENDITURES	<u>64,145</u>	<u>548</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>531,401</u>	<u>11,771</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	-	300,000
Transfers out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>300,000</u>
NET CHANGE IN FUND BALANCES	531,401	311,771
FUND BALANCES AT BEGINNING OF YEAR	<u>6,421,807</u>	<u>211,774</u>
FUND BALANCES AT END OF YEAR	<u>\$ 6,953,208</u>	<u>\$ 523,545</u>

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

Debt Service Fund	Capital Projects Funds		Total Governmental Funds
	Commercial & Industrial	Low/Moderate Income Housing	
\$ -	\$ 7,185,963	\$ 1,796,491	\$ 8,982,454
11,191	373,319	117,621	692,177
-	-	-	402,361
-	-	2,100	17,558
<u>11,191</u>	<u>7,559,282</u>	<u>1,916,212</u>	<u>10,094,550</u>
-	152,210	44,314	211,217
-	5,558,415	4,016,058	9,624,473
970,000	-	-	970,000
<u>2,100,935</u>	<u>-</u>	<u>-</u>	<u>2,100,935</u>
<u>3,070,935</u>	<u>5,710,625</u>	<u>4,060,372</u>	<u>12,906,625</u>
<u>(3,059,744)</u>	<u>1,848,657</u>	<u>(2,144,160)</u>	<u>(2,812,075)</u>
3,070,935	-	-	3,370,935
<u>-</u>	<u>(2,543,005)</u>	<u>(827,930)</u>	<u>(3,370,935)</u>
<u>3,070,935</u>	<u>(2,543,005)</u>	<u>(827,930)</u>	<u>-</u>
11,191	(694,348)	(2,972,090)	(2,812,075)
<u>3,398,779</u>	<u>15,106,908</u>	<u>8,872,493</u>	<u>34,011,761</u>
<u>\$ 3,409,970</u>	<u>\$ 14,412,560</u>	<u>\$ 5,900,403</u>	<u>\$ 31,199,686</u>

HEALDSBURG REDEVELOPMENT AGENCY

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

For the year ended June 30, 2009

Net change in fund balances - total governmental funds		\$ (2,812,075)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital expenditures (\$601,458) exceeded depreciation (\$270,507) in the the current period		330,951
Repayments on long-term receivables provide current financial resources to governmental funds, while loans provided consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets.		75,000
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:		
Debt issued or incurred:		
Principal payment		970,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued interest	\$ 14,091	
Amortization of issuance costs	(14,666)	
Amortization of bond discount	(8,521)	
		<u>(9,096)</u>
Change in net assets of governmental activities		<u><u>\$ (1,445,220)</u></u>

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

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

	<u>Healdsburg Downtown Business District Private-Purpose Trust Fund</u>
ASSETS:	
Cash and investments (Note 2)	\$ 38,425
LIABILITIES:	
Deposits payable	<u>2,300</u>
NET ASSETS:	
Held in trust for other purposes	<u>36,125</u>
TOTAL NET ASSETS	<u><u>\$ 36,125</u></u>

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

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2009

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ADDITIONS:	
Contributions	\$ 59,000
Fees and charges	<u>41,208</u>
TOTAL ADDITIONS	100,208
DEDUCTIONS:	
Community development	<u>64,801</u>
CHANGE IN NET ASSETS	35,407
NET ASSETS AT BEGINNING OF YEAR	<u>718</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 36,125</u></u>

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

# HEALDSBURG REDEVELOPMENT AGENCY

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### A. Description of the Redevelopment Agency and the Redevelopment Plan:

The Healdsburg Redevelopment Agency (the Agency) was created in November 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 in a separate capacity as members of the Redevelopment 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 through various sources including assistance from the City, State and Federal governments, property tax increments, interest income and the issuance of Agency notes and bonds.

#### B. Description of Reporting Entity:

The financial statements of the Agency include the financial activities of the Agency and the Healdsburg Downtown Business District (the District), shown as a 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 the accompanying financial statements are included as a component unit of the basic financial statements of the City.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

##### **Basic Financial Statements:**

The basic financial statements of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

**Basic Financial Statements (Continued):**

Financial reporting for the government-wide financial statements is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncement. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

**Government-wide Financial Statements:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Healdsburg Redevelopment Agency has no business-type activities.

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

**Fund Financial Statements:**

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

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

**Fund Financial Statements (Continued):**

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually. The Agency does not have any other governmental funds.

The Agency reports the following major governmental funds:

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 UDAG grant program.

Housing Bond 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 surplus funds returned to the Agency from the retirement of housing mortgage revenue bonds.

Debt Service Fund - is used to account for the accumulation of 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 income housing projects.

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

FIDUCIARY FUND TYPE

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.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

**Measurement Focus:**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheet in spite of their spending measurement focus.

However special reporting treatments are used to indicate, noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their measurement focus and, that they should not be considered “available spendable resources”, since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

See independent auditors’ report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

**Measurement Focus (Continued):**

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

**Basis of Accounting:**

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when and enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities:

Reclassification of expenditures from the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities consist of:

Community development expenditures reported in Governmental Funds	\$ 9,624,473
Capital outlays capitalized	(601,458)
Depreciation expense	270,507
Amortization of bond issue costs	<u>14,666</u>
Community development expenditures reported on the Statement of Activities	<u>\$ 9,308,188</u>

E. Cash and Investments:

Investments are reported in the accompanying statement of net assets at fair value. Investment income reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Agency's cash and investments held by fiscal agents are pledged to the payment or security of certain long-term debt issuances. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make.

Cash and investments, except for cash and investments with fiscal agents, and cash and investments made from bond proceeds are pooled with other City of Healdsburg funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled cash and investment balances. Interest income from cash and investments of funds excluded from pooled cash is credited directly to the related fund.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Capital Assets:

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

Capital assets include assets consisting of certain improvements including parking lots.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each fixed asset class are as follows:

Building and improvements	30 years
Parking lots	50 years

G. Compensated Absences:

Vested vacation and sick leave are accounted for and paid by the City. The Agency is charged a monthly fee to cover its liability for vested vacation and sick leave by the City. The related liability is recorded in the City's Insurance and Benefit Internal Service Fund. Vacation fully vests as incurred and may be paid in full upon termination. The Agency is not liable for payment to employees for accrued sick leave upon termination except in the case of retirement, where the employee may be paid up to 50% of accrued sick leave.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Property Tax Levy, Collection and Maximum Rates:

The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is sold, transferred or improved. The State Legislature has determined the method of distribution of receipts from the one percent tax levy among the counties, cities, school districts and other districts. The Agency's property tax revenues include only incremental property taxes resulting from increased assessed values on property within the Plan area.

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

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

The Agency accrues only those taxes, which are received within sixty days after year end.

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

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments at June 30, 2009 are classified in the accompanying financial statements as follows:

	Government- Wide Statement of <u>Net Assets</u>	Fiduciary Fund Statement of <u>Net Assets</u>	<u>Total</u>
Unrestricted assets:			
Cash and investments	\$ 13,389,083	\$ 38,425	\$ 13,427,508
Restricted assets:			
Cash and investments	<u>14,704,685</u>	<u>-</u>	<u>14,704,685</u>
Total Cash and Investments	<u>\$ 28,093,768</u>	<u>\$ 38,425</u>	<u>\$ 28,132,193</u>

Cash and investments at June 30, 2009 consisted of the following:

Pooled with the City of Healdsburg	\$ 13,427,508
Investments	<u>14,704,685</u>
Total Cash and Investments	<u>\$ 28,132,193</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.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by the California Government Code and the Agency's Investment Policy (Continued):**

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

N/A - Not Applicable

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

**Investments Authorized by Debt Agreements:**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, Certificates of Deposits, Commercial Paper, Local Agency Bonds, Banker's Acceptance, Money Market Mutual Funds, Investment Contracts and Repurchase Agreements. There were no limitations on the maximum amount can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptance which are thirty days.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the 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 flow and liquidity needed for operations.

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

Investment Type	Remaining Maturity (in Months)		Total
	12 Months or Less	13 - 24 Months	
Federal Home Loan Bank	\$ 2,000,000	\$ -	\$ 2,000,000
Money Market Mutual Funds	12,704,685	-	12,704,685
	<u>\$ 14,704,685</u>	<u>\$ -</u>	<u>\$ 14,704,685</u>

**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 by Standard and Poor's as of and for each investment type:

Investment Type	Total as of June 30, 2009	Minimum Legal Rating	AAA
Federal Home Loan Bank	\$ 2,000,000	N/A	\$ 2,000,000
Money Market Mutual Funds	12,704,685	A	12,704,685
	<u>\$ 14,704,685</u>		<u>\$ 14,704,685</u>

N/A - Not Applicable

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

2. CASH AND INVESTMENTS (CONTINUED):

**Concentration of Credit Risk:**

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	\$ 2,000,000

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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency's cash and investments are pooled with the City of Healdsburg's cash and investments.

Additional disclosures regarding \$13,427,508 pooled cash and investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Healdsburg's Comprehensive Annual Financial Report.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

3. NOTES RECEIVABLE:

The Agency advanced \$1,750,000 of Urban Development Action Grant (UDAG) funds to a developer for the construction of the Vineyard Plaza Shopping Center. Interest is payable monthly at 3% per annum on the outstanding balance. Principal payments began in 1990 with final maturity in 2014. The remaining loan receivable to be repaid at June 30, 2009 is \$428,583. The Agency also receives 20% equity participation in the net income flow after a preferred rate of return to the developer. During 2009, the Agency received \$95,737 as its equity participation of the net income, which is included in rental income in the financial statements. Certain federal restrictions apply as to the use of interest and principal repayments.

The Agency sponsored an additional \$421,376 of UDAG funds to various developers to construct or increase water, sewer, and electric capacity in various developments. Interest is payable monthly at 5% per annum on the outstanding balance.

The Agency sponsors a program to help first time homebuyers afford a home in Healdsburg. This program is called the First Time Home Buyers program. It provides for a second mortgage at interest rates of 3% to qualified buyers. The interest on the note is deferred until either the payment of the note or will be forgiven if the owner occupies the home for a certain period. The loan is due when the home is sold or not occupied by the owner. The balance of these loans amounted to \$2,625,500.

The Agency has a loan due in the amount of \$315,000 from a nonprofit entity. The funds were loaned to the nonprofit entity to purchase property. The nonprofit entity will construct single-family homes for sale to lower-income households. The Agency will convert the loan to the nonprofit entity to a second mortgage loan to the homeowner upon the sale of the home. The loan to the nonprofit entity does not accrue interest and is due if the single-family homes are not built by the date specified in the agreement between the Agency and the nonprofit entity. The Agency also has the option to purchase the property if the single family homes are not completed by the dates specified in the agreement.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

4. CAPITAL ASSETS:

A summary of changes in the Governmental Activities capital assets at June 30, 2009 is as follows:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital assets, not being depreciated:					
Land and improvements	\$ 12,804,601	\$ -	-	\$ -	\$ 12,804,601
Construction in progress	<u>333,397</u>	<u>476,724</u>	<u>104,279</u>	<u>(216,754)</u>	<u>697,646</u>
Total capital assets, not being depreciated	<u>13,137,998</u>	<u>476,724</u>	<u>104,279</u>	<u>(216,754)</u>	<u>13,502,247</u>
Capital assets, being depreciated:					
Buildings	7,124,446	191,460	-	-	7,315,906
Infrastructure	<u>1,286,426</u>	<u>45,749</u>	<u>-</u>	<u>-</u>	<u>1,332,175</u>
Total capital assets being depreciated	<u>8,410,872</u>	<u>237,209</u>	<u>-</u>	<u>-</u>	<u>8,648,081</u>
Less accumulated depreciation for:					
Buildings	(966,956)	(243,863)	-	-	(1,210,819)
Infrastructure	<u>(319,667)</u>	<u>(26,644)</u>	<u>-</u>	<u>-</u>	<u>(346,311)</u>
Total accumulated depreciation	<u>(1,286,623)</u>	<u>(270,507)</u>	<u>-</u>	<u>-</u>	<u>(1,557,130)</u>
Total capital assets being depreciated, net	<u>7,124,249</u>	<u>(33,298)</u>	<u>-</u>	<u>-</u>	<u>7,090,951</u>
Total capital assets, net	<u>\$ 20,262,247</u>	<u>\$ 443,426</u>	<u>\$ 104,279</u>	<u>\$ (216,754)</u>	<u>\$ 20,593,198</u>

Depreciation expense of \$270,507 was allocated to the Community Development Function in fiscal year 2008-2009.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

5. INTERFUND TRANSFERS:

Interfund transfers were:

	Transfers Out		
	Commercial & Industrial Fund	Low/ Moderate Income Housing Fund	Totals
Transfers In:			
Housing Bond Special Revenue Fund	\$ 300,000	\$ -	\$ 300,000
Debt Service Fund	<u>2,243,005</u>	<u>827,930</u>	<u>3,070,935</u>
	<u>\$ 2,543,005</u>	<u>\$ 827,930</u>	<u>\$ 3,370,935</u>

Transfer to the Housing Bond Special Revenue Fund from the Commercial & Industrial Capital Projects Fund was made for program funding.

Transfers to the Debt Service Fund from the Commercial & Industrial and Low/Moderate Income Housing Capital Projects Funds were made for debt service payments.

6. LONG-TERM LIABILITIES:

A summary of changes in the Governmental Activities long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009	Due within One Year
Bonds payable:					
1995 Tax Allocation Bonds	\$ 3,090,000	\$ -	\$ (95,000)	\$ 2,995,000	\$ 100,000
2002 Series A Tax Allocation Bonds	12,635,000	-	(300,000)	12,335,000	315,000
2002 Series C Tax Allocation Bonds	4,985,000	-	(120,000)	4,865,000	125,000
2003 Series A Tax Allocation Bonds	11,700,000	-	(285,000)	11,415,000	285,000
2003 Series B Tax Allocation Bonds	5,735,000	-	(130,000)	5,605,000	135,000
2002 Series B Allocation Bonds	<u>1,685,000</u>	<u>-</u>	<u>(40,000)</u>	<u>1,645,000</u>	<u>40,000</u>
Subtotal	39,830,000	-	(970,000)	38,860,000	1,000,000
Less: bond discount	<u>(197,392)</u>	<u>-</u>	<u>8,521</u>	<u>(188,871)</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 39,632,608</u>	<u>\$ -</u>	<u>\$ (961,479)</u>	<u>\$ 38,671,129</u>	<u>\$ 1,000,000</u>

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

6. LONG-TERM LIABILITIES (CONTINUED):

A. 1995 Tax Allocation Bonds:

In December 1995, the Agency issued \$3,900,000 1995 Tax Allocation Bonds. The Bonds were issued to finance improvements in the Sotoyome Project Area. Interest on the Bonds varies from 4.20% to 7.50% with 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.

B. 2002 Series A Tax Allocation Bonds:

In March 2002, the Healdsburg Financing Authority issued \$14,290,000 in Tax Allocation Bonds on behalf of the Agency. The Bonds were issued to finance improvements in the Sotoyome Project Area and to advance refund the 1993 Series A Certificates of Participation. Interest on the bonds varies from 1.7% to 5.125% with 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.

C. 2002 Series C Tax Allocation Bonds:

In March 2002, the Agency issued \$5,630,000 in 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 August 1, 2002 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.

D. 2003 Series A Tax Allocation Bonds:

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

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

6. LONG-TERM LIABILITIES (CONTINUED):

E. 2003 Series B Tax Allocation Bonds:

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

F. 2002 Series B Tax Allocation Bonds:

In August 2004, the Agency issued \$1,800,000 Series B 2002 Tax Allocation Bonds. The Bonds were issued for the purpose of providing funds to finance the Alliance Medical Clinic which the Agency has determined is a benefit to the Sotoyome Project Areas. 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.

G. Annual Debt Service:

Annual debt service payments on the tax allocation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 1,000,000	\$ 2,040,863	\$ 3,040,863
2011	1,040,000	1,997,865	3,037,865
2012	1,080,000	1,950,230	3,030,230
2013	1,125,000	1,898,082	3,023,082
2014	1,175,000	1,842,323	3,017,323
2015-2019	6,705,000	8,248,216	14,953,216
2020-2024	8,480,000	6,236,595	14,716,595
2025-2029	10,610,000	3,638,316	14,248,316
2030-2032	<u>7,645,000</u>	<u>650,666</u>	<u>8,295,666</u>
	<u>\$ 38,860,000</u>	<u>\$ 28,503,156</u>	<u>\$ 67,363,156</u>

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

7. FUND BALANCES:

Reserved fund balances represent the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

Unreserved fund balance, if any, may be designated to indicate tentative plans for financial resource utilization in a future period.

Fund balances have been reserved for the following purposes at June 30, 2009:

	UDAG Loan Fund	Debt Service Fund	Commercial & Industrial Fund	Low/Moderate Income Housing Fund	Total Governmental Funds
Noncurrent notes receivable	\$ 849,959	\$ -	\$ -	\$ -	\$ 849,959
Low and moderate income housing	-	-	-	5,900,403	5,900,403
Debt service	-	3,409,970	-	-	3,409,970
Multi-year programs	-	-	8,203,905	-	8,203,905
	<u>\$ 849,959</u>	<u>\$ 3,409,970</u>	<u>\$ 8,203,905</u>	<u>\$ 5,900,403</u>	<u>\$ 18,364,237</u>

- A. The reserve for notes receivable represent amounts not available to finance payment of current expenditures.
- B. The reserve for low and moderate income housing is the amount set aside in the Capital Projects Funds for low to moderate income housing for expenditures which benefit low to moderate income families.
- C. The reserve for debt service is the amount accumulated in accordance with a bond indenture or similar covenant to pay principal and interest on long term debt.
- D. The reserve for multi-year programs are amounts set aside for long-term capital projects.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

8. COMMITMENTS AND CONTINGENCIES:

**ERAF and SERAF Contingency:**

During the 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 Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Healdsburg Redevelopment Agency (the Agency).

ERAF Contribution for the Fiscal Year 2008-2009

Pursuant to AB 1389, a budget trailer bill, California redevelopment agencies were required to make ERAF contributions totaling \$350 million for the fiscal year 2008-2009. The contributions were due by May 10, 2009. The Agency’s required contribution for the fiscal year 2008-2009 was \$566,100.

In response to AB 1389, the California Redevelopment Association (CRA) filed a lawsuit against the State of California (California Redevelopment Association et al v. Genest), challenging the constitutionality of the required ERAF contributions. On April 30, 2009, the Sacramento Superior Court held in favor of CRA, ruling that AB 1389 was unconstitutional. On September 28, 2009, the State of California announced its decision not to appeal the decision in “Genest”. Accordingly, the Superior Court’s decision is now final and binding, and California redevelopment agencies will not be required to make the ERAF contributions pursuant to AB 1389. Accordingly, the Agency did not make the ERAF contribution of \$566,100 for the fiscal year 2008-2009.

SERAF Contributions for the Fiscal Years 2009-2010 and 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 the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

See independent auditors’ report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2009

8. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**ERAF and SERAF Contingency (Continued)**

SERAF Contributions for the Fiscal Years 2009-2010 and 2010-2011 (Continued)

The Agency's estimated SERAF contributions are \$2,752,090 for the fiscal year 2009-2010 and \$566,100 for 2010-2011. 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 2009-2010

\$2,752,090 of tax increment funds currently held in the Commercial & Industrial Capital Projects Fund will be sufficient for the Agency to make its estimated contribution of \$2,752,090 for the fiscal year 2009-2010.

Fiscal Year 2010-2011

\$566,100 of tax increment funds currently held in the Debt Service Fund will be sufficient for the Agency to make its estimated contribution of \$566,100 for the fiscal year 2010-2011.

See independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

**(This page left blank intentionally**

## HEALDSBURG REDEVELOPMENT AGENCY

## BUDGETARY COMPARISON SCHEDULE

## UDAG LOAN SPECIAL REVENUE FUND

For the year ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 178,000	\$ 178,000	\$ 177,727	\$ (273)
Rental income	419,340	419,340	402,361	(16,979)
Other revenues	-	-	15,458	15,458
TOTAL REVENUES	<u>597,340</u>	<u>597,340</u>	<u>595,546</u>	<u>(1,794)</u>
EXPENDITURES:				
Current:				
General government	22,923	21,283	14,145	7,138
Community development	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>72,923</u>	<u>71,283</u>	<u>64,145</u>	<u>7,138</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	524,417	526,057	531,401	5,344
FUND BALANCE - BEGINNING OF YEAR	<u>6,421,807</u>	<u>6,421,807</u>	<u>6,421,807</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 6,946,224</u>	<u>\$ 6,947,864</u>	<u>\$ 6,953,208</u>	<u>\$ 5,344</u>

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

HEALDSBURG REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

1. BUDGETS AND BUDGETARY ACCOUNTING:

The Agency adopts a budget annually, effective each July 1, for certain funds on an annual basis. From the effective date of the budget, which is adopted and controlled at the Agency level, the amounts stated therein as proposed expenditures become appropriations. The Board may amend the budget by resolution during the fiscal year.

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

**SUPPLEMENTARY INFORMATION**

HEALDSBURG REDEVELOPMENT AGENCY

COMPUTATION OF LOW/MODERATE INCOME  
HOUSING FUND - EXCESS SURPLUS

July 1, 2008

		<u>All Project Areas</u>
OPENING FUND BALANCE - JULY 1, 2008		\$ 8,872,493
LESS UNAVAILABLE AMOUNTS:		
Bond proceeds restricted for capital projects		<u>(6,401,458)</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS		2,471,035
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years:		
2007 - 2008	\$ 1,721,984	
2006 - 2007	1,623,605	
2005 - 2006	1,485,178	
2004 - 2005	<u>1,297,463</u>	
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 6,128,230</u>	
Base limitation	<u>\$ 1,000,000</u>	
GREATER AMOUNT		<u>6,128,230</u>
COMPUTED EXCESS SURPLUS - JULY 1, 2008		<u>\$ -</u>

See independent auditors' report.



**DIEHL, EVANS & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

5 CORPORATE PARK, SUITE 100  
IRVINE, CALIFORNIA 92606-5165  
(949) 399-0600 • FAX (949) 399-0610  
[www.diehlevans.com](http://www.diehlevans.com)

MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA  
\*PHILIP H. HOLTkamp, CPA  
\*THOMAS M. PERLOWSKI, CPA  
\*HARVEY J. SCHROEDER, CPA  
KENNETH R. AMES, CPA  
WILLIAM C. PENTZ, CPA

\*A PROFESSIONAL CORPORATION

November 16, 2009

INDEPENDENT AUDITORS' 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  
Healdsburg Redevelopment Agency  
Healdsburg, California

We have audited the financial statements of the governmental activities and each major fund of the Healdsburg Redevelopment Agency (the Agency) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 16, 2009. 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 our auditing procedures for the purpose of expressing our opinion 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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

## Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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 financial statements of the Healdsburg Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines For Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Board of Directors and management of the Healdsburg Redevelopment Agency and the 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 specific parties.

*D'iehl, Evans and Company, LLP*