

**HEALDSBURG REDEVELOPMENT AGENCY**

**COMPONENT UNIT FINANCIAL  
STATEMENTS**

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

**JUNE 30, 2006**



HEALDSBURG REDEVELOPMENT AGENCY

TABLE OF CONTENTS

June 30, 2006

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10 - 11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13 - 14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fiduciary Net Assets	16
Statement of Changes in Fiduciary Net Assets	17
Notes to Basic Financial Statements	18 - 34

HEALDSBURG REDEVELOPMENT AGENCY

TABLE OF CONTENTS  
(CONTINUED)

June 30, 2006

	<u>Page Number</u>
Required Supplementary Information:	
Budgetary Comparison Schedule:	
UDAG Loan Special Revenue Fund	35
Note to Required Supplementary Information	36
Supplementary Information:	
Computation of Low/Moderate Income Housing Fund - Excess/Surplus	37
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>	38 - 39



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October 12, 2006

**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, 2006, 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, 2006, 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 October 12, 2006, 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 and 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.

*Diehl, Evans and Company, LLP*

HEALDSBURG REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Our discussion and analysis of Healdsburg Redevelopment Agency (Agency) financial performance for the fiscal year ended June 30, 2006 provides current year results based on the government-wide statements, an analysis on the Agency's overall financial position and results of operations to assist users in evaluating the Agency's financial position, a discussion of significant changes that occurred in funds. In addition, it describes the activities during the year for capital assets and long-term debt. We end our discussion and analysis with a description of currently known facts, decisions, and conditions that are expected to have a significant effect on the financial position or results of operations. Please read it in conjunction with the Agency's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Agency's net assets of \$12,161,757 were restricted for debt service and community development.
- The Agency was required by the State to make a \$473,900 ERAF payment during the year

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities provide information about the activities of the Agency as a whole and present a long-term view of the Agency's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operation in more detail than the government-wide statements by providing information about the Agency's most significant funds and other funds.

### **REPORTING THE AGENCY AS A WHOLE**

#### **The Statement of Net Assets and the Statement of Activities:**

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way to answer this question. These statements include all assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

See independent auditors' report.

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

June 30, 2006

**REPORTING THE AGENCY AS A WHOLE (CONTINUED)**

**The Statement of Net Assets and the Statement of Activities (Continued):**

These two statements report the Agency's *net assets* and *changes*. Net assets are the difference between assets and liabilities, which is one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net assets are an indication of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Agency's tax increment to assess the overall health of the Agency.

**REPORTING THE AGENCY'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements:**

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, management established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other resources. The Agency only has governmental type funds.

**Governmental funds** - Most of the Agency's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities - All of the Agency's basic services are considered to be governmental activities, including salaries and wages and community development. Tax increment and investment income finance most of these activities.

See independent auditors' report.

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

June 30, 2006

**THE AGENCY AS A WHOLE**

The Agency's combined net assets are \$12,161,757 as outline in Table 1. This is an increase of \$2,935,047 from \$9,226,710.

TABLE 1  
Condensed Statements of Net Assets

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Total Percent Change
<b>Assets:</b>				
Current and restricted assets	\$ 36,426,867	\$ 36,383,571	\$ 43,296	0.12 %
Capital assets	<u>18,366,673</u>	<u>16,936,227</u>	<u>1,430,446</u>	8.45 %
Total Assets	<u>54,793,540</u>	<u>53,319,798</u>	<u>1,473,742</u>	2.76 %
<b>Liabilities:</b>				
Other liabilities	1,156,216	1,721,041	(564,825)	(32.82) %
Long-term liabilities outstanding	<u>41,475,567</u>	<u>42,372,047</u>	<u>(896,480)</u>	(2.12) %
Total Liabilities	<u>42,631,783</u>	<u>44,093,088</u>	<u>(1,461,305)</u>	(3.31) %
<b>Net Assets:</b>				
Restricted	<u>\$ 12,161,757</u>	<u>\$ 9,226,710</u>	<u>\$ 2,935,047</u>	31.81 %

See independent auditor's report.

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

June 30, 2006

**THE AGENCY AS A WHOLE**

TABLE 2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Assets

	Fiscal Year 2006	Fiscal Year 2005	Dollar Change	Total Percent Change
<b>REVENUES:</b>				
General Revenues:				
Tax increment	\$ 7,425,889	\$ 6,487,314	\$ 938,575	14.47 %
Investment earnings	1,290,333	788,588	501,745	63.63 %
Other revenues	154,973	4,286	150,687	3,515.80 %
Total Revenues	8,871,195	7,280,188	1,591,007	21.85 %
<b>EXPENSES:</b>				
General Government	287,406	176,197	111,209	63.12 %
Community Development	3,350,781	6,364,433	(3,013,652)	(47.35) %
Interest on long-term debt	2,297,961	2,213,227	84,734	3.83 %
Total Expenses	5,936,148	8,753,857	(2,817,709)	(32.19) %
Changes in Net Assets	2,935,047	(1,473,669)	4,408,716	299.17 %
Beginning Net Assets	9,226,710	10,700,379	(1,473,669)	(13.77) %
Ending Net Assets	\$ 12,161,757	\$ 9,226,710	\$ 2,935,047	31.81 %

**THE AGENCY'S FUNDS**

The governmental funds balance sheet on pages 10 and 11 shows a fund balance of \$35,745,574 which is reserved for long-term note receivable, prepaid items, low and moderate income housing, debt service, community and economic development and multi-year programs. During the year fund balances increased by \$613,618 primarily as a result of increase in tax revenue.

**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 monthly 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.

See independent auditor's report.

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

June 30, 2006

**BUDGETARY HIGHLIGHTS (CONTINUED)**

Formal budgetary integration is employed as a management control device during the year for all funds.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2006, the Agency had \$18,366,673 invested in a broad range of capital assets, including land, buildings and improvements.

TABLE 3  
Capital Assets at Year-End  
(Net of Depreciation)

	Fiscal Year <u>2006</u>	Fiscal Year <u>2005</u>	Dollar Change	Total Percent Change
Land and improvements	\$ 11,387,707	\$ 9,838,615	\$ 1,549,092	15.75 %
Construction in progress	333,397	303,673	29,724	9.79 %
Buildings	5,649,901	5,772,984	(123,083)	(2.13) %
Infrastructure	995,668	1,020,955	(25,287)	(2.48) %
Total Capital Assets, Net	<u>\$ 18,366,673</u>	<u>\$ 16,936,227</u>	<u>\$ 1,430,446</u>	8.45 %

In fiscal year 2005-2006, the Agency completed the job center and purchased 320 and 328 "E" Street property for economic development purposes.

**Debt**

At year-end, the Agency's governmental activities had \$41,690,000 in tax allocation bonds which are detailed in Note 6 of the financial statements. Principal payments of \$905,000 on the bonds were made during the fiscal year.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of Healdsburg, 401 Grove Street, Healdsburg, California 95448, or (707) 431-3310.

See independent auditor's report.

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## **BASIC FINANCIAL STATEMENTS**

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments (Note 2)	\$ 7,851,277
Receivables:	
Taxes, including interest, penalties and liens	202,108
Notes	1,328,351
Accounts	51,976
Interest	153,001
Deferred charges	369,082
Restricted assets:	
Restricted cash and investments (Note 2)	26,471,072
Capital assets, not depreciated (Note 4)	11,721,104
Capital assets, depreciated (Note 4)	<u>6,645,569</u>
 TOTAL ASSETS	 <u>54,793,540</u>
LIABILITIES:	
Accounts payable and accrued liabilities	856,216
Deferred revenue	300,000
Long-term liabilities:	
Due within one year (Note 6)	915,000
Due in more than one year (Note 6)	<u>40,560,567</u>
 TOTAL LIABILITIES	 <u>42,631,783</u>
NET ASSETS:	
Restricted - Debt service	3,168,004
Restricted - Community development	<u>8,993,753</u>
 TOTAL NET ASSETS	 <u>\$ 12,161,757</u>

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

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

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	\$ 287,406	\$ -	\$ -	\$ -	\$ (287,406)
Community development	3,786,165	435,384	-	-	(3,350,781)
Interest expense	2,297,961	-	-	-	(2,297,961)
 Total governmental activities	 \$ 6,371,532	 \$ 435,384	 \$ -	 \$ -	 (5,936,148)
 <b>GENERAL REVENUES:</b>					
Taxes:					
Tax increment					7,425,889
Investment earnings					1,290,333
Other revenues					154,973
 Total general revenues					 8,871,195
 CHANGE IN NET ASSETS					 2,935,047
 NET ASSETS AT BEGINNING OF YEAR					 9,226,710
 NET ASSETS AT END OF YEAR					 \$ 12,161,757

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

HEALDSBURG REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

		Special Revenue Funds	
		UDAG	Housing
		Loan	Bond
ASSETS			
Cash and investments		\$ 3,764,891	\$ 105,426
Receivables:			
Taxes		-	-
Notes		1,028,351	300,000
Accounts		51,976	-
Interest		33,291	1,346
Restricted cash and investments		-	-
		<u>                    </u>	<u>                    </u>
TOTAL ASSETS		<u>\$ 4,878,509</u>	<u>\$ 406,772</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued liabilities		\$ -	\$ -
Deferred revenue		-	300,000
		<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES		<u>-</u>	<u>300,000</u>
FUND BALANCES:			
Reserved for:			
Noncurrent notes receivable		1,028,351	-
Low and moderate income housing		-	-
Debt service		-	-
Community and economic development		-	-
Multi-year programs		-	-
Unreserved:			
Reported in special revenue funds		3,850,158	106,772
		<u>                    </u>	<u>                    </u>
TOTAL FUND BALANCES		<u>4,878,509</u>	<u>106,772</u>
		<u>\$ 4,878,509</u>	<u>\$ 406,772</u>

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

Debt Service	Capital Projects		Total Governmental Funds
	Commercial/ Industrial	Low/Moderate Income	
\$ 11,475	\$ 1,866,173	\$ 2,103,312	\$ 7,851,277
-	161,686	40,422	202,108
-	-	-	1,328,351
-	-	-	51,976
3,585	59,864	54,915	153,001
<u>3,152,944</u>	<u>16,158,409</u>	<u>7,159,719</u>	<u>26,471,072</u>
<u>\$ 3,168,004</u>	<u>\$ 18,246,132</u>	<u>\$ 9,358,368</u>	<u>\$ 36,057,785</u>
\$ -	\$ 8,713	\$ 3,498	\$ 12,211
-	-	-	300,000
-	8,713	3,498	312,211
-	-	-	1,028,351
-	-	9,354,870	9,354,870
3,168,004	-	-	3,168,004
-	14,326,616	-	14,326,616
-	3,910,803	-	3,910,803
-	-	-	3,956,930
<u>3,168,004</u>	<u>18,237,419</u>	<u>9,354,870</u>	<u>35,745,574</u>
<u>\$ 3,168,004</u>	<u>\$ 18,246,132</u>	<u>\$ 9,358,368</u>	<u>\$ 36,057,785</u>

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HEALDSBURG REDEVELOPMENT AGENCY

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

June 30, 2006

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund balances for governmental funds		\$ 35,745,574
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		18,366,673
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	\$ (41,690,000)	
Bond discount	214,433	
Deferred charges for issuance costs	<u>369,082</u>	
		(41,106,485)
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>(844,005)</u>
Net assets of governmental activities		<u><u>\$ 12,161,757</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, 2006

	Special Revenue Funds	
	UDAG Loan	Housing Bond
REVENUES:		
Tax increment revenue	\$ -	\$ -
Investment income	160,997	11,144
Rental income	404,915	-
Other revenues	-	150,000
TOTAL REVENUES	<u>565,912</u>	<u>161,144</u>
EXPENDITURES:		
Current:		
General government	7,984	192
Community development	50,000	75,000
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
TOTAL EXPENDITURES	<u>57,984</u>	<u>75,192</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>507,928</u>	<u>85,952</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	-	-
Transfers out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	507,928	85,952
FUND BALANCES AT BEGINNING OF YEAR	<u>4,370,581</u>	<u>20,820</u>
FUND BALANCES AT END OF YEAR	<u>\$ 4,878,509</u>	<u>\$ 106,772</u>

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

Debt Service	Capital Projects		Total Governmental Funds
	Commercial/ Industrial	Low/Moderate Income	
\$ -	\$ 5,940,711	\$ 1,485,178	\$ 7,425,889
111,789	686,546	319,857	1,290,333
-	30,469	-	435,384
-	-	4,973	154,973
<u>111,789</u>	<u>6,657,726</u>	<u>1,810,008</u>	<u>9,306,579</u>
-	224,698	54,532	287,406
-	4,679,232	397,713	5,201,945
905,000	-	-	905,000
<u>2,298,610</u>	<u>-</u>	<u>-</u>	<u>2,298,610</u>
<u>3,203,610</u>	<u>4,903,930</u>	<u>452,245</u>	<u>8,692,961</u>
<u>(3,091,821)</u>	<u>1,753,796</u>	<u>1,357,763</u>	<u>613,618</u>
3,132,301	-	-	3,132,301
<u>-</u>	<u>(2,296,335)</u>	<u>(835,966)</u>	<u>(3,132,301)</u>
<u>3,132,301</u>	<u>(2,296,335)</u>	<u>(835,966)</u>	<u>-</u>
40,480	(542,539)	521,797	613,618
<u>3,127,524</u>	<u>18,779,958</u>	<u>8,833,073</u>	<u>35,131,956</u>
<u>\$ 3,168,004</u>	<u>\$ 18,237,419</u>	<u>\$ 9,354,870</u>	<u>\$ 35,745,574</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, 2006

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

Net change in fund balances - total governmental funds \$ 613,618

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 (\$1,661,250) exceeded depreciation (\$230,804) in the the current period 1,430,446

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 905,000

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	\$ 9,169	
Amortization of issuance costs	(14,666)	
Amortization of bond discount	(8,520)	
		<u>(14,017)</u>

Change in net assets of governmental activities \$ 2,935,047

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

HEALDSBURG REDEVELOPMENT AGENCY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Healdsburg Downtown Business District Private-Purpose Trust Fund
	<u>Trust Fund</u>
ASSETS:	
Cash and investments (Note 2)	\$ 20,767
Interest receivable	34
Accounts receivable	<u>250</u>
TOTAL ASSETS	21,051
LIABILITIES:	
Deposits payable	<u>1,194</u>
NET ASSETS:	
Held in trust for other purposes	<u>19,857</u>
TOTAL NET ASSETS	<u><u>\$ 19,857</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, 2006

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ADDITIONS:	
Contributions	\$ 25,000
Fees and charges	<u>35,485</u>
TOTAL ADDITIONS	60,485
DEDUCTIONS:	
Community development	<u>62,103</u>
CHANGE IN NET ASSETS	(1,618)
NET ASSETS AT BEGINNING OF YEAR	<u>21,475</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 19,857</u></u>

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

# HEALDSBURG REDEVELOPMENT AGENCY

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

### 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, 2006

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, 2006

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 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, 2006

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, 2006

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, 2006

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	\$ 5,201,945
Capital outlays capitalized	(1,661,250)
Depreciation expense	230,804
Amortization of bond issue costs	<u>14,666</u>
 Community development expenditures Reported on the Statement of Activities	 <u>\$ 3,786,165</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, 2006

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, 2006

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, 2006

2. CASH AND INVESTMENTS:

**Cash and Investments:**

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

	Government- Wide Statement of Net Assets	Fiduciary Fund Statement of Net Assets	Total
Unrestricted assets:			
Cash and investments	\$ 7,851,277	\$ 20,767	\$ 7,872,044
Restricted assets:			
Cash and investments	<u>26,471,072</u>	<u>-</u>	<u>26,471,072</u>
 Total Cash and Investments	 <u>\$ 34,322,349</u>	 <u>\$ 20,767</u>	 <u>\$ 34,343,116</u>

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

Pooled with the City of Healdsburg Investments	\$ 7,872,044
	<u>26,471,072</u>
 Total Cash and Investments	 <u>\$ 34,343,116</u>

**Investment 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, 2006

2. CASH AND INVESTMENTS (CONTINUED):

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

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

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, 2006

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the 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 Farm Credit Bank	\$ 1,000,000	\$ -	\$ 1,000,000
Federal Home Loan Bank	14,959,537	2,000,000	16,959,537
Federal Home Loan Mortgage Corporation	500,000	-	500,000
Money Market Mutual Funds	7,531,950	-	7,531,950
Commercial Paper	479,585	-	479,585
	<u>\$ 24,471,072</u>	<u>\$ 2,000,000</u>	<u>\$ 26,471,072</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, 2006	Minimum Legal Rating	AAA	P-1	Unrated
Federal Farm Credit Bank	\$ 1,000,000	AAA	\$ 1,000,000	\$ -	\$ -
Federal Home Loan Bank	16,959,537	AAA	16,959,537	-	-
Federal Home Loan Mortgage Corporation	500,000	AAA	500,000	-	-
Money Market Mutual Funds	7,531,950	N/A	-	-	7,531,950
Commercial Paper	479,585	P-1	-	479,585	-
	<u>\$ 26,471,072</u>		<u>\$ 18,459,537</u>	<u>\$ 479,585</u>	<u>\$ 7,531,950</u>

N/A - Not Applicable

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2006

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	\$ 16,959,537

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 \$7,872,044 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, 2006

3. LOAN 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, 2006 is \$678,871. The Agency also receives 20% equity participation in the net income flow after a preferred rate of return to the developer. During 2006, the Agency received \$104,166 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.

4. CAPITAL ASSETS:

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

	Balance at June 30, 2005	Increase	Decrease	Balance at June 30, 2006
Capital assets, not being depreciated:				
Land and improvements	\$ 9,838,615	\$ 1,549,092	\$ -	\$ 11,387,707
Construction in progress	<u>303,673</u>	<u>112,158</u>	<u>(82,434)</u>	<u>333,397</u>
Total capital assets, not being depreciated	<u>10,142,288</u>	<u>1,661,250</u>	<u>(82,434)</u>	<u>11,721,104</u>
Capital assets, being depreciated:				
Buildings	6,083,114	82,434	-	6,165,548
Infrastructure	<u>1,264,320</u>	<u>-</u>	<u>-</u>	<u>1,264,320</u>
Total capital assets being depreciated	<u>7,347,434</u>	<u>82,434</u>	<u>-</u>	<u>7,429,868</u>
Less accumulated depreciation for:				
Buildings	(310,129)	(205,518)	-	(515,647)
Infrastructure	<u>(243,366)</u>	<u>(25,286)</u>	<u>-</u>	<u>(268,652)</u>
Total accumulated depreciation	<u>(553,495)</u>	<u>(230,804)</u>	<u>-</u>	<u>(784,299)</u>
Total capital assets being depreciated, net	<u>6,793,939</u>	<u>(148,370)</u>	<u>-</u>	<u>6,645,569</u>
Total capital assets, net	<u>\$ 16,936,227</u>	<u>\$ 1,512,880</u>	<u>\$ (82,434)</u>	<u>\$ 18,366,673</u>

Depreciation expense of \$230,804 was allocated to the Community Development Function in fiscal year 2005-2006.

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2006

5. INTERFUND TRANSFERS:

Interfund transfers were:

	Transfers Out		Totals
	Commercial/ Industrial	Low/ Moderate Income	
Transfers In:			
Debt Service	<u>\$ 2,296,335</u>	<u>\$ 835,966</u>	<u>\$ 3,132,301</u>

Transfers to the Debt Service Fund from the Commercial Industrial Fund and Low/Moderate Income Fund 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, 2006 is as follows:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006	Due within One Year
Bonds payable:					
1995 Tax Allocation					
Bonds	\$ 3,345,000	\$ -	\$ (80,000)	\$ 3,265,000	\$ 85,000
2002 Series A Tax					
Allocation Bonds	13,490,000	-	(275,000)	13,215,000	285,000
2002 Series C Tax					
Allocation Bonds	5,320,000	-	(110,000)	5,210,000	110,000
2003 Series A Tax					
Allocation Bonds	12,520,000	-	(275,000)	12,245,000	270,000
2003 Series B Tax					
Allocation Bonds	6,120,000	-	(125,000)	5,995,000	130,000
2002 Series B					
Allocation Bonds	<u>1,800,000</u>	<u>-</u>	<u>(40,000)</u>	<u>1,760,000</u>	<u>35,000</u>
Subtotal	42,595,000	-	(905,000)	41,690,000	915,000
Less: bond discount	<u>(222,953)</u>	<u>-</u>	<u>8,520</u>	<u>(214,433)</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 42,372,047</u>	<u>\$ -</u>	<u>\$ (896,480)</u>	<u>\$ 41,475,567</u>	<u>\$ 915,000</u>

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2006

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.

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, 2006

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 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:

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

See independent auditors' report.

HEALDSBURG REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2006

7. FUND BALANCES:

Reserved fund balances represent the portion of fund balance, which is not appropriable for expenditure 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, 2006:

	UDAG <u>Loan</u>	Debt <u>Service</u>	Commercial <u>Housing</u>	Low and Moderate Income <u>Housing</u>	Total Governmental <u>Funds</u>
Noncurrent notes receivable	\$ 1,029,347	\$ -	\$ -	\$ -	\$ 1,029,347
Low and moderate income housing	-	-	-	9,354,870	9,354,870
Debt service	-	3,168,004	-	-	3,168,004
Community and economic development	-	-	14,326,616	-	14,326,616
Multi-year programs	-	-	3,910,803	-	3,910,803
	<u>\$ 1,029,347</u>	<u>\$ 3,168,004</u>	<u>\$18,237,419</u>	<u>\$ 9,354,870</u>	<u>\$ 31,789,640</u>

- A. The reserve for loans 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 community and economic development has been established to reflect bond proceeds restricted for capital improvements.
- E. The reserve for multi-year programs are amounts set aside for long-term capital projects.

See independent auditors' report.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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HEALDSBURG REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

UDAG LOAN SPECIAL REVENUE FUND

For the year ended June 30, 2006

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

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

HEALDSBURG REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

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 City Council honors encumbrances outstanding at year end.

See independent auditors' report.

**SUPPLEMENTARY INFORMATION**

HEALDSBURG REDEVELOPMENT AGENCY

COMPUTATION OF LOW/MODERATE INCOME  
HOUSING FUND - EXCESS/SURPLUS

July 1, 2005

		<u>All Project Areas</u>
OPENING FUND BALANCE - JULY 1, 2005		\$ 8,833,073
LESS UNAVAILABLE AMOUNTS:		
Bond proceeds restricted for capital projects		<u>(6,999,522)</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS		1,833,551
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years:		
2004 - 2005	\$ 1,297,463	
2003 - 2004	1,216,988	
2002 - 2003	1,101,911	
2001 - 2002	<u>945,074</u>	
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 4,561,436</u>	
Base limitation	<u>\$ 1,000,000</u>	
GREATER AMOUNT		<u>4,561,436</u>
COMPUTED EXCESS/SURPLUS - JULY 1, 2005		<u>\$ -</u>

See independent auditors' report.



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October 12, 2006

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 as of and for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006. 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 Healdsburg Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## 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.

*Diehl, Evans and Company, LLP*