

**CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT
ACT SPECIAL REVENUE FUND
AND BUS ENTERPRISE FUND**

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND
AND BUS ENTERPRISE FUND

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October 12, 2006

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Transportation Development Act Special Revenue Fund (TDA Fund) and Bus Enterprise Fund (Bus Fund) of the City of Healdsburg as of and for the years ended June 30, 2006 and June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Healdsburg. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed more fully in Note 1, the financial statements present only the TDA Fund and the Bus Fund and are not intended to present fairly the financial position of the City of Healdsburg, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Development Act Special Revenue Fund and Bus Enterprise Fund of the City of Healdsburg as of June 30, 2006 and June 30, 2005, and the results of each fund's operations, and the cash flows of the Bus Enterprise Fund, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND

BALANCE SHEETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
Cash and Investments	\$ 3,134	\$ 20
Interest receivable	30	11
Due from other governments	166,084	3,019
 TOTAL ASSETS	 \$ 169,248	 \$ 3,050
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Due to the Bus Enterprise Fund	\$ 118,417	\$ -
Deferred revenue	47,667	-
 TOTAL LIABILITIES	 166,084	 -
FUND BALANCE:		
Unreserved and undesignated	3,164	3,050
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 169,248	 \$ 3,050

See independent auditors' report and notes to financial statements.

CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND

STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

For the years ended June 30, 2006 and 2005

	2006	2005
REVENUES:		
Intergovernmental	\$ 167,425	\$ 165,002
Investment income	118	33
	167,543	165,035
TOTAL REVENUES	167,543	165,035
EXPENDITURES:		
General government	4	2
EXCESS OF REVENUES OVER EXPENDITURES	167,539	165,033
OTHER FINANCING USES:		
Operating transfers to Bus Enterprise Fund	(167,425)	(163,851)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	114	1,182
FUND BALANCE - BEGINNING OF YEAR	3,050	1,868
FUND BALANCE - END OF YEAR	\$ 3,164	\$ 3,050

See independent auditors' report and notes to financial statements.

CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND

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

For the years ended June 30, 2006 and 2005

	2006		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Intergovernmental	\$ 166,554	\$ 167,425	\$ 871
Investment income	-	118	118
TOTAL REVENUES	166,554	167,543	989
EXPENDITURES:			
General government	-	4	(4)
EXCESS OF REVENUES OVER EXPENDITURES	166,554	167,539	985
OTHER FINANCING USES:			
Operating transfers to Bus Enterprise Fund	(166,554)	(167,425)	(871)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-	114	114
FUND BALANCE - BEGINNING OF YEAR	3,050	3,050	-
FUND BALANCE - END OF YEAR	\$ 3,050	\$ 3,164	\$ 114

See independent auditors' report and notes to financial statements.

2005

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 310,002	\$ 165,002	\$ (145,000)
31	33	2
<u>310,033</u>	<u>165,035</u>	<u>(144,998)</u>
-	2	(2)
<u>310,033</u>	<u>165,033</u>	<u>(145,000)</u>
<u>(165,002)</u>	<u>(163,851)</u>	<u>1,151</u>
145,031	1,182	(143,849)
<u>1,868</u>	<u>1,868</u>	<u>-</u>
<u>\$ 146,899</u>	<u>\$ 3,050</u>	<u>\$ (143,849)</u>

CITY OF HEALDSBURG
BUS ENTERPRISE FUND

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
Cash and investments (Note 2)	\$ 745	\$ 8,726
Accounts receivable	76	-
Due from other government	9,680	-
Due from Transportation Development Act Special Revenue Fund	118,417	-
 TOTAL ASSETS	 128,918	 8,726
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	407	3,021
Due to Community Services Fund	78,000	-
Deposits	504	546
 TOTAL LIABILITIES	 78,911	 3,567
 NET ASSETS	 \$ 50,007	 \$ 5,159

See independent auditors' report and notes to financial statements.

CITY OF HEALDSBURG
BUS ENTERPRISE FUND

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Service charges	\$ 18,675	\$ 18,634
Intergovernmental revenues	44,848	-
	<u>63,523</u>	<u>18,634</u>
OPERATING EXPENSES:		
General and administrative	48,773	53,496
Operations	137,327	130,643
	<u>186,100</u>	<u>184,139</u>
OPERATING LOSS BEFORE TRANSFER	(122,577)	(165,505)
TRANSFER FROM:		
Transportation Development Act Special Revenue Fund (Note 3)	<u>167,425</u>	<u>163,851</u>
CHANGE IN NET ASSETS	44,848	(1,654)
NET ASSETS - BEGINNING OF YEAR	<u>5,159</u>	<u>6,813</u>
NET ASSETS - END OF YEAR	<u>\$ 50,007</u>	<u>\$ 5,159</u>

See independent auditors' report and notes to financial statements.

CITY OF HEALDSBURG
BUS ENTERPRISE FUND

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 18,599	\$ 18,634
Intergovernmental revenue	35,168	-
Payments to suppliers	(146,588)	(50,027)
Payments to employees	(42,168)	(130,643)
NET CASH USED BY OPERATING ACTIVITIES	(134,989)	(162,036)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer from Transportation Development Act Special Revenue Fund	167,425	163,851
Due from Transportation Development Act Special Revenue Fund	(118,417)	-
Due to Community Services Fund	78,000	-
NET CASH PROVIDED BY OTHER FINANCING SOURCES:	127,008	163,851
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,981)	1,815
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,726	6,911
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 745	\$ 8,726
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (122,577)	\$ (165,505)
Adjustment to reconcile operating loss to net cash used by operating activities:		
(Increase) decrease in accounts receivable	(76)	-
(Increase) decrease in due from other government	(9,680)	-
Increase (decrease) in accounts payable	(2,614)	2,988
Increase (decrease) in deposits	(42)	481
NET CASH USED BY OPERATING ACTIVITIES	\$ (134,989)	\$ (162,036)

See independent auditors' report and notes to financial statements.

CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND
AND BUS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES:

a. Description of Reporting Entities:

The City of Healdsburg (the City) established the Transportation Development Act Special Revenue Fund (the TDA Fund) to collect the State moneys allocated to the City from the State of California under the Transportation Development Act of 1971. The moneys are used for capital projects, equipment purchases and to support the operations of the Bus Enterprise Fund of the City.

The accompanying financial statements present only the TDA Fund and the Bus Enterprise Fund and are not intended to present the financial position and results of operations of the City of Healdsburg in conformity with accounting principles generally accepted in the United States of America.

The TDA Fund and Bus Enterprise Fund are integral parts of the City and the accompanying financial statements are included in the basic financial statements of the City.

b. Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The TDA Fund is accounted for using the modified accrual basis of accounting. Revenues are recognized as received, or accrued if they are both measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

The Bus Enterprise Fund is accounted for using the accrual basis of accounting wherein revenues are recognized in the period in which they are earned and expenses are recognized when they are incurred. The Bus Enterprise Fund reimburses the City for various operating costs.

See independent auditors' report.

CITY OF HEALDSBURG
TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND
AND BUS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Budgets and Budgetary Accounting:

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

Budget information is presented for the TDA Fund. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The City prefers to leave its original budget unaltered during the year. This enables the effectiveness of individual departments in meeting budget objectives to be evaluated, and the adequacy of the budget itself to be judged. The only exceptions to this are the appropriations of unanticipated revenues, the revision of appropriations to reflect major economic up or downturns materially affecting estimated revenues, and the refocusing of particular programs requiring the reallocation of existing resources. Expenditures in excess of budgeted amounts are allowed by law, but must be approved individually by the City Council.

d. Investments:

Investments are stated at fair value, the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

All cash and investments of the Bus Enterprise Fund are pooled with the City's cash and investments and are, therefore, considered cash equivalents for the purposes of the statement of cash flows.

2. CASH AND INVESTMENTS:

The City maintains a cash and investment pool that is available for use by all funds. The TDA Fund and Bus Enterprise Fund moneys are held as part of the City-wide pool. Additional disclosures regarding authorized investments, interest rate risk, credit risk and custodial credit risk is applicable to the City as a whole and is included in the City's comprehensive annual financial report.

See independent auditors' report.

CITY OF HEALDSBURG
 TRANSPORTATION DEVELOPMENT ACT SPECIAL REVENUE FUND
 AND BUS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2006 and 2005

3. BUS ENTERPRISE FUND ASSISTANCE:

The TDA Fund received \$215,092 and \$163,851 from the Metropolitan Transportation Commission for the years ended June 30, 2006 and 2005, respectively, to cover the operating costs of the City's bus service. Amounts received in excess of the annual adjusted cost, as defined, are deferred until approval is received from Metropolitan Transportation Commission (MTC) to be used in the subsequent year. If approval is not received from the MTC to use the funds in a subsequent year, the funds are returned to MTC.

The amount of deferred revenue at June 30, 2006 and 2005 was determined as follows:

	2006	2005
Cash received and due from other governments	\$ 215,092	\$ 165,002
Adjusted Operating Cost:		
Actual operating cost	186,100	184,139
Less: Fare and other revenue	(18,675)	(18,634)
Total adjusted operating cost	167,425	165,505
Net income (loss)	47,667	(503)
Deferred revenue	\$ 47,667	\$ -

4. CAPITAL ASSETS:

The Bus Enterprise Fund does not record capital assets directly in the fund. Vehicles are owned, maintained, and rented by the City's Vehicle Maintenance Internal Service Fund.

See independent auditors' report.



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October 12, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH PUBLIC UTILITIES CODE SECTION 99245**

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

The following information is given in compliance with Public Utilities Code Section 99245 contained in the Transportation Development Act as enacted and amended by statute.

We have audited the financial statements of the City of Healdsburg Transportation Development Act Special Revenue Fund and Bus Enterprise Fund for the year ended June 30, 2006 and have issued our opinion thereon dated October 12, 2006. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in these circumstances.

In connection with our audit, we performed the tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission required by Section 6666 and 6667 of Title 21 of the California Code of Regulations. Based on these procedures, we noted no instances of noncompliance with applicable statutes, rules and regulations of the Transportation Development Act and the allocation instructions and resolutions and the rules and regulations of the Metropolitan Transportation Commission.

This report is intended solely for the information and use of the City Council and management of the City of Healdsburg and funding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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