

**HEALDSBURG COMMUNITY
REDEVELOPMENT AGENCY**

**COMPONENT UNIT FINANCIAL
STATEMENTS**

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

JUNE 30, 2004

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HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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November 10, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Healdsburg Community
Redevelopment Agency
Healdsburg, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Healdsburg Community Redevelopment Agency (the Agency), a component unit of the City of Healdsburg, California, as of and for the year ended June 30, 2004, 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, 2004, 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 10, 2004, 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 information and express no opinion on it.

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.

Dick, Evans and Company, LLP

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Our discussion and analysis of Healdsburg Community Redevelopment Agency (Agency) financial performance for the fiscal year ended June 30, 2004 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 \$10,700,379 were restricted for debt service and community development.
- The Agency was required by the State to make a \$280,725 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 COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2004

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 COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

THE AGENCY AS A WHOLE

The Agency's combined net assets are \$10,700,379 as outline in Table 1. This is an increase of \$613,522 from \$10,086,857.

TABLE 1
Condensed Statements of Net Assets

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Total Percent Change
Assets:				
Current and restricted assets	\$ 37,484,647	\$ 44,251,249	\$ (6,766,602)	(15.29) %
Capital assets	<u>16,251,041</u>	<u>10,478,969</u>	<u>5,772,072</u>	55.08 %
Total Assets	<u>53,735,688</u>	<u>54,730,218</u>	<u>(994,530)</u>	(1.82) %
Liabilities:				
Other liabilities	1,626,783	2,463,356	(836,573)	(33.96) %
Long-term liabilities outstanding	<u>41,408,526</u>	<u>42,180,005</u>	<u>(771,479)</u>	(1.83) %
Total Liabilities	<u>43,035,309</u>	<u>44,643,361</u>	<u>(1,608,052)</u>	(3.60) %
Net Assets:				
Restricted	<u>\$ 10,700,379</u>	<u>\$ 10,086,857</u>	<u>\$ 613,522</u>	6.08 %

See independent auditor's report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

THE AGENCY AS A WHOLE

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

	Fiscal Year 2004	Fiscal Year 2003	Dollar Change	Total Percent Change
REVENUES:				
General Revenues:				
Tax increment	\$ 6,083,344	\$ 5,509,106	\$ 574,238	10.42 %
Investment earnings	530,097	532,240	(2,143)	(0.40) %
Other revenues	<u>1,787,793</u>	<u>463,842</u>	<u>1,323,951</u>	285.43 %
Total Revenues	<u>8,401,234</u>	<u>6,505,188</u>	<u>1,896,046</u>	29.15 %
EXPENSES:				
General Government	13,644	160,369	(146,725)	(91.49) %
Community Development	5,594,380	1,211,443	4,382,937	361.79 %
Interest on long-term debt	<u>2,179,688</u>	<u>1,303,306</u>	<u>876,382</u>	67.24 %
Total Expenses	<u>7,787,712</u>	<u>2,675,118</u>	<u>5,112,594</u>	191.12 %
Changes in Net Assets	613,522	3,830,070	(3,216,548)	(83.98) %
Beginning Net Assets	<u>10,086,857</u>	<u>6,256,787</u>	<u>3,830,070</u>	61.21 %
Ending Net Assets	<u>\$ 10,700,379</u>	<u>\$ 10,086,857</u>	<u>\$ 613,522</u>	6.08 %

THE AGENCY'S FUNDS

The governmental funds balance sheet on pages 10 and 11 shows a fund balance of \$36,283,429 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 decreased by \$5,658,299 primarily as a result of transfers to the City of Healdsburg for capital outlay.

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 COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

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 2004, the Agency had \$16,251,041 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 2004	Fiscal Year 2003	Dollar Change	Total Percent Change
Land and improvements	\$ 8,974,421	\$ 5,392,835	\$ 3,581,586	66.41 %
Construction in progress	376,340	3,784,581	(3,408,241)	(90.06) %
Buildings	5,974,908	353,312	5,621,596	1,591.11 %
Infrastructure	<u>925,372</u>	<u>948,241</u>	<u>(22,869)</u>	(2.41) %
Total Capital Assets, Net	<u>\$ 16,251,041</u>	<u>\$ 10,478,969</u>	<u>\$ 5,772,072</u>	55.08 %

In fiscal year 2003-2004, the Agency completed the construction of the Alliance Medical building and purchased additional land.

Debt

At year-end, the Agency's governmental activities had \$41,640,000 in tax allocation bonds which are detailed in Note 6 of the financial statements. The Agency paid \$780,000 in principal payments 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.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments (Note 2)	\$ 2,075,173
Receivables:	
Taxes, including interest, penalties and liens	74,785
Loans	389,487
Accounts	439,522
Interest	1,559,473
Deferred charges	398,414
Restricted assets:	
Restricted cash and investments (Note 2)	32,547,793
Capital assets (net of accumulated depreciation) (Note 4)	<u>16,251,041</u>
 TOTAL ASSETS	 <u>53,735,688</u>
LIABILITIES:	
Accounts payable and accrued liabilities	39,084
Deferred revenue	763,467
Deposit	253
Interest payable	823,979
Long-term liabilities:	
Due within one year (Note 6)	845,000
Due in more than one year (Note 6)	<u>40,563,526</u>
 TOTAL LIABILITIES	 <u>43,035,309</u>
NET ASSETS:	
Invested in capital assets, net of related debt	-
Restricted - Debt service	2,039,281
Restricted - Community development	<u>8,661,098</u>
 TOTAL NET ASSETS	 <u>\$ 10,700,379</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 13,644	\$ -	\$ -	\$ -	\$ (13,644)
Community development	5,594,380	-	-	-	(5,594,380)
Interest expense	2,179,688	-	-	-	(2,179,688)
Total governmental activities	<u>\$ 7,787,712</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(7,787,712)</u>
GENERAL REVENUES:					
Taxes:					
Tax increment					6,083,344
Investment earnings					530,097
Other revenues					<u>1,787,793</u>
Total general revenues					<u>8,401,234</u>
CHANGE IN NET ASSETS					613,522
NET ASSETS AT BEGINNING OF YEAR					<u>10,086,857</u>
NET ASSETS AT END OF YEAR					<u>\$ 10,700,379</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2004

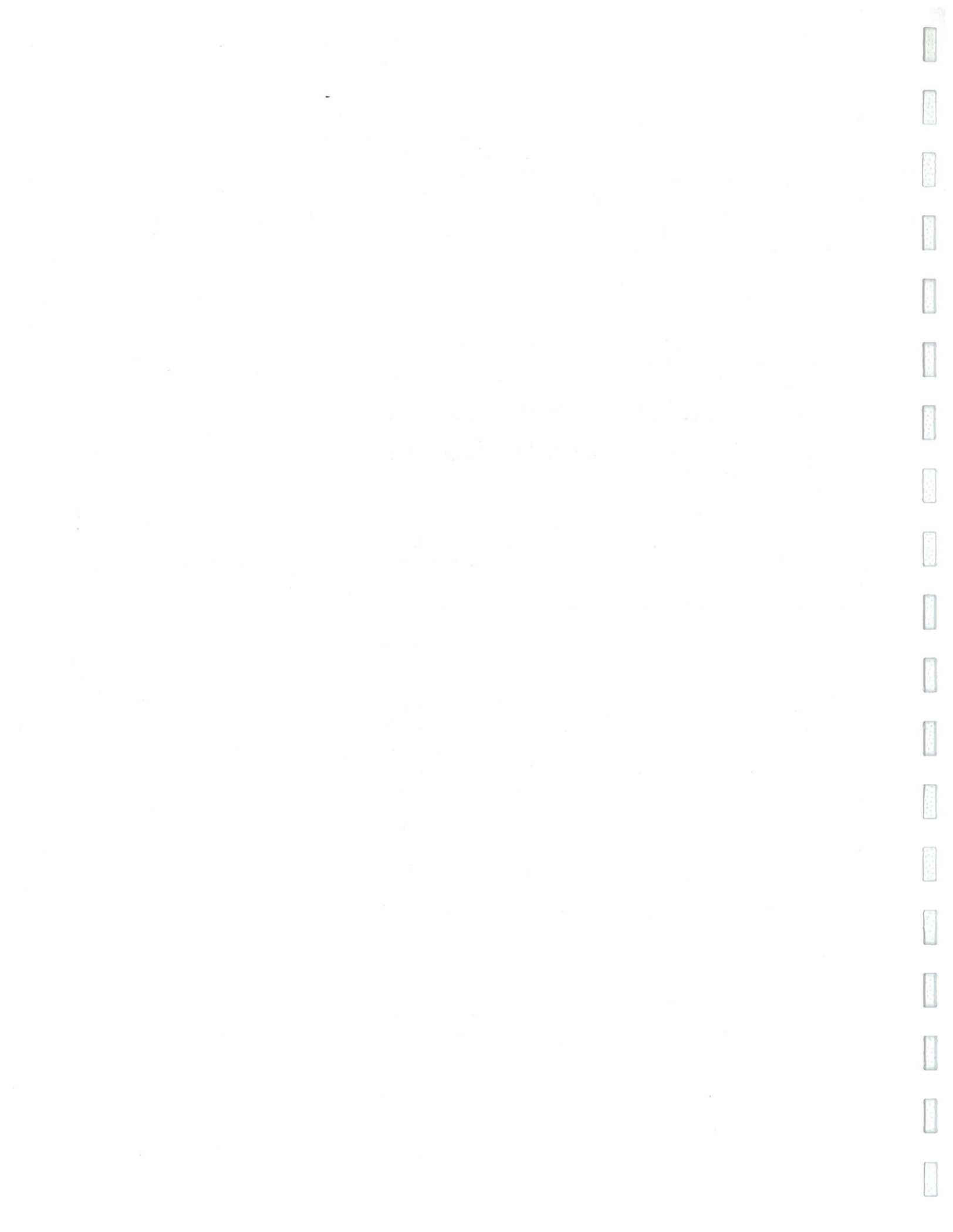
		Special Revenue Funds	
		UDAG	Housing
		Loan	Bond
ASSETS			
Cash and investments		\$ 733,895	\$ 170,820
Receivables:			
Taxes		-	-
Loans		1,465,225	375,000
Accounts		-	-
Interest		14,487	-
Due from other funds		1,700,000	-
Restricted cash and investments		-	-
		<u> </u>	<u> </u>
TOTAL ASSETS		<u>\$ 3,913,607</u>	<u>\$ 545,820</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued liabilities		\$ -	\$ -
Deferred revenue		-	375,000
Deposit		-	-
Due to other funds		-	-
		<u> </u>	<u> </u>
TOTAL LIABILITIES		<u>-</u>	<u>375,000</u>
FUND BALANCES:			
Reserved for:			
Noncurrent notes receivable		1,465,225	-
Low and moderate income housing		-	-
Debt service		-	-
Community and economic development		-	-
Multi-year programs		-	-
Unreserved:			
Reported in special revenue funds		2,448,382	170,820
		<u> </u>	<u> </u>
TOTAL FUND BALANCES		<u>3,913,607</u>	<u>170,820</u>
TOTAL LIABILITIES AND FUND BALANCES		<u>\$ 3,913,607</u>	<u>\$ 545,820</u>

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

Debt Service	Capital Projects		Total Governmental Funds
	Commercial/Industrial	Low/Moderate Income	
\$ -	\$ 3,730	\$ 1,166,728	\$ 2,075,173
-	59,828	14,957	74,785
-	-	-	1,840,225
-	439,522	-	439,522
-	63,874	30,374	108,735
-	243,077	-	1,943,077
<u>3,110,047</u>	<u>20,150,330</u>	<u>9,287,416</u>	<u>32,547,793</u>
<u>\$ 3,110,047</u>	<u>\$ 20,960,361</u>	<u>\$ 10,499,475</u>	<u>\$ 39,029,310</u>

\$ 3,710	\$ 27,049	\$ 8,325	\$ 39,084
-	388,467	-	763,467
-	253	-	253
<u>243,077</u>	<u>1,700,000</u>	<u>-</u>	<u>1,943,077</u>
<u>246,787</u>	<u>2,115,769</u>	<u>8,325</u>	<u>2,745,881</u>

-	-	-	1,465,225
-	-	10,491,150	10,491,150
2,863,260	-	-	2,863,260
-	16,637,521	-	16,637,521
-	2,207,071	-	2,207,071
-	-	-	<u>2,619,202</u>
<u>2,863,260</u>	<u>18,844,592</u>	<u>10,491,150</u>	<u>36,283,429</u>
<u>\$ 3,110,047</u>	<u>\$ 20,960,361</u>	<u>\$ 10,499,475</u>	<u>\$ 39,029,310</u>



HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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

June 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances for governmental funds		\$ 36,283,429
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		16,251,041
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	\$ (41,640,000)	
Bond discount	231,474	
Deferred charges for issuance costs	<u>398,414</u>	
		(41,010,112)
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>(823,979)</u>
Net assets of governmental activities		<u><u>\$ 10,700,379</u></u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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

For the year ended June 30, 2004

	Special Revenue Funds	
	UDAG Loan	Housing Bond
REVENUES:		
Tax increment revenue	\$ -	\$ -
Investment income	91,692	-
Rental income	85,647	-
Other	-	-
TOTAL REVENUES	<u>177,339</u>	<u>-</u>
EXPENDITURES:		
Current:		
General government	5,975	-
Community development	92	225,000
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
TOTAL EXPENDITURES	<u>6,067</u>	<u>225,000</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>171,272</u>	<u>(225,000)</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	-	-
Transfer from City of Healdsburg	-	525,000
Transfers out	-	-
Transfers to City of Healdsburg	<u>(50,000)</u>	<u>(150,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(50,000)</u>	<u>375,000</u>
NET CHANGE IN FUND BALANCES	121,272	150,000
FUND BALANCES AT BEGINNING OF YEAR	<u>3,792,335</u>	<u>20,820</u>
FUND BALANCES AT END OF YEAR	<u>\$ 3,913,607</u>	<u>\$ 170,820</u>

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

Debt Service	Capital Projects		Total Governmental Funds
	Commercial/Industrial	Low/Moderate Income	
\$ -	\$ 4,866,356	\$ 1,216,988	\$ 6,083,344
4,493	286,562	147,350	530,097
-	192,216	-	277,863
-	1,509,930	-	1,509,930
<u>4,493</u>	<u>6,855,064</u>	<u>1,364,338</u>	<u>8,401,234</u>
-	2,938	4,731	13,644
-	4,609,087	333,607	5,167,786
780,000	-	-	780,000
<u>1,870,085</u>	<u>44,018</u>	<u>-</u>	<u>1,914,103</u>
<u>2,650,085</u>	<u>4,656,043</u>	<u>338,338</u>	<u>7,875,533</u>
<u>(2,645,592)</u>	<u>2,199,021</u>	<u>1,026,000</u>	<u>525,701</u>
2,651,878	-	-	2,651,878
-	162,793	60,000	747,793
-	(1,902,878)	(749,000)	(2,651,878)
-	(5,857,494)	(874,299)	(6,931,793)
<u>2,651,878</u>	<u>(7,597,579)</u>	<u>(1,563,299)</u>	<u>(6,184,000)</u>
6,286	(5,398,558)	(537,299)	(5,658,299)
<u>2,856,974</u>	<u>24,243,150</u>	<u>11,028,449</u>	<u>41,941,728</u>
<u>\$ 2,863,260</u>	<u>\$ 18,844,592</u>	<u>\$ 10,491,150</u>	<u>\$ 36,283,429</u>

HEALDSBURG COMMUNITY 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, 2004

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

Net Change in fund balances - total governmental funds		\$ (5,658,299)
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 (\$5,896,312) exceeded depreciation (\$124,240) in the the current period		5,772,072
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		780,000
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	\$ (257,064)	
Amortization of issuance costs	(14,666)	
Amortization of bond discount	(8,521)	
		<u>(280,251)</u>
Change in net assets of governmental activities		<u>\$ 613,522</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ASSETS:	
Cash and investments	\$ 28,109
Interest receivable	<u>23</u>
TOTAL ASSETS	28,132
LIABILITIES:	
Deposits payable	<u>2,206</u>
NET ASSETS:	
Held in trust for other purposes	<u>25,926</u>
TOTAL NET ASSETS	<u>\$ 25,926</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2004

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ADDITIONS:	
Contributions	\$ 20,000
Investment income	75
Fees and charges	<u>31,416</u>
TOTAL ADDITIONS	51,491
DEDUCTIONS:	
Community development	<u>52,603</u>
CHANGE IN NET ASSETS	(1,112)
NET ASSETS AT BEGINNING OF YEAR	<u>27,038</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 25,926</u></u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

The Healdsburg Community 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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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 Community 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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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	\$ 5,167,786
Capital outlays capitalized	(5,896,312)
Depreciation expense	124,240
Amortization of bond issue costs	14,666
Net transfers from the City of Healdsburg	<u>6,184,000</u>
Community development expenditures Reported on the Statement of Activities	<u>\$ 5,594,380</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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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, not exceeding 60 days.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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	March 1	March 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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

2. CASH AND INVESTMENTS:

Cash and investments are reported as follows in the financial statements:

Government-wide:		
Cash and investments	\$	2,075,173
Restricted cash and investments		32,547,793
Fiduciary Funds:		
Cash and investments		<u>28,109</u>
	\$	<u>34,651,075</u>

Cash and investments at June 30, 2004 consisted of the following:

Pooled with City of Healdsburg	\$	2,103,283
Restricted Investments:		
Money market mutual funds		10,006,083
Commercial paper		998,355
Federal Agency Securities		18,433,307
Investments held by fiscal agent:		
Money market mutual funds		<u>3,110,047</u>
	\$	<u>34,651,075</u>

Deposits:

Deposits in banks are maintained in financial institutions, which provide deposit protection on the bank balance from the Federal Depository Insurance Corporation. The California Government Code requires California banks and savings and loan associations to secure an Agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an Agency's deposits. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's deposits.

Disclosures on the Agency's deposits pooled with the City of Healdsburg are included in the City's financial statements.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Investments:

In accordance with the Agency's investment policy, the Agency may invest in U.S. Treasury Bills, Bonds and Notes, Federal Agency Securities, Bankers Acceptance Notes, Certificates of Deposit and Negotiable Certificates of Deposit, Commercial Papers, California Local Agency Investment Fund (LAIF), Repurchase Agreements, and Medium Corporate Bonds.

Investments of the Agency are classified in three categories to give an indication of the level of credit risk assumed by the Agency at year-end.

Category 1 - Insured or registered, or securities held by the Agency or its agent in the Agency's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Agency's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Agency's name.

At June 30, 2004, the Agency's investments consisted of the following:

	Category			Not Required to be Categorized	Carrying Value
	1	2	3		
Federal Agency Securities	\$ 18,433,307	\$ -	\$ -	\$ -	\$ 18,433,307
Commercial paper	998,355	-	-	-	998,355
Money Market					
Mutual Funds	-	-	-	10,006,083	10,006,083
Investments held by Fiscal Agent:					
Money Market					
Mutual Funds	-	-	-	3,110,047	3,110,047
	<u>\$ 19,431,662</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,116,130</u>	<u>\$ 32,547,792</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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, 2004 is \$833,567. The Agency also receives 20% equity participation in the net income flow after a preferred rate of return to the developer. During 2004, the Agency received \$82,930 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, 2004 is as follows:

	Balance at June 30, 2003	Increase	Decrease	Balance at June 30, 2004
Capital assets, not being depreciated:				
Land and improvements	\$ 5,392,835	\$ 3,581,586	\$ -	\$ 8,974,421
Construction in progress	<u>3,784,581</u>	<u>1,693,853</u>	<u>(5,102,094)</u>	<u>376,340</u>
Total capital assets, not being depreciated	<u>9,177,416</u>	<u>5,275,439</u>	<u>(5,102,094)</u>	<u>9,350,761</u>
Capital assets, being depreciated:				
Buildings	359,300	5,722,967	-	6,082,267
Infrastructure	<u>1,143,452</u>	<u>-</u>	<u>-</u>	<u>1,143,452</u>
Total capital assets being depreciated	<u>1,502,752</u>	<u>5,722,967</u>	<u>-</u>	<u>7,225,719</u>
Less accumulated depreciation for:				
Buildings	(5,988)	(101,371)	-	(107,359)
Infrastructure	<u>(195,211)</u>	<u>(22,869)</u>	<u>-</u>	<u>(218,080)</u>
Total accumulated depreciation	<u>(201,199)</u>	<u>(124,240)</u>	<u>-</u>	<u>(325,439)</u>
Total capital assets being depreciated, net	<u>1,301,553</u>	<u>5,598,727</u>	<u>-</u>	<u>6,900,280</u>
Total capital assets, net	<u>\$ 10,478,969</u>	<u>\$10,874,166</u>	<u>\$(5,102,094)</u>	<u>\$ 16,251,041</u>

Depreciation expense of \$124,240 was allocated to the Community Development Function in fiscal year 2003-2004.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Due from/due to other funds were:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
UDAG Loan	Commercial/Industrial	\$ 1,700,000
Commercial / Industrial	Debt Service	243,077
		<u>\$ 1,943,077</u>

Interfund transfers were:

	<u>Transfers Out</u>		
	<u>Commercial/ Industrial</u>	<u>Low/ Moderate Income</u>	<u>Totals</u>
Transfers In:			
Debt Service	<u>\$ 1,902,878</u>	<u>\$ 749,000</u>	<u>\$ 2,651,878</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, 2004 is as follows:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>	<u>Due within One Year</u>
Bonds payable:					
1995 Tax Allocation Bonds	\$ 3,490,000	\$ -	\$ (70,000)	\$ 3,420,000	\$ 75,000
2002 Series A Tax Allocation Bonds	14,030,000	-	(270,000)	13,760,000	270,000
2002 Series C Tax Allocation Bonds	5,530,000	-	(105,000)	5,425,000	105,000
2003 Series A Tax Allocation Bonds	13,000,000	-	(210,000)	12,790,000	270,000
2003 Series B Tax Allocation Bonds	<u>6,370,000</u>	<u>-</u>	<u>(125,000)</u>	<u>6,245,000</u>	<u>125,000</u>
Subtotal	42,420,000	-	(780,000)	41,640,000	845,000
Less: bond discount	<u>(239,995)</u>	<u>-</u>	<u>8,521</u>	<u>(231,474)</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 42,180,005</u>	<u>\$ -</u>	<u>\$ (771,479)</u>	<u>\$ 41,408,526</u>	<u>\$ 845,000</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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 COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

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. Annual Debt Service:

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 845,000	\$ 2,110,387	\$ 2,955,387
2006	865,000	2,089,688	2,954,688
2007	880,000	2,064,427	2,944,427
2008	905,000	2,034,941	2,939,941
2009	930,000	2,001,287	2,931,287
2010-2014	5,195,000	9,364,445	14,559,445
2015-2019	6,425,000	7,943,078	14,368,078
2020-2024	8,120,000	6,006,983	14,126,983
2025-2029	10,160,000	3,504,128	13,664,128
2030-2031	<u>7,315,000</u>	<u>626,679</u>	<u>7,941,679</u>
Total	<u>\$ 41,640,000</u>	<u>\$ 37,746,043</u>	<u>\$ 79,386,043</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

7. FUND BALANCES:

Reserved fund balances represent the portion of fund balance, which is not appropriate for expenditure or is legally segregated for a specific future use.

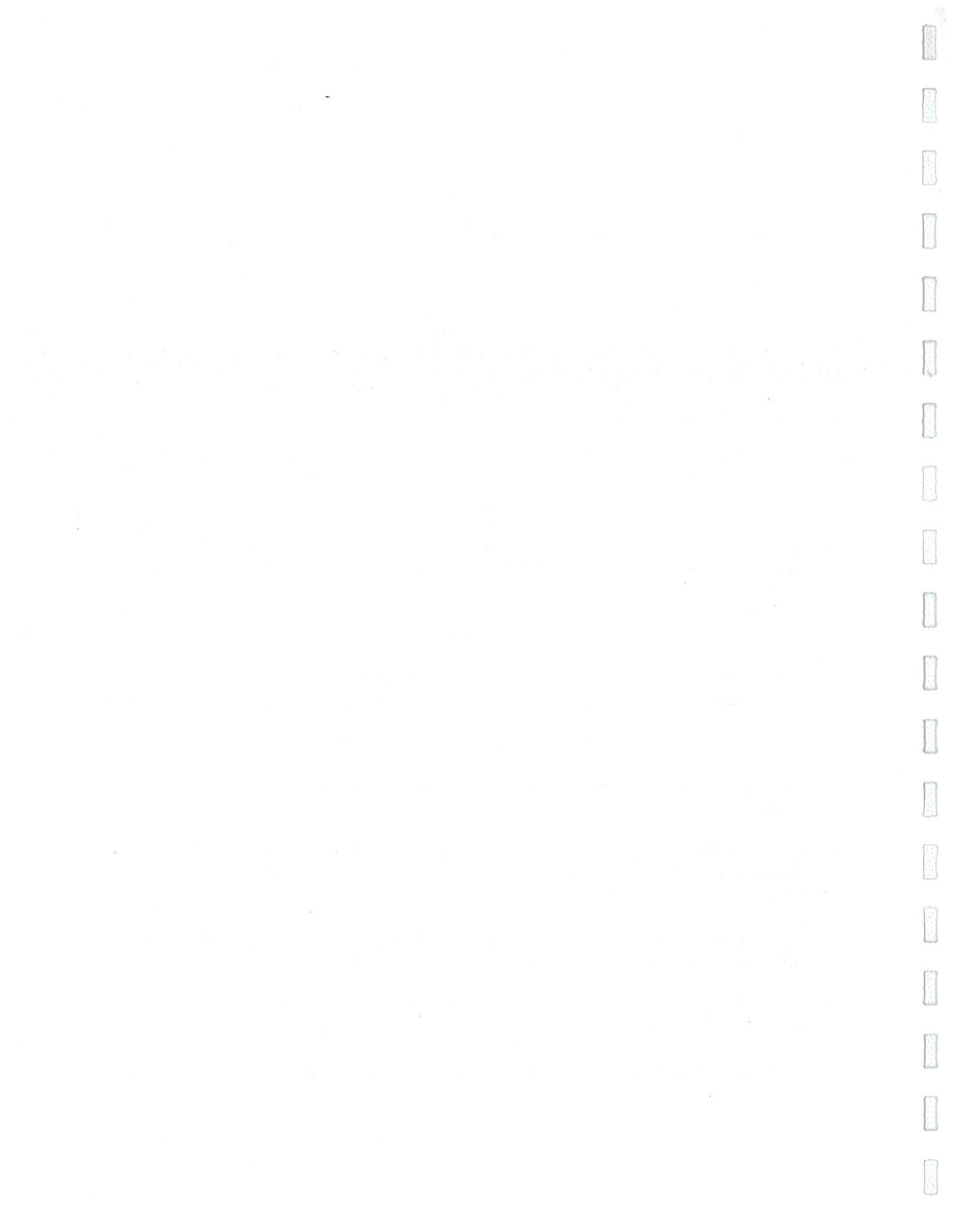
Unreserved fund balance, if any, may be designated to indicate tentative plans for financial resource utilization in a future period.

Fund balances have been reserved for the following purposes at June 30, 2004:

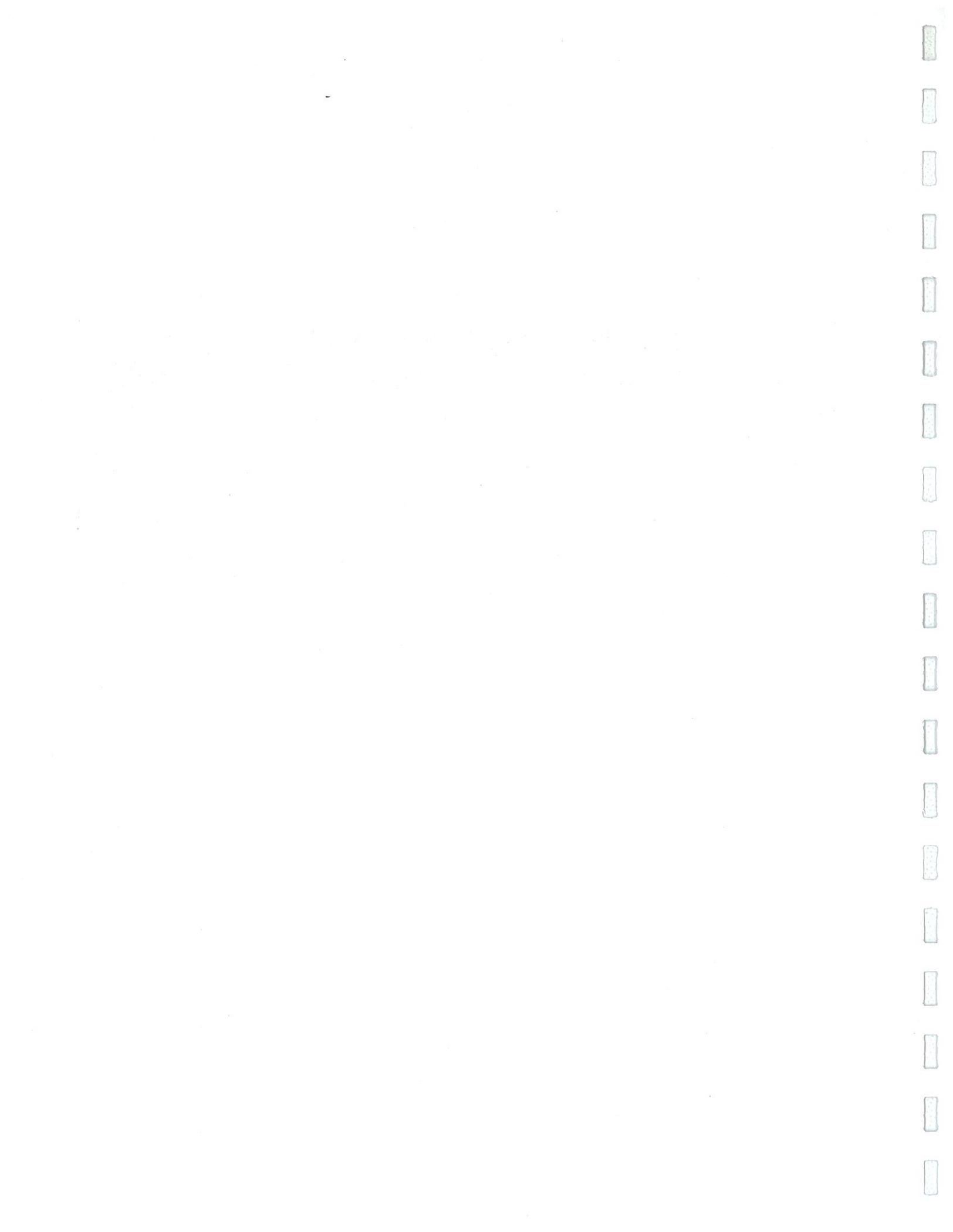
	UDAG Loan	Debt Service	Commercial Housing	Low and Moderate Income Housing	Total Governmental Funds
Noncurrent notes receivable	\$ 1,465,225	\$ -	\$ -	\$ -	\$ 1,465,225
Low and moderate income housing	-	-	-	10,491,150	10,491,150
Debt service	-	2,863,260	-	-	2,863,260
Community and economic development	-	-	16,637,521	-	16,637,521
Multi-year programs	-	-	2,207,071	-	2,207,071
	<u>\$ 1,465,225</u>	<u>\$ 2,863,260</u>	<u>\$ 18,844,592</u>	<u>\$ 10,491,150</u>	<u>\$ 33,664,227</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.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF HEALDSBURG

BUDGETARY COMPARISON SCHEDULE

COMMUNITY REDEVELOPMENT AGENCY UDAG LOAN SPECIAL REVENUE FUND

For the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Development fees and permits	-	-	-	-
Investment income	102,000	102,000	91,692	(10,308)
Other revenues	160,000	160,000	85,647	(74,353)
TOTAL REVENUES	262,000	262,000	177,339	(84,661)
EXPENDITURES:				
Current:				
General government	3,675	3,675	5,975	(2,300)
Public safety	-	-	92	(92)
Culture and recreation	-	-	-	-
Community development	-	-	-	-
TOTAL EXPENDITURES	3,675	3,675	6,067	(2,392)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	258,325	258,325	171,272	(87,053)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(50,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(50,000)	(50,000)	(50,000)	-
NET CHANGE IN FUND BALANCE	208,325	208,325	121,272	(87,053)
FUND BALANCE - BEGINNING OF YEAR	3,792,335	3,792,335	3,792,335	-
FUND BALANCE - END OF YEAR	\$ 4,000,660	\$ 4,000,660	\$ 3,913,607	\$ (87,053)

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

1. BUDGETS AND BUDGETARY ACCOUNTING:

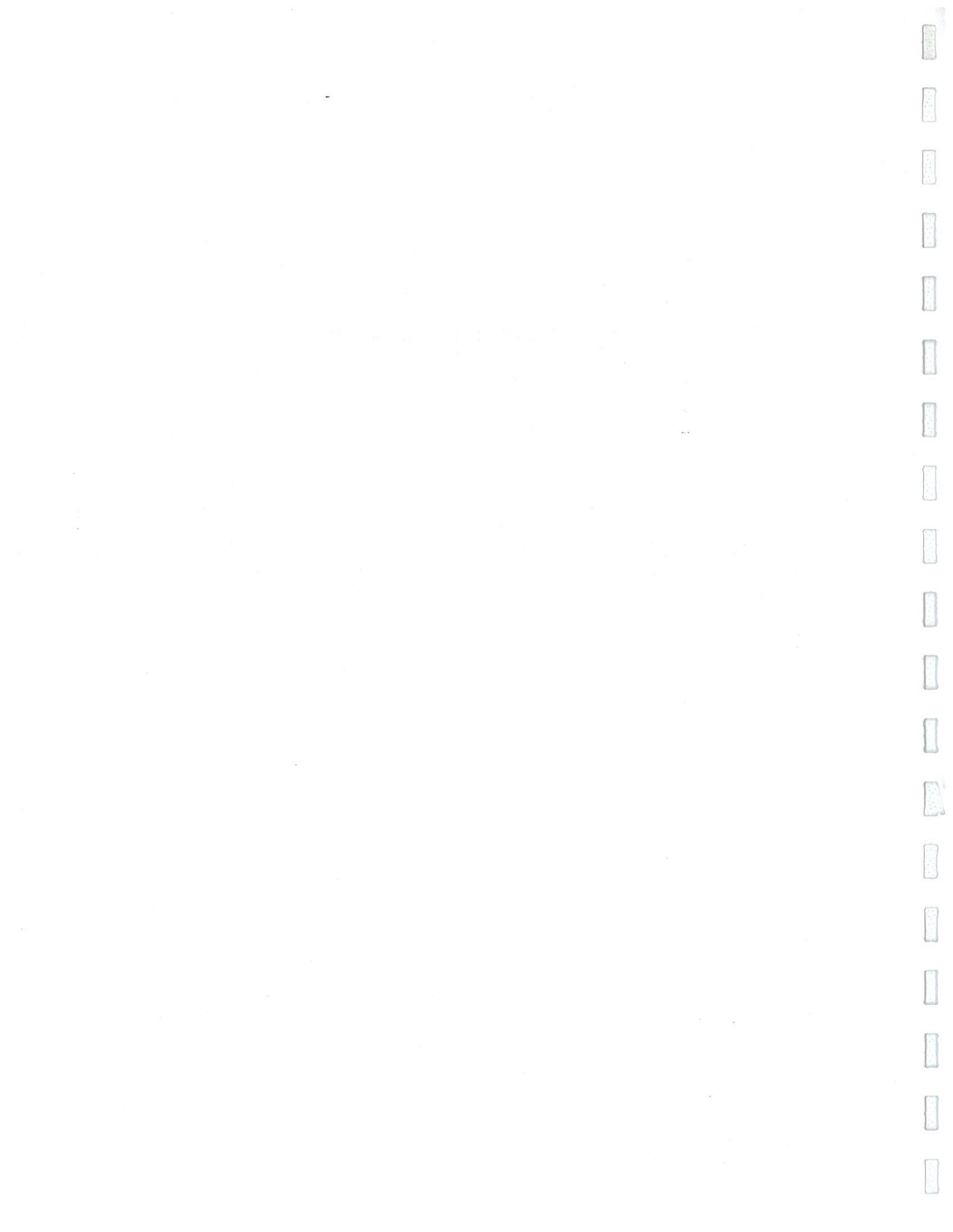
Budgets and Budgetary Accounting:

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. Encumbrances lapse at year end. Accordingly, no reserve for encumbrances is reported in the accompanying fund financial balance sheet.

See independent auditors' report.

SUPPLEMENTARY INFORMATION



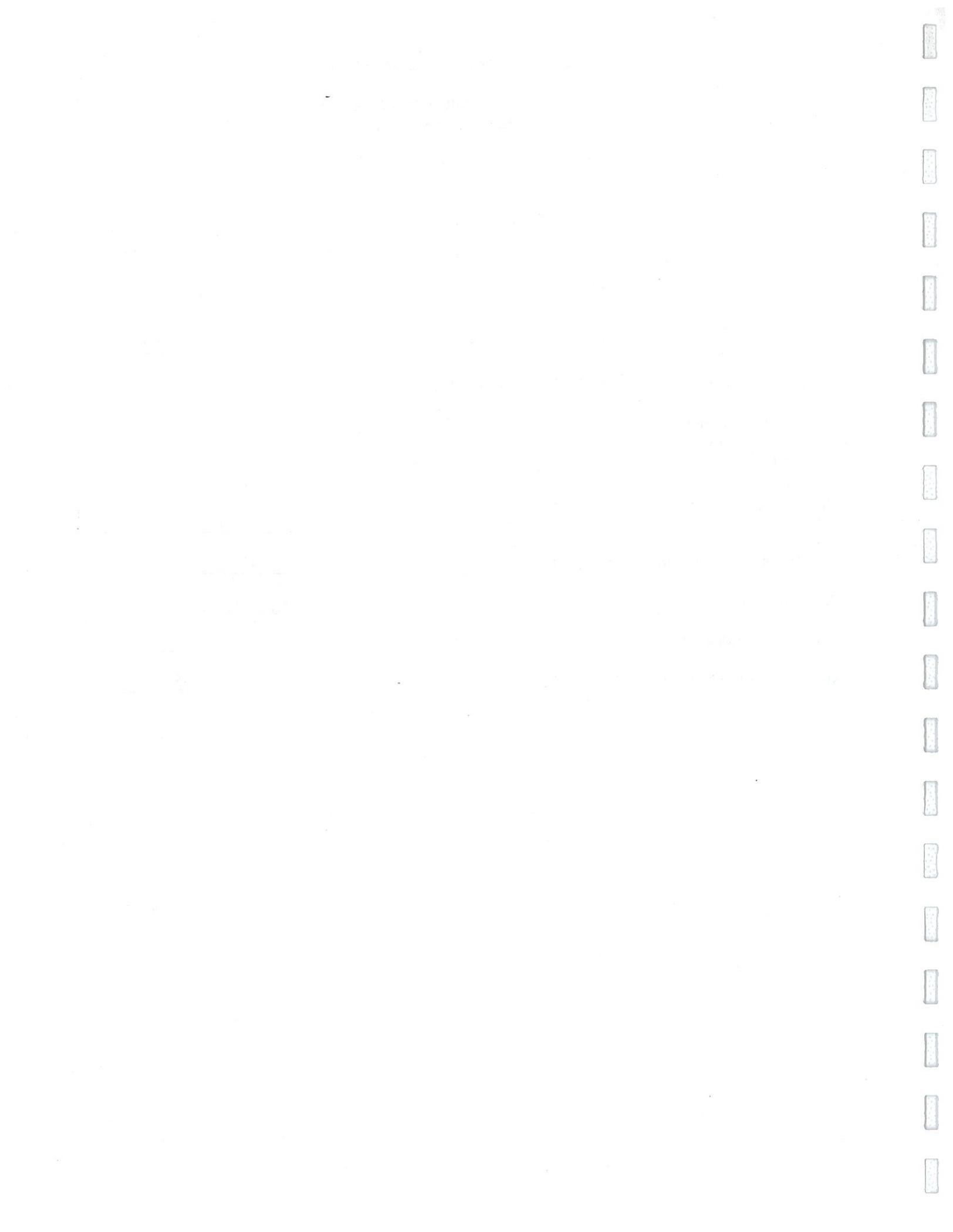
HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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

July 1, 2003

	<u>All Project Areas</u>
OPENING FUND BALANCE - JULY 1, 2003	\$ 11,028,449
LESS UNAVAILABLE AMOUNTS:	
Bond proceeds restricted for capital projects	<u>(9,697,653)</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS	1,330,796
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):	
Set-aside for last four years:	
2002 - 2003	\$ 1,101,911
2001 - 2002	945,074
2000 - 2001	864,538
1999 - 2000	<u>769,918</u>
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 3,681,441</u>
Base limitation	<u>\$ 1,000,000</u>
GREATER AMOUNT	<u>3,681,441</u>
COMPUTED EXCESS/SURPLUS - JULY 1, 2003	<u>\$ -</u>

See independent auditors' report.





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November 10, 2004

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 Community
Redevelopment Agency
Healdsburg, California

We have audited the financial statements of the governmental activities and each major fund of the Healdsburg Community Redevelopment Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated November 10, 2004. 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 Community 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 Community 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 one instance of noncompliance that is required to be reported under Government Auditing Standards.

Pursuant to California Health and Safety Code Section 33080.1, the State Controller's annual reports and the independent auditors' reports should be submitted to the Agency's legislative body and the State Controller within six months of the end of the fiscal year (by December 31). For the fiscal year ended June 30, 2003, these annual reports were not submitted on a timely basis to the Agency's Members.

This report is intended solely for the information and use of the Board of Directors and management of the Healdsburg Community 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.

Diem Evans and Company, LLP