

**HEALDSBURG COMMUNITY
REDEVELOPMENT AGENCY**

**COMPONENT UNIT FINANCIAL
STATEMENTS**

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

JUNE 30, 2003



HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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October 23, 2003

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Healdsburg Community
Redevelopment Agency
Healdsburg, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2003, 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, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2003, 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.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the Implementation of Governmental Accounting Standards Board Statement No. 34 for the year ended June 30, 2003.

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In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2003, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 other supplemental information and 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 COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

Our discussion and analysis of Healdsburg Community Redevelopment Agency (Agency) financial performance for the fiscal year ended June 30, 2003 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. Because this is the first year of GASB 34 implementation there are no prior year comparisons. 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 \$10,086,857 were restricted for debt service and community development.
- The Agency issued \$19.4 million of tax allocation bonds
- The Agency was required by the State to make a \$144,000 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 question 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, 2003

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, 2003

THE AGENCY AS A WHOLE

The Agency's combined net assets are \$10,086,857 as outline in Table 1. This is an increase of \$3,830,070 from \$6,256,787.

TABLE 1
Net Assets

Assets:	
Current and restricted assets	\$ 44,251,249
Capital assets	<u>10,478,969</u>
Total Assets	<u>54,730,218</u>
Liabilities:	
Other liabilities	2,463,356
Long-term liabilities outstanding	<u>42,180,005</u>
Total Liabilities	<u>44,643,361</u>
Net Assets:	
Restricted	<u>\$ 10,086,857</u>

TABLE 2
Changes in Net Assets

REVENUES:	
General Revenues:	
Tax increment	\$ 5,509,106
Investment earnings	532,240
Other revenues	<u>463,842</u>
Total Revenues	<u>6,505,188</u>
EXPENSES:	
General Government	160,369
Community Development	1,211,443
Interest on long-term debt	<u>1,303,306</u>
Total Expenses	<u>2,675,118</u>
CHANGE IN NET ASSETS	3,830,070
NET ASSETS - BEGINNING OF YEAR	<u>6,256,787</u>
NET ASSETS - END OF YEAR	<u>\$ 10,086,857</u>

See independent auditor's report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2003

THE AGENCY'S FUNDS

The governmental funds balance sheet on pages 10 and 11 shows a fund balance of \$41,941,728 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 \$16,912,834 primarily as a result of \$19,370,000 in issuance of tax allocation bonds.

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.

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 2003, the Agency had \$10,478,969 invested in a broad range of capital assets, including land, buildings and improvements.

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

Land and improvements	\$ 5,392,835
Construction in progress	3,784,581
Buildings	353,312
Infrastructure	948,241
Total	<u>\$ 10,478,969</u>

See independent auditor's report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt

At year-end, the Agency's governmental activities had \$42,424,000 in tax allocation bonds which are detailed in Note 6 of the financial statements. The Agency issued \$19,370,000 in debt during the fiscal year and paid \$425,000 in principal payments.

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, 2003

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments (Note 2)	\$ 5,219,157
Receivables:	
Taxes, including interest, penalties and liens	177,663
Loans	2,070,276
Accounts	433,577
Interest	37,828
Prepaid charges	1,500,394
Deferred charges	413,080
Restricted assets:	
Restricted cash and investments (Note 2)	34,399,274
Capital assets (net of accumulated depreciation) (Note 4)	<u>10,478,969</u>
 TOTAL ASSETS	 <u>54,730,218</u>
LIABILITIES:	
Accounts payable and accrued liabilities	30,442
Deferred revenue	1,865,746
Deposit	253
Interest payable	566,915
Long-term liabilities:	
Due within one year (Note 6)	775,000
Due in more than one year (Note 6)	<u>41,405,005</u>
 TOTAL LIABILITIES	 <u>44,643,361</u>
NET ASSETS:	
Invested in capital assets, net of related debt	-
Restricted - Debt service	2,290,059
Restricted - Community development	<u>7,796,798</u>
 TOTAL NET ASSETS	 <u>\$ 10,086,857</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2003

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	\$ 160,369	\$ -	\$ -	\$ -	\$ (160,369)
Community development	1,211,443	-	-	-	(1,211,443)
Interest expense	1,303,306	-	-	-	(1,303,306)
Total governmental activities	\$ 2,675,118	\$ -	\$ -	\$ -	(2,675,118)
GENERAL REVENUES:					
Taxes:					
Tax increment					5,509,106
Investment earnings					532,240
Other revenues					463,842
Total general revenues					6,505,188
CHANGE IN NET ASSETS					3,830,070
NET ASSETS AT BEGINNING OF YEAR					6,256,787
NET ASSETS AT END OF YEAR					\$ 10,086,857

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2003

	<u>Debt Service</u>
ASSETS	
Cash and investments	\$ 23,492
Receivables:	
Taxes	-
Loans	-
Accounts	-
Interest	-
Prepaid charges	-
Restricted cash and investments	<u>2,841,682</u>
 TOTAL ASSETS	 <u><u>\$ 2,865,174</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 8,200
Deferred revenue	-
Deposit	<u>-</u>
 TOTAL LIABILITIES	 <u>8,200</u>
FUND BALANCES:	
Reserved for:	
Noncurrent notes receivable	-
Prepaid charges	-
Low and moderate income housing	-
Debt service	2,856,974
Community and economic development	-
Multi-year programs	-
Unreserved:	
Reported in special revenue funds	<u>-</u>
 TOTAL FUND BALANCES	 <u>2,856,974</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 2,865,174</u></u>

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

Capital Projects		Other	Total
Commercial/ Industrial	Low/Moderate Income	Governmental Funds	Governmental Funds
\$ 2,012,629	\$ 912,035	\$ 2,271,001	\$ 5,219,157
142,449	35,214	-	177,663
-	383,169	1,687,107	2,070,276
433,577	-	-	433,577
26,987	5,794	5,047	37,828
1,500,394	-	-	1,500,394
21,859,939	9,697,653	-	34,399,274
<u>\$ 25,975,975</u>	<u>\$ 11,033,865</u>	<u>\$ 3,963,155</u>	<u>\$ 43,838,169</u>

\$ 16,826	\$ 5,416	\$ -	\$ 30,442
1,715,746	-	150,000	1,865,746
253	-	-	253
<u>1,732,825</u>	<u>5,416</u>	<u>150,000</u>	<u>1,896,441</u>

-	-	1,537,107	1,537,107
1,500,394	-	-	1,500,394
-	1,330,796	-	1,330,796
-	-	-	2,856,974
21,859,939	9,697,653	-	31,557,592
882,817	-	-	882,817
-	-	2,276,048	2,276,048
<u>24,243,150</u>	<u>11,028,449</u>	<u>3,813,155</u>	<u>41,941,728</u>
<u>\$ 25,975,975</u>	<u>\$ 11,033,865</u>	<u>\$ 3,963,155</u>	<u>\$ 43,838,169</u>

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that this is crucial for ensuring the integrity of the financial statements and for providing a clear audit trail. The text also mentions that proper record-keeping is essential for identifying trends and anomalies in the data.

2. The second part of the document focuses on the role of internal controls in preventing fraud and errors. It describes how a well-designed system of internal controls can help to ensure that all transactions are properly authorized, recorded, and classified. The text also discusses the importance of regular monitoring and evaluation of these controls to ensure they remain effective over time.

3. The third part of the document addresses the need for transparency and accountability in financial reporting. It highlights the importance of providing clear and concise information to stakeholders and of being open to external scrutiny. The text also discusses the role of independent auditors in providing an objective assessment of the financial statements.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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

June 30, 2003

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

Fund balances for governmental funds		\$ 41,941,728
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		10,478,969
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	\$ (42,420,000)	
Bond discount	239,995	
Deferred charges for issuance costs	<u>413,080</u>	
		(41,766,925)
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>(566,915)</u>
Net assets of governmental activities		<u><u>\$ 10,086,857</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, 2003

	<u>Debt Service</u>
REVENUES:	
Tax increment revenue	\$ -
Investment income	10,465
Rental income	-
Other	-
	<u>10,465</u>
TOTAL REVENUES	<u>10,465</u>
EXPENDITURES:	
Current:	
General government	-
Community development	203,000
Debt service:	
Principal retirement	642,000
Interest and fiscal charges	993,661
Bond issue costs	282,344
	<u>2,121,005</u>
TOTAL EXPENDITURES	<u>2,121,005</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,110,540)</u>
OTHER FINANCING SOURCES (USES):	
Transfers in	1,827,576
Transfer from City of Healdsburg	-
Transfers out	(11,505,000)
Transfers to City of Healdsburg	-
Proceeds from bonds	13,000,000
Bond discount	(162,500)
	<u>3,160,076</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,160,076</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,049,536
FUND BALANCES AT BEGINNING OF YEAR	<u>1,807,438</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,856,974</u>

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

Capital Projects		Other	Total
Commercial/ Industrial	Low/Moderate Income	Governmental Funds	Governmental Funds
\$ 4,407,195	\$ 1,101,911	\$ -	\$ 5,509,106
255,094	167,534	99,147	532,240
131,730	-	73,589	205,319
258,523	-	-	258,523
<u>5,052,542</u>	<u>1,269,445</u>	<u>172,736</u>	<u>6,505,188</u>
3,656	-	156,713	160,369
2,303,506	332,655	-	2,839,161
-	-	-	642,000
-	-	-	993,661
-	134,402	-	416,746
<u>2,307,162</u>	<u>467,057</u>	<u>156,713</u>	<u>5,051,937</u>
<u>2,745,380</u>	<u>802,388</u>	<u>16,023</u>	<u>1,453,251</u>
11,505,000	-	-	13,332,576
680,424	-	150,000	830,424
(1,508,694)	(318,882)	-	(13,332,576)
(3,009,742)	(1,063,974)	(425,000)	(4,498,716)
-	6,370,000	-	19,370,000
-	(79,625)	-	(242,125)
<u>7,666,988</u>	<u>4,907,519</u>	<u>(275,000)</u>	<u>15,459,583</u>
10,412,368	5,709,907	(258,977)	16,912,834
<u>13,830,782</u>	<u>5,318,542</u>	<u>4,072,132</u>	<u>25,028,894</u>
<u>\$ 24,243,150</u>	<u>\$ 11,028,449</u>	<u>\$ 3,813,155</u>	<u>\$ 41,941,728</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, 2003

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

Net Change in fund balances - total governmental funds		\$ 16,912,834
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 (\$5,328,534) exceeded depreciation (\$28,858) in the the current period		5,299,676
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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are the net effect of these differences in the treatment of long-term debt:		
Debt issued or incurred:		
Issuance of tax allocation bonds	\$ (19,370,000)	
Bond issuance costs	416,746	
Bond discount	242,125	
Principal payment	<u>642,000</u>	
		(18,069,129)
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	(307,515)	
Amortization of issuance costs	(3,666)	
Amortization of bond discount	<u>(2,130)</u>	
		<u>(313,311)</u>
Change in net assets of governmental activities		<u>\$ 3,830,070</u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2003

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ASSETS:	
Cash and investments	\$ 29,227
Interest receivable	17
	<hr/>
TOTAL ASSETS	29,244
LIABILITIES:	
Deposits payable	2,206
	<hr/>
NET ASSETS:	
Held in trust for other purposes	27,038
	<hr/>
TOTAL NET ASSETS	<u>\$ 27,038</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, 2003

	Healdsburg Downtown Business District Private-Purpose Trust Fund
ADDITIONS:	
Contributions	\$ 27,440
Investment income	197
Fees and charges	<u>20,000</u>
TOTAL ADDITIONS	47,637
DEDUCTIONS:	
Community development	<u>52,320</u>
CHANGE IN NET ASSETS	(4,683)
NET ASSETS AT BEGINNING OF YEAR	<u>31,721</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 27,038</u></u>

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

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

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, 2003

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, 2003

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 and nonmajor funds in the aggregate for governmental funds.

The Agency reports the following major governmental funds:

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:

Special Revenue Funds - is used to account for the proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes. These funds account for program revenue generated under the Agency's UDAG grant program and for surplus funds returned to the Agency from the retirement of housing mortgage revenue bonds.

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.

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.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Measurement Focus (Continued):

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.

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.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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 an 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, 2003

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	\$ 2,839,161
Capital outlays capitalized	(5,328,534)
Depreciation expense	28,858
Amortization of bond issue costs	3,666
Net transfers from the City of Healdsburg	<u>3,668,292</u>
Community development expenditures	
Reported on the Statement of Activities	<u>\$ 1,211,443</u>

E. Budgets and Budgetary Accounting:

The Agency adopts a budget annually, effective each July 1, for the special revenue, debt service, capital projects and fiduciary funds. 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.

F. 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.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Cash and Investments (Continued):

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.

G. 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

H. Land Held for Resale:

Land held for resale is carried at the lower of cost or estimated market value.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. 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.

J. 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.

K. 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, 2003

2. CASH AND INVESTMENTS:

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

Government-wide:		
Cash and investments	\$	5,219,157
Restricted cash and investments		34,399,274
Fiduciary Funds:		
Cash and investments		<u>29,227</u>
	\$	<u>39,647,658</u>

Cash and investments at June 30, 2003 consisted of the following:

Pooled with City of Healdsburg	\$	5,248,384
Restricted Investments:		
Money market mutual funds		15,109,083
Commercial paper		5,992,073
Federal Agency Securities		9,978,728
Investments held by fiscal agent:		
Money market mutual funds		<u>3,319,390</u>
	\$	<u>39,647,658</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 Notes to Basic Financial Statements.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

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, 2003, the Agency's investments consisted of the following:

	Category			Not Required to be Categorized	Carrying Value
	1	2	3		
Federal Agency Securities	\$ 9,978,728	\$ -	\$ -	\$ -	\$ 9,978,728
Commercial paper	5,992,073	-	-	-	5,992,073
Money Market					
Mutual Funds	-	-	-	15,109,083	15,109,083
Investments held by Fiscal Agent:					
Money Market					
Mutual Funds	-	-	-	3,319,390	3,319,390
	<u>\$ 15,970,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,428,473</u>	<u>\$ 34,399,274</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

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, 2003 is \$907,643. The Agency also receives 20% equity participation in the net income flow after a preferred rate of return to the developer. During 2003, the Agency received \$73,589 as its equity participation of the net income, which is included in other revenues 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, 2003 is as follows:

	Balance at June 30, 2002	Increase	Decrease	Balance at June 30, 2003
Capital assets, not being depreciated:				
Land and improvements	\$ 3,838,373	\$ 1,554,462	\$ -	\$ 5,392,835
Construction in progress	<u>369,809</u>	<u>3,774,072</u>	<u>(359,300)</u>	<u>3,784,581</u>
Total capital assets, not being depreciated	<u>4,208,182</u>	<u>5,328,534</u>	<u>(359,300)</u>	<u>9,177,416</u>
Capital assets, being depreciated:				
Buildings	-	359,300	-	359,300
Infrastructure	<u>1,143,452</u>	<u>-</u>	<u>-</u>	<u>1,143,452</u>
Total capital assets being depreciated	<u>1,143,452</u>	<u>359,300</u>	<u>-</u>	<u>1,502,752</u>
Less accumulated depreciation for:				
Buildings	-	(5,988)	-	(5,988)
Infrastructure	<u>(172,341)</u>	<u>(22,870)</u>	<u>-</u>	<u>(195,211)</u>
Total accumulated depreciation	<u>(172,341)</u>	<u>(28,858)</u>	<u>-</u>	<u>(201,199)</u>
Total capital assets being depreciated, net	<u>971,111</u>	<u>330,442</u>	<u>-</u>	<u>1,301,553</u>
Total capital assets, net	<u>\$ 5,179,293</u>	<u>\$ 5,658,976</u>	<u>\$ (359,300)</u>	<u>\$ 10,478,969</u>

Depreciation expense of \$28,858 was allocated to the Community Development Function in fiscal year 2002-2003.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

5. INTERFUND TRANSFERS:

Interfund transfers at June 30, 2003 consisted of the following:

	Transfers Out			Totals
	Debt Service	Commercial/Industrial	Low/Moderate Income	
Transfers In:				
Debt Service	\$ -	\$ 1,508,694	\$ 318,882	\$ 1,827,576
Commercial/Industrial	11,505,000	-	-	11,505,000
	<u>\$ 11,505,000</u>	<u>\$ 1,508,694</u>	<u>\$ 318,882</u>	<u>\$ 13,332,576</u>

Transfers from the Debt Service Fund to the Commercial Industrial Fund were made to transfer bond proceeds received in fiscal year 2002-2003.

6. LONG-TERM LIABILITIES:

A summary of changes in the Governmental Activities long-term liabilities for the year ended June 30, 2003 is as follows:

	Balance at July 1, 2002	Additions	Deletions	Balance at June 30, 2003	Due within One Year
Bonds payable:					
1995 Tax Allocation Bonds	\$ 3,555,000	\$ -	\$ 65,000	\$ 3,490,000	\$ 70,000
2002 Series A Tax Allocation Bonds	14,290,000	-	260,000	14,030,000	270,000
2002 Series C Tax Allocation Bonds	5,630,000	-	100,000	5,530,000	100,000
2003 Series A Tax Allocation Bonds	-	13,000,000	-	13,000,000	210,000
2003 Series B Tax Allocation Bonds	-	6,370,000	-	6,370,000	125,000
Subtotal	23,475,000	19,370,000	425,000	42,420,000	775,000
Less: bond discount	-	(242,125)	(2,130)	(239,995)	-
Total bonds payable	23,475,000	19,127,875	422,870	42,180,005	775,000
Capital leases:					
REFA Series II	130,000	-	130,000	-	-
REFA Series III	87,000	-	87,000	-	-
Total capital leases	217,000	-	217,000	-	-
Totals	<u>\$ 23,692,000</u>	<u>\$19,127,875</u>	<u>\$ 639,870</u>	<u>\$ 42,180,005</u>	<u>\$ 775,000</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

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, 2003

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 June 30,	Principal	Interest	Total
2004	\$ 780,000	\$ 1,864,998	\$ 2,644,998
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
2009-2013	5,000,000	9,592,046	14,592,046
2014-2018	6,140,000	8,266,553	14,406,553
2019-2023	7,750,000	6,436,380	14,186,380
2024-2028	9,730,000	4,054,278	13,784,278
2029-2031	<u>9,525,000</u>	<u>1,097,343</u>	<u>10,622,343</u>
Total	<u>\$ 42,420,000</u>	<u>\$ 39,611,041</u>	<u>\$ 82,031,041</u>

G. Capital Leases:

The Agency has borrowed funds from the Redwood Empire Financing Authority (REFA) under various capital lease agreements to provide funds for capital improvements. The balances owed on the retention basin and drainage improvements (REFA Series II) and land acquisition and library parking lot (REFA Series III) were paid off during the fiscal year.

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2003

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, 2003:

	Debt Service	Commercial/ Industrial	Low and Moderate Income Housing	Other Governmental Funds	Total Governmental Funds
Noncurrent notes receivable	\$ -	\$ -	\$ -	\$ 1,537,107	\$ 1,537,107
Prepaid charges	-	1,500,394	-	-	1,500,394
Low and moderate income housing	-	-	1,330,796	-	1,330,796
Debt service	2,856,974	-	-	-	2,856,974
Community and economic development	-	21,859,939	9,697,653	-	31,557,592
Multi-year programs	-	882,817	-	-	882,817
	<u>\$ 2,856,974</u>	<u>\$ 24,243,150</u>	<u>\$ 11,028,449</u>	<u>\$ 1,537,107</u>	<u>\$ 39,665,680</u>

- A. The reserve for loans receivable represent amounts not available to finance payment of current expenditures.
- B. The reserve for prepaid charges represents amounts not available to finance payment of current expenditures.
- C. 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.
- D. 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.
- E. The reserve for community and economic development has been established to reflect bond proceeds restricted for capital improvements.
- F. The reserve for multi-year programs are amounts set aside for long-term capital projects.

See independent auditors' report.

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SUPPLEMENTARY INFORMATION

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HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
ALL SPECIAL REVENUE FUNDS

June 30, 2003

	UDAG Loan Fund	Housing Bond Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ 2,250,182	\$ 20,819	\$ 2,271,001
Receivables:			
Loans	1,537,107	150,000	1,687,107
Interest	5,046	1	5,047
TOTAL ASSETS	<u>\$ 3,792,335</u>	<u>\$ 170,820</u>	<u>\$ 3,963,155</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ -	\$ 150,000	\$ 150,000
FUND BALANCES:			
Reserved for:			
Noncurrent notes receivable	1,537,107	-	1,537,107
Unreserved:			
Reported in special revenue funds	2,255,228	20,820	2,276,048
TOTAL FUND BALANCES	<u>3,792,335</u>	<u>20,820</u>	<u>3,813,155</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,792,335</u>	<u>\$ 170,820</u>	<u>\$ 3,963,155</u>

See independent auditors' report.

HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
ALL SPECIAL REVENUE FUNDS

For the year ended June 30, 2003

	UDAG Loan Fund	Housing Bond Fund	Total Nonmajor Governmental Funds
REVENUES:			
Investment income	\$ 99,141	\$ 6	\$ 99,147
Rental income	73,589	-	73,589
TOTAL REVENUES	172,730	6	172,736
EXPENDITURES:			
Current:			
General government	6,713	150,000	156,713
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	166,017	(149,994)	16,023
OTHER FINANCING SOURCES (USES):			
Transfer from City of Healdsburg	-	150,000	150,000
Transfers to City of Healdsburg	(425,000)	-	(425,000)
TOTAL OTHER FINANCING SOURCES (USES)	(425,000)	150,000	(275,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(258,983)	6	(258,977)
FUND BALANCES AT BEGINNING OF YEAR	4,051,318	20,814	4,072,132
FUND BALANCES AT END OF YEAR	<u>\$ 3,792,335</u>	<u>\$ 20,820</u>	<u>\$ 3,813,155</u>

See independent auditors' report.

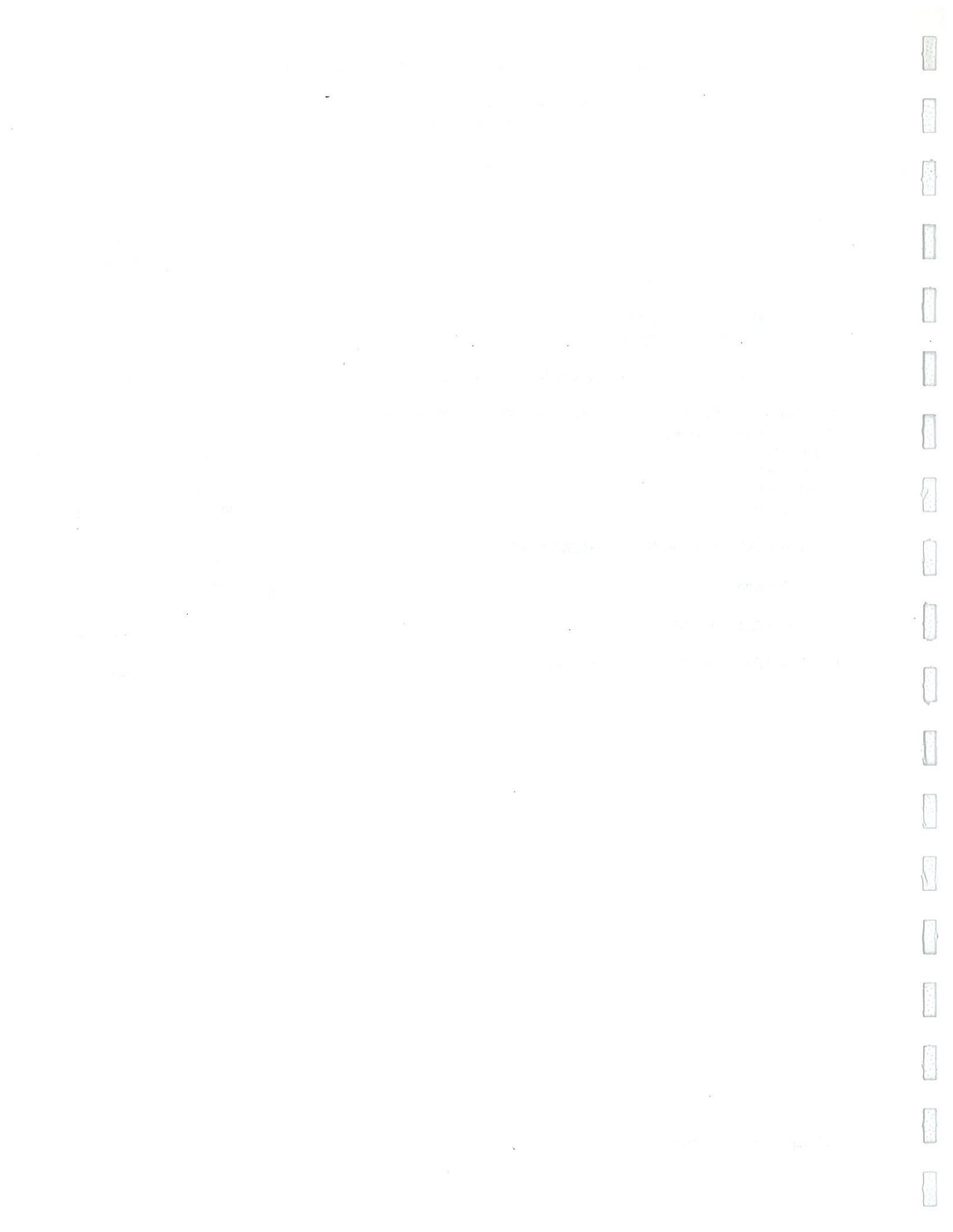
HEALDSBURG COMMUNITY REDEVELOPMENT AGENCY

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

July 1, 2002

	All Project Areas
OPENING FUND BALANCE - JULY 1, 2002	<u>\$ 5,318,542</u>
LESS UNAVAILABLE AMOUNTS:	
Bond proceeds restricted for capital projects	<u>(5,025,273)</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS	293,269
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):	
Set-aside for last four years:	
2001 - 2002	\$ 945,074
2000 - 2001	864,538
1999 - 2000	769,918
1998 - 1999	<u>699,162</u>
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 3,278,692</u>
Base limitation	<u>\$ 1,000,000</u>
GREATER AMOUNT	<u>3,278,692</u>
COMPUTED EXCESS/SURPLUS - JULY 1, 2002	<u>\$ -</u>

See independent auditors' report.





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October 23, 2003

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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 basic financial statements of the Healdsburg Community Redevelopment Agency as of and for the year ended June 30, 2003, and have issued our report thereon dated October 23, 2003. 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.

Compliance

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 grants, 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.

Compliance (Continued)

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, 2002, these annual reports were not submitted on a timely basis to the Agency's Members.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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.

Diehl, Evans and Company, LLP