

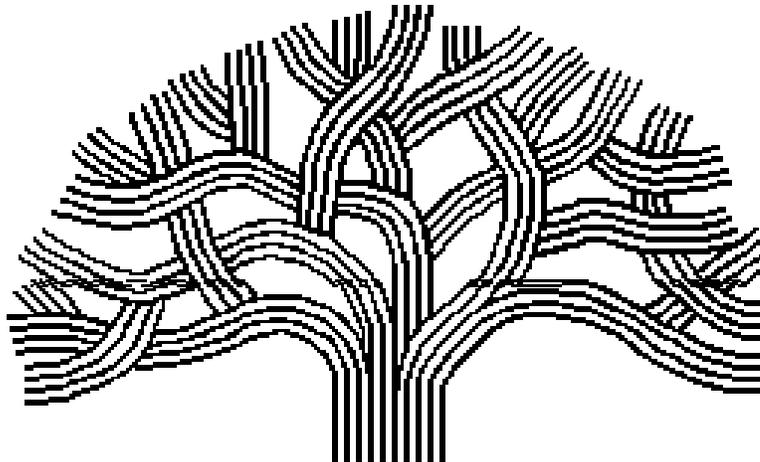
**REDEVELOPMENT AGENCY**

of the

**CITY OF OAKLAND**

**CALIFORNIA**

**(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)**



**Basic Financial Statements  
and  
Supplemental Information**

**Fiscal Year Ended June 30, 2008**

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
FINANCIAL REPORT**

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FMA-Treasury Division

Community & Economic Development Agency

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**  
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**June 30, 2008**

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**WILLIAMS, ADLEY & COMPANY, LLP**  
Certified Public Accountants / Management Consultants

## **Independent Auditors' Report**

**The Members of the Council  
of the Redevelopment Agency of the  
City of Oakland**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (the Agency), a component unit of the City of Oakland, California as of and for the year ended June 30, 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, 2008, and the respective changes in financial position thereof 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 December 4, 2008 on our consideration of the Agency's internal control over financial reporting and on 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.



**WILLIAMS, ADLEY & COMPANY, LLP**  
Certified Public Accountants  
Management Consultants

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements of the Agency, but is supplementary information required by 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 this 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 combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency. Such 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.

*Williams, Adley & Company, LLP*  
Oakland, California  
December 4, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **June 30, 2008**

This section of the Redevelopment Agency of the City of Oakland ("Agency") Annual Financial Report presents a narrative overview and analysis of the financial activities of the Agency for the year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Agency's financial statements and related footnotes.

### **FINANCIAL HIGHLIGHTS**

- The Agency's total assets exceeded its total liabilities by \$200.4 million compared to \$152.3 million for the previous fiscal year. Net assets grew by \$48.1 million or 31.6%. The net growth was driven primarily by improved property tax receipts of \$122.0 versus \$109.6 million for the previous fiscal year, a \$1.2 million net increase in property held for resale, a \$6.9 million increase in fixed assets, and an \$18.8 million increase in notes and loans receivables. These increases were further enhanced by a decrease of \$21.2 million in long-term liabilities as a result of debt retirements, offset by an increase of \$5.9 million in other liabilities.
- For the year ended June 30, 2008, the Agency's governmental fund balances were \$599.2 million compared to \$601.8 million in the previous fiscal year, a decrease of .4% or \$2.6 million. The change in fund balance is primarily attributable to \$12.4 million increase in tax increment. These increases were offset by increased project expenditures of \$12.2 million and finally a decrease of \$3.9 million in OBRA rents and other reimbursements. The fund balance of \$599.2 million is distributed by redevelopment project area as follows: 26.7% or \$160.2 million for the Central District; 20.0% or \$119.8 million for the Coliseum; 16.9% or \$101.2 million for Central East; 16.4% or \$98.3 million for Low and Moderate Housing; 11.8% or \$71.0 million for the Oakland Army Base; and 8.2% or \$48.6 million for Non-major Governmental Funds.
- The overall net change in fund balances in the governmental funds resulted in a decrease of .4% or \$2.6 million compared to the prior fiscal year. The change in fund balance is primarily attributable to \$12.4 million increase in tax increment. These increases were offset by increased project expenditures of \$12.2 million and finally a decrease of \$3.9 million OBRA rents and other reimbursements.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, using the accrual basis of accounting, in a manner similar to the financial statements for a private-sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes.

The government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include urban redevelopment and housing. The Agency does not engage in any business-type activities.

The government-wide financial statements include the operations of the various redevelopment areas and low and moderate housing program.

## **Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Agency's basic operations are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements follow the modified accrual basis of accounting and focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to

facilitate this comparison between governmental funds and governmental activities. The Agency maintains 11 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Central District Fund, Coliseum Fund, Central City East Fund, Low and Moderate Housing Fund, Oakland Army Base and Debt Service Fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation as non-major governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

#### **Notes to the basic financial statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17-35 of this report.

#### **Other information**

In addition to the basic financial statements and the accompanying notes, the combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the footnotes.

#### **Government-wide Financial Statements Analysis**

The Agency's financial statements are presented under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. All of the Agency's activities are governmental; therefore, business-type activities are not reported.

#### **Analysis of Net Assets**

Net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's assets exceeded liabilities by \$200.4 million at the close of the fiscal year ended June 30, 2008.

As of the end of the fiscal year, the Agency had restricted net assets of \$599.1 million. The net assets include \$98.3 million reserved for Low and Moderate Housing. The balance of \$ 500.8 million in restricted net assets include an investment of \$128.6 million in Community Development (Property Held for Resale and Fixed Assets). The Agency uses Property Held for Resale of \$121.7 million and Fixed Assets of \$6.9 million to provide services to citizens; consequently, these assets are not available for future spending. The remaining restricted net assets of \$372.2 million represent resources that are subject to external restrictions on how they may be used. The Agency's deficit in unrestricted net assets of \$405.7 million is attributed to the issuance of bonds and other indebtedness to fund urban development and housing projects that are not capitalized.

**Net Assets**  
**Governmental Activities**  
(In thousands)

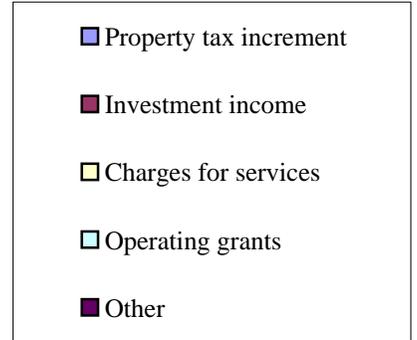
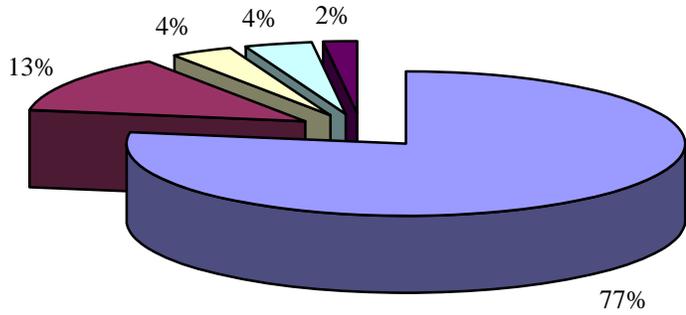
	<b>June 30, 2008</b>	<b>June 30, 2007</b>
<b>Assets:</b>		
Current and other assets	\$ 655,922	\$ 631,113
Property held for resale	121,735	120,586
Fixed Assets	6,887	-
Total assets	<b>784,544</b>	<b>751,699</b>
<b>Liabilities:</b>		
Long-term liabilities	540,605	561,811
Other liabilities	43,563	37,628
Total liabilities	<b>584,168</b>	<b>599,439</b>
<b>Net assets:</b>		
Investments in capital assets, net of related debt	6,887	
Restricted for:		
Low and moderate housing	98,343	95,606
Urban redevelopment projects and housing	500,827	506,194
Unrestricted	(405,681)	(449,540)
Total net assets	<b>\$ 200,376</b>	<b>\$ 152,260</b>

**Governmental activities.** Governmental activities increased the Agency's net assets by 31.6% or \$48.1 million. Key elements of this increase are as follows:

**Changes in Net Assets**  
**Governmental Activities**  
(In thousands)

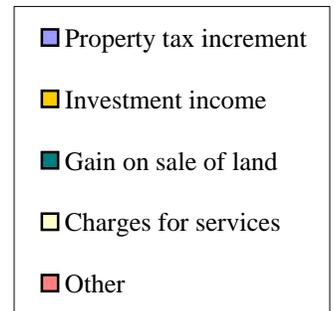
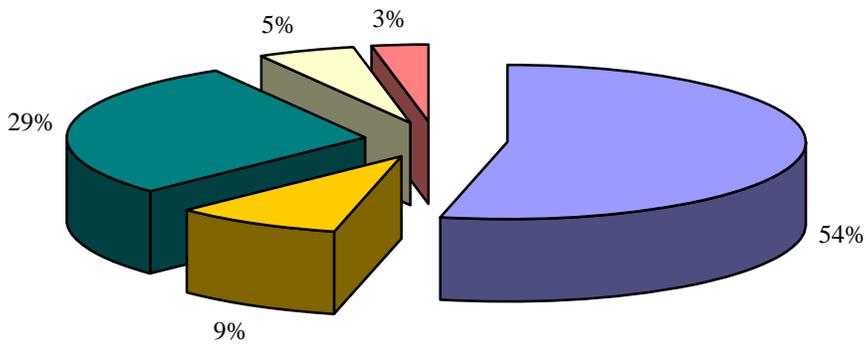
	<b>June 30, 2008</b>	<b>June 30, 2007</b>
<b>Revenues:</b>		
Program revenues:		
<b>Charges for services</b>	\$ 6,034	\$ 10,622
<b>Operating Grants and Reimbursements</b>	5,700	
<b>General revenues:</b>		
Property tax increment	122,048	109,613
Investment income	20,333	18,590
Gain on sale of land		-
Other	3,268	6,396
Total general revenues	145,649	134,599
<b>Special Items:</b>		
Net resale properties from OBRA		59,020
Total charges for services, general revenues, and special items	157,383	204,241
<b>Expenses:</b>		
Urban redevelopment and housing	81,776	88,069
Interest on long-term debt	27,491	27,226
Total expenses	\$ 109,267	\$ 115,295
Increase in net assets	\$ 48,116	\$ 88,946
Net assets, beginning of year	152,260	63,314
<b>Net assets, end of year</b>	<b>\$ 200,376</b>	<b>\$ 152,260</b>

**Redevelopment Agency of the City of Oakland  
Sources of Revenue  
For FY 2007-08**



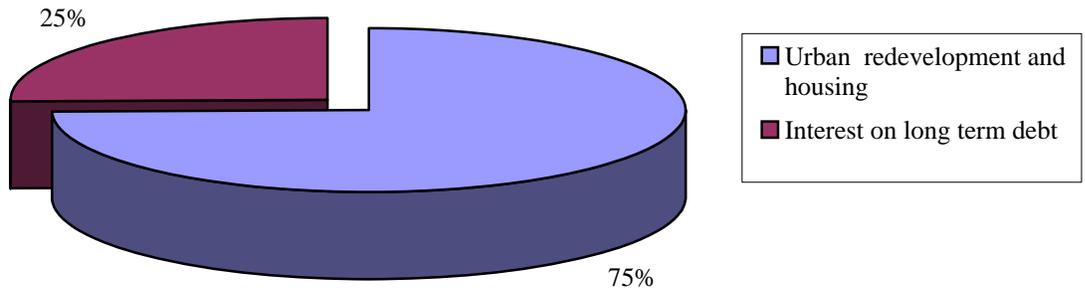
**Total Revenues 157,383**

**Redevelopment Agency of the City of Oakland  
Sources of Revenue  
For FY 2006-07**



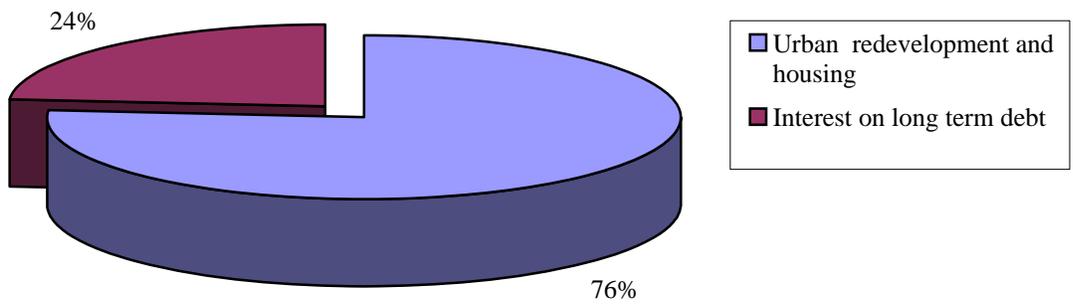
**Total Revenues \$204,241**

**Redevelopment Agency of the City of Oakland  
Functional Expenses  
For FY 2007-08**



**Total Expenditures \$109,267**

**Redevelopment Agency of the City of Oakland  
Functional Expenses  
For FY 2006-07**



**Total Expenditures \$115,295**

### **Analysis of Changes in Net Assets**

The revenues in governmental activities for the Agency exceeded expenses by \$48.1 million for the year ended June 30, 2008. This represents a decrease of 45.9% or \$40.8 million compared to the prior year's change in net assets of \$88.9 million. The decrease is primarily attributed to a one time special items of \$59.0 million for absorption of the Oakland Base Reuse Authority (OBRA) by the Agency during the prior fiscal year.

The charts in the preceding pages illustrate the proportional distribution of revenues by source and expenses by function of current year compared to the previous year. Revenues totaled \$157.4 million while expenses totaled \$109.3 million for the year ended June 30, 2008 compared to \$204.2 million and \$115.3 million respectively for the year ended June 30, 2007.

Revenues decreased compared to the previous fiscal year by \$46.8 million or 22.9%. The decrease can be attributed primarily to the absorption of the OBRA on August 7, 2006, which represented a one time gain of \$59.0 million plus an offsetting increase in net assets due to improved property tax receipts of \$122.0 million compared to \$109.6 million for the prior fiscal year.

Government-wide expenses decreased by \$6.0 million or 5.2%. The decrease is primarily attributable to the slow down in project redevelopment activities.

### **Financial Analysis of the Agency's Funds**

As of June 30, 2008, the Agency's governmental funds reported combined ending fund balances of \$599.2 million, a decrease of .4% or \$2.6 million compared to the prior fiscal year. The change in fund balance is primarily attributable to \$12.4 million increase in tax increment. These increases were offset by increased project expenditures of \$12.2 million and finally a decrease of \$3.9 million in OBRA rents and other reimbursements.

### **Budgetary Data**

Meaningful Agency budgetary data are not presented in the financial statements for capital projects and debt service funds because budgetary allocations are fiscal year specific while Agency project implementation may involve several fiscal years to complete.

### **Capital Assets and Debt Administration**

#### **Capital assets**

The Agency has capital assets of \$8.1 million, before depreciation, which were transferred from the Agency's property held for resale. The Oakland Redevelopment Agency management has determined that the Henry J. Robinson Multi-Service Center provides services to disadvantaged persons living within or near the Central District Redevelopment Project Area by operating the facilities as major transitional housing, emergency shelter, and drop-in programs for the homeless population in Oakland for the foreseeable future. The Fox Theater property was transferred to Fox Oakland Theater, Inc. ("FOT") through a long term (60 year) lease. The \$3.0 million value of the land was therefore transferred from "Property Held for Resale" to fixed asset. Fixed assets for the fiscal year ended June 30, 2008 is reported as \$6.9 million, net of accumulated depreciation.

### Long-term debt

At June 30, 2008, the Agency had total long-term debt outstanding of \$496.6 million, a decrease of \$17.8 million or 3.5% less than the previous fiscal year. The decrease was primarily due to the payment of outstanding bonds.

### Bond Ratings

The Agency's bond ratings at June 30, 2008 are as follows (in thousands):

	<u>Insured By</u>	<u>Rating</u>	<u>Balance Outstanding</u>
Tax allocation	FGIC/MBIA/AMBAC	AAA/Aaa/A-	\$ 406,945
Housing set-aside revenue bonds	MBIA	AAA/AAA/Aaa	89,465
General obligation bonds	N/A	Not Rated	220
<b>TOTAL</b>			<u>\$ 496,630</u>

Long-term liabilities at June 30, 2008 and June 30, 2007, are comprised of the following (in thousands):

	<u>FY 2008</u>	<u>FY 2007</u>
Tax allocation bonds payable	\$ 406,945	\$ 422,510
Housing set-aside revenue bonds	89,465	91,700
General obligation bonds	220	265
<b>SUBTOTAL</b>	<u>496,630</u>	<u>514,475</u>
Deferred amounts, net	6,703	7,580
Uptown remediation costs	433	1,191
Fox Court remediation costs	379	-
OBRA remediation costs	5,828	7,408
Advances from City of Oakland	30,632	31,157
<b>TOTAL</b>	<u>\$ 540,605</u>	<u>\$ 561,811</u>

### Requests for Information

This financial report is designed to provide a general overview of the Redevelopment Agency of the City of Oakland's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093.

# BASIC FINANCIAL STATEMENTS

# REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

## Statement of Net Assets

June 30, 2008

(In Thousands)

### ASSETS

Cash and investments	\$	227,767
Tax increment receivable		2,074
Accrued interest receivable		1,348
Accounts receivable (net of allowance for uncollectibles of \$226)		2,577
Due from the City of Oakland		14,772
Notes receivable (net of allowance for uncollectibles of \$46,728 )		116,429
Property held for resale		121,735
Fixed Assets (net of accumulated depreciation)		6,887
Restricted cash and investments		282,373
Deferred charges - bond issuance costs		<u>8,582</u>
<b>TOTAL ASSETS</b>		<u>784,544</u>

### LIABILITIES

Accrued interest payable		2,272
Accounts payable and accrued liabilities		9,974
Due to the City of Oakland		12,217
Due to other governments		15,013
Deposits and other liabilities		4,087
Noncurrent liabilities (net of unamortized refunding losses and premiums):		
Due within one year		22,275
Due in more than one year		<u>518,330</u>
<b>TOTAL LIABILITIES</b>		<u>584,168</u>

### NET ASSETS (Deficit)

Invested in capital assets, net of related debt		6,887
Restricted for:		
Low and Moderate Housing		98,343
Urban redevelopment projects and housing		500,827
Unrestricted (deficit)		<u>(405,681)</u>
<b>TOTAL NET ASSETS</b>	\$	<u>200,376</u>

See accompanying notes to the financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**

**Statement of Activities**

**For the year ended June 30, 2008**

**(In Thousands)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Urban redevelopment and housing	\$ 81,776	\$ 6,034	\$ 5,700	\$ (70,042)
Interest on long-term debt	<u>27,491</u>	<u>-</u>	<u>-</u>	<u>(27,491)</u>
Total governmental activities	<u>\$ 109,267</u>	<u>\$ 6,034</u>	<u>\$ 5,700</u>	<u>(97,533)</u>
General Revenues:				
Property tax increment				122,048
Investment income				20,333
Other				<u>3,268</u>
Total general revenues				<u>145,649</u>
Change in net assets				48,116
Net assets at beginning of year				<u>152,260</u>
Net assets at end of year				<u>\$ 200,376</u>

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**

**Balance Sheet  
Governmental Funds  
June 30, 2008  
(In Thousands)**

	<b>Capital Projects</b>							
	<b>Central District</b>	<b>Coliseum</b>	<b>Central City East</b>	<b>Low and Moderate Housing</b>	<b>Oakland Army Base</b>	<b>Debt Service</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>								
Cash and investments	\$ 47,379	\$ 44,972	\$ 30,172	\$ 45,745	\$ 25,339	\$ 900	\$ 33,260	\$ 227,767
Tax increment receivable	828	520	374	-	99	-	253	2,074
Accrued interest receivable	307	266	172	261	146	6	190	1,348
Accounts receivable (net of allowance for uncollectibles of \$226)	1,179	6	501	-	750	-	141	2,577
Due from other funds	-	-	-	501	-	-	-	501
Advances to the City	12,495	-	-	1,804	27	-	446	14,772
Notes receivable (net of allowance for uncollectibles of \$46,728)	33,915	200	-	80,047	-	-	2,267	116,429
Property held for resale	56,991	2,314	1,068	8,013	48,938	-	4,411	121,735
Restricted cash and investments	61,635	83,698	75,482	45,451	-	3	16,104	282,373
<b>TOTAL ASSETS</b>	<b>\$ 214,729</b>	<b>\$ 131,976</b>	<b>\$ 107,769</b>	<b>\$ 181,822</b>	<b>\$ 75,299</b>	<b>\$ 909</b>	<b>\$ 57,072</b>	<b>\$ 769,576</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Accounts payable and accrued liabilities	517	96	66	1,164	280	824	991	3,938
Due to other funds	-	-	501	-	-	-	-	501
Due to the City	1,760	4,003	2,724	29	1,083	124	2,494	12,217
Due to other governments	2,186	7,345	2,863	-	758	-	1,861	15,013
Deposits and other liabilities	2,675	-	-	5	1,363	-	44	4,087
Deferred revenue	47,347	720	374	82,281	849	-	3,079	134,650
<b>TOTAL LIABILITIES</b>	<b>54,485</b>	<b>12,164</b>	<b>6,528</b>	<b>83,479</b>	<b>4,333</b>	<b>948</b>	<b>8,469</b>	<b>170,406</b>
<b>FUND BALANCES</b>								
Reserved for advances and notes receivable	1,162	6	-	70	27	-	27	1,292
Reserved for property held for resale	56,991	2,314	1,068	8,013	48,938	-	4,411	121,735
Reserved for approved capital projects/activities	102,091	117,492	100,173	90,260	22,001	(39)	42,421	474,399
Unreserved - reported in Capital Project Funds	-	-	-	-	-	-	1,744	1,744
<b>TOTAL FUND BALANCES</b>	<b>160,244</b>	<b>119,812</b>	<b>101,241</b>	<b>98,343</b>	<b>70,966</b>	<b>(39)</b>	<b>48,603</b>	<b>599,170</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 214,729</b>	<b>\$ 131,976</b>	<b>\$ 107,769</b>	<b>\$ 181,822</b>	<b>\$ 75,299</b>	<b>\$ 909</b>	<b>\$ 57,072</b>	<b>\$ 769,576</b>

See accompanying notes to the financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets for  
Governmental Activities**

**June 30, 2008  
(In Thousands)**

Fund balance - total governmental funds \$ 599,170

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

Capital assets used in governmental activities are not financial resource and  
therefore, are not reported in the funds 6,887

Bond issuance costs are expended in the governmental funds when paid and are  
capitalized and amortized over the life of the corresponding bonds for the purposes  
of the governmental activities on the statement of net assets. 8,582

Total accrued interest on long-term debt and other liabilities: \$	(12,246)	
Less the amount reported in the funds statements	<u>3,938</u>	
Net amount of accrued interest which was not reported in the funds, but rather is recognized as an expenditure when		(8,308)

Because the focus of governmental funds is on short-term financing, some assets will  
not be available to pay for current period expenditures. Those assets are offset by  
deferred revenue in the governmental funds. 134,650

Long-term liabilities, including bonds payable, are not due and payable in the current  
period and, therefore, are not reported in the governmental funds:

<u>Type</u>	<u>Amount</u>	
Tax Allocation Bonds	\$ (406,945)	
Housing Set-Aside Revenue Bonds	(89,465)	
General Obligation Bonds	(220)	
Issuance premiums	(11,032)	
Refunding loss	4,329	
Fox Court remediation costs	(379)	
Uptown remediation costs	(433)	
Oakland Army Base remediation costs	(5,828)	
Advances from the City of Oakland	<u>(30,632)</u>	
Subtotal		<u>(540,605)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 200,376

See accompanying notes to the basic financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2008**  
**(In Thousands)**

	<u>Capital Projects</u>						<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>Central District</u>	<u>Coliseum</u>	<u>Central City East</u>	<u>Low and Moderate Housing</u>	<u>Oakland Army Base</u>				
<b>REVENUES</b>									
Tax increment	\$ 48,667	\$ 30,590	\$ 22,024	\$ -	\$ 5,806	\$ -	\$ 14,697	\$ 121,784	
Interest on restricted investments	2,443	3,597	3,220	2,859	-	14	754	12,887	
Interest on pooled investments	1,804	1,401	848	1,313	884	43	1,114	7,407	
Interest on notes receivable	-	-	-	-	-	-	39	39	
Rents and reimbursements	5,532	25	-	-	2,989	-	1,157	9,703	
Other	1,504	1	-	822	311	-	353	2,991	
<b>TOTAL REVENUES</b>	<u>59,950</u>	<u>35,614</u>	<u>26,092</u>	<u>4,994</u>	<u>9,990</u>	<u>57</u>	<u>18,114</u>	<u>154,811</u>	
<b>EXPENDITURES</b>									
Current:									
Urban redevelopment and housing	36,125	21,028	9,786	24,867	5,897	3	11,949	109,655	
Debt Service:									
Payment on advances	-	-	-	-	-	1,398	-	1,398	
Retirement of long-term debt	-	-	-	-	-	17,845	-	17,845	
Interest	-	-	-	-	-	28,542	-	28,542	
<b>TOTAL EXPENDITURES</b>	<u>36,125</u>	<u>21,028</u>	<u>9,786</u>	<u>24,867</u>	<u>5,897</u>	<u>47,788</u>	<u>11,949</u>	<u>157,440</u>	
Excess (deficiency) of revenues over expenditures	23,825	14,586	16,306	(19,873)	4,093	(47,731)	6,165	(2,629)	
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	1,383	-	-	30,511	-	47,652	601	80,147	
Transfers out	(37,209)	(15,555)	(11,089)	(7,902)	(1,452)	-	(6,940)	(80,147)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(35,826)</u>	<u>(15,555)</u>	<u>(11,089)</u>	<u>22,609</u>	<u>(1,452)</u>	<u>47,652</u>	<u>(6,339)</u>	<u>-</u>	
Change in fund balances	(12,001)	(969)	5,217	2,736	2,641	(79)	(174)	(2,629)	
Fund balances at beginning of year	172,245	120,781	96,024	95,607	68,325	40	48,777	601,799	
<b>FUND BALANCES (Deficit) AT END OF YEAR</b>	<u>\$ 160,244</u>	<u>\$ 119,812</u>	<u>\$ 101,241</u>	<u>\$ 98,343</u>	<u>\$ 70,966</u>	<u>\$ (39)</u>	<u>\$ 48,603</u>	<u>\$ 599,170</u>	

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**  
**Reconciliation of Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

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Net change in fund balances - total governmental funds	\$	(2,629)
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Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures. However, in statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.		6,887
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds.		21,606
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The 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. This is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of bond issuance costs	(541)		
Retirement of long-term debt	17,845		
Payment on advances	1,398		
Interest on advances	(873)		
Amortization of premiums on bonds issued	1,176		
Amortization of refunding loss	(299)		
Site Clearance and toxics remediation cost	1,958		20,664

Changes in accrued interest on bonds payable		1,588
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Change in net assets of governmental activities	\$	48,116
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See accompanying notes to the basic financial statements.

# NOTES TO BASIC FINANCIAL STATEMENTS

**1) ACTIVITIES OF THE REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**

The Redevelopment Agency (Agency), a blended component unit of the City of Oakland (City), was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. The Agency is included as a blended component unit in the City's basic financial statements because the Agency's governing body is the same as the City Council. Its principal activities are the acquisition of real property for the purpose of removing or preventing blight, providing for the construction of improvements thereon and the rehabilitation and restoration of existing properties. In addition, the Agency finances numerous low and moderate-income housing projects throughout the City.

The principal sources of funding for the Agency's activities have been:

- Bond issues, notes and other financing sources;
- Advances, loans and grants-in-aid from the City;
- Property tax revenue attributable to increases in the assessed valuations in the associated project areas; and
- Rental income derived from parking and rental of Agency owned properties.

Generally, funding from bond issues, notes, loans, and City advances are eventually repayable from incremental property tax revenue. The Agency has entered into repayment agreements with the City or is obligated to do so under the terms of other funding agreements. The amount of incremental property tax revenue received is dependent upon the local property tax assessments and rates, which are outside the control of the Agency. Accordingly, the length of time that will be necessary to repay the City is not readily determinable.

The Agency currently has the following project areas: Central District (which is segmented into several action areas including Chinatown, City Center, Uptown and City Hall Plaza); Coliseum; Central City East; Acorn; Broadway/MacArthur/San Pablo; Oakland Army Base; West Oakland; and Other Project Areas (Oak Center; Stanford/Adeline; and Oak Knoll).

The Central District Redevelopment Project, which generates the greatest tax revenue for the Agency, provides for the development and rehabilitation of commercial and residential structures for approximately 200 blocks of Oakland's downtown area. At 6,764 acres, the Coliseum Redevelopment Project is physically the largest adopted project area and provides for the development and rehabilitation of significant industrial, commercial, and residential areas in Oakland.

## 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Government-wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report all the activities of the Agency. The effect of interfund activity has been removed from these statements. The activities of the Agency are governmental in nature, which normally are supported by taxes and intergovernmental transfers.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include rents, grants, contributions and charges for use of property owned. Taxes and other items not properly included as program revenues are reported instead as general revenues.

### Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants are recognized as revenue when all eligibility requirements have been met.

The Agency's governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as estimated liabilities related to claims and judgments, are recorded only when the payment is due.

Property taxes and interest associated with the current fiscal period, using the modified accrual basis of accounting as described above, are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. The Agency considers property tax revenues to be available for the year levied if they are collected within 60 days of the end of the current fiscal period. Interest and grant revenues are considered available if they are collected within 60 days of year-end. Reimbursable grant revenues are considered available if they are collected within 180 days of year-end. All other revenues are considered to be measurable and available only when the Agency receives the cash.

The Agency reports the following major governmental funds:

**Central District Fund** – The Central District Fund accounts for the financial resources and the costs of acquisition, construction, improvement and management of commercial and residential facilities in the Central District Project area.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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**Coliseum Fund** – The Coliseum Fund accounts for the financial resources and the costs of acquisition, construction and improvement of commercial, industrial, residential and airport related facilities in the Coliseum Project area.

**Central City East Fund** – The Central City East Fund accounts for the financial resources and the costs of acquisition, construction, improvement and management of commercial and residential facilities in the Central City East Project area.

**Low and Moderate Housing Fund** – The Low and Moderate Housing Fund accounts for 20% and 5% set aside from all tax increments received, as mandated by State law and the Oakland Redevelopment Agency board, respectively. The fund also accounts for the proceeds from the Subordinated Housing Set Aside Revenue Bonds, Series 2000T and 2006A, and Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A-T. These funds are used to increase, improve and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low and moderate income. The Series 2006A Bonds are used to defease certain amount of the Redevelopment Agency's Subordinated Housing Set Aside Revenue Bonds, Series 2000T.

**Oakland Army Base Fund** – The Oakland Army Base Fund accounts for the financial resources and the costs of the redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

**Debt Service Fund** – The Tax Allocation Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term obligation principal, interest and related costs.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Investments**

The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2008, and reflects the values as if the Agency were to liquidate the securities on that date. Money market investments with maturities of one year or less have been stated at amortized cost.

### **Pooled Cash and Investments**

Income on pooled assets is allocated to the individual fund based on the fund's average daily balance in relation to total pooled assets.

### **Restricted Cash and Investments**

Proceeds from debt and other funds, which are restricted for the payment of debt or for use in approved projects and held by fiscal agents by agreement, are classified as restricted assets. Also, rental revenues received from the University of California Office of the President (UCOP), Ice

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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Rink, and City Center Garage West, which are restricted for the operation of each of the facilities, are classified as restricted.

### **Property Held for Resale**

Property held for resale is acquired as part of the Agency's redevelopment program. These properties are both residential and commercial. Costs of administering Agency projects are charged to capital outlay expenditures as incurred. A primary function of the redevelopment process is to prepare land for specific private development.

For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use.

Property held for resale may, during the period it is held by the Agency, generate rental or operating income. This income is recognized as it is earned in the Agency's statement of activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting.

The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development.

### **Capital Assets**

Capital assets, which includes land, facilities and improvements are reported in the governmental activities column in the government-wide financial statements. Capital assets, as defined by the Agency, are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the Agency governmental funds and as assets in the government-wide financial statements to the extent the Agency's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	15-40 years
Furniture, machinery and equipment	3-20 years
Infrastructure	7-50 years

### **Environmental Remediation Costs**

Expenditures for environmental remediation of real properties acquired by purchase or donation are added to the recorded amounts when incurred. All estimated environmental remediation costs

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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that would result in the recorded amount of property held for resale exceeding estimated net realizable values are accrued as expenses when such amounts become known.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The Agency in its fund financial statements has reserved fund balance as follows:

**Reserved for advances and notes receivable** – To account for assets owed from the City that will not be collected in time to be considered available for appropriation and for notes receivable related to the Jack London Gateway.

**Reserved for property held for resale** – To account for assets acquired from various funding sources to the Agency and are not available for appropriation.

**Reserved for approved capital projects/activities** – To account for assets set aside that have been committed to a specific use by contractual agreement or Agency resolution.

### **Restricted Net Assets and Revenues**

Under various agreements with the United States Department of the Army (Army), the use of substantially all assets of approximately 366 acres of the former Oakland Army Base and related lease income is restricted for the operation, maintenance and economic development of real properties, facilities and improvements from June 16, 1999 to August 7, 2010.

### **Tax Increment Revenue**

Incremental property tax revenues represent taxes collected on the redevelopment areas from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the year of project inception) property tax assessment. The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the Agency. Incremental property taxes are assessed and levied as of July 1, and result in a lien on real property. Incremental property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively.

### **Budgetary Data**

The Agency operates on a project basis and each of the capital project funds is for individual redevelopment areas consisting of several individual projects. All of the Agency's budgets are

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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June 30, 2008

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approved by the Agency's governing board. Unexpended budget appropriations are carried forward to the next year.

**Deferred Revenue**

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met in fund statements. The Agency typically records deferred revenue in the governmental fund financial statements related to notes receivable arising from developers financing arrangement and long-term receivables.

**Long-term Obligations**

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premium, discount and deferred refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, discount and deferred refunding losses. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt service issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**(3) CASH AND INVESTMENTS**

The Agency maintains a common cash and investment pool for use by all funds. Each fund's portion of this pool is reported in the governmental funds balance sheet as unrestricted cash and investments.

The Agency's cash and investments consist of the following at June 30, 2008: (in thousands)

Cash and investments (unrestricted)	<u>Fair Value</u> \$ 227,767
Restricted cash and investments	282,373
Total cash and investments	<u>\$ 510,140</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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The Agency has adopted the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code. The Agency also has investments subject to provisions of the bond indentures of its various bond issues. According to the investment policy and bond indentures, the Agency is permitted to invest in the Agency's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Agency maintains all of its unrestricted investments in a cash and investment pool. As of June 30, 2008, the Agency's cash and investment pool totaled \$227.8 million. Income earned or losses arising from investments in the Agency's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average daily cash balance of such funds.

As of June 30, 2008 the Agency's investment in LAIF was \$43.9 million (\$39.9 million in pooled cash and investments and \$4.0 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$25.1 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$70 billion. Of that amount, 85.28% is invested in non-derivative financial products and 14.72% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool.

**Custodial Credit Risk:**

At June 30, 2008, the carrying amount of the Agency's deposits was \$4.6 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and non-negotiable certificates of deposit. Of the bank balance, \$.4 million was FDIC insured and \$4.2 million was collateralized with securities held by the pledging financial institution in the Agency's name, in accordance with Section 53652 of the California Government Code.

**Credit Risk:**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by nationally recognized statistical rating organizations. The Agency's investment policy has mitigated credit risk by limiting investments to the safest types of securities. Additionally, the Agency prequalifies financial institutions, diversifies its portfolio and has established monitoring procedures.

The following tables show the Agency's credit risk as rated by Moody's for the Pool and Restricted portfolios as of June 30, 2008 (in thousands):

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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**Pooled Cash and Investments**

Ratings as of Fiscal Year Ended June 30, 2008

	<u>Fair Value</u>	<u>AAA/Aaa</u>	<u>Not Rated</u>
U.S. Govt. Agency Securities	\$ 93,144	\$ 93,144	\$ -
U.S. Govt. Agency Securities Disc.	55,606	55,606	-
Money Market Funds	36,936	36,936	-
LAIF	<u>39,912</u>	<u>-</u>	<u>39,912</u>
<b>Subtotal</b>	<b>\$ 225,598</b>	<b>\$ 185,686</b>	<b>\$ 39,912</b>
Deposits	<u>2,169</u>		
<b>Total</b>	<b>\$ 227,767</b>		

**Restricted Cash and Investments**

	<u>Fair Value</u>	<u>AAA/Aaa</u>	<u>Not Rated</u>
Money Market Funds	\$ 195,137	\$ 195,137	\$ -
LAIF	3,996	-	3,996
Investment Agreement	<u>80,836</u>	<u>80,836</u>	-
<b>Total</b>	<b>\$ 279,969</b>	<b>\$ 275,973</b>	<b>\$ 3,996</b>
Deposits	<u>2,404</u>		
<b>Total</b>	<b>\$ 282,373</b>		

**Concentration of Credit Risk:**

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Agency. The Agency's investment policy mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in single issuers. However, there is no limitation for investments issued by federal agencies or LAIF. The Agency has U.S. Government Agency Securities with Federal National Mortgage Association for \$67.7 million and Federal Home Loan Bank for \$60.0 million, which represents 13.38% and 11.86% of the total Agency portfolio respectively. The Agency also has investment agreements with FSA Capital Management \$43.0 million and Natixis Funding Corporation \$37.8 million representing 8.5% and 7.46% of the Agency portfolio respectively at June 30, 2008.

The following table shows the diversification of the Agency's portfolio (in thousands):

**Pooled Cash and Investments**

**Restricted Investments**

	<u>Fair Value</u>	<u>% of Portfolio</u>		<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities	\$ 93,144	40.89%	Money Market Funds	\$ 195,137	69.11%
U.S. Govt. Agency Securities Disc.	55,606	24.41%	LAIF	3,996	1.42%
Money Market Funds	36,936	16.22%	Investment Agreement	80,836	28.62%
LAIF	39,912	17.52%	Deposits	2,404	0.85%
Deposits	<u>2,169</u>	<u>0.95%</u>	<b>Total</b>	<b>\$ 282,373</b>	<b>100%</b>
<b>Total</b>	<b>\$ 227,767</b>	<b>100%</b>			

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
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**Interest Rate Risk**

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. The average days to maturity of the Agency's pooled portfolio is 340 days. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification.

The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2008, the Agency had the following investments and original maturities (in thousands):

**Pooled Cash and Investments**

	<u>Fair Value</u>	<u>Interest Rates</u>	<u>Maturities</u>		
			<u>12 Months or Less</u>	<u>1-3 Years</u>	<u>3-5 Years</u>
U.S. Govt. Agency Securities	\$ 93,144	2.72 - 4.26	\$ 27,221	\$ 50,897	\$ 15,026
U.S. Govt. Agency Securities Disc.	55,606	2.11 - 2.67	55,606	-	-
Money Market Funds	36,936	2.69 - 5.13	36,936	-	-
LAIF	39,912	2.89	39,912	-	-
Deposits	2,169	N/A	2,169	-	-
<b>Total</b>	<b>\$ 227,767</b>		<b>\$ 161,844</b>	<b>\$ 50,897</b>	<b>\$ 15,026</b>

**Restricted Investments**

	<u>Fair Value</u>	<u>Interest Rates</u>	<u>Maturities</u>
			<u>12 Months or Less</u>
Money Market Funds	\$ 195,137	2.30 - 5.00	\$ 195,137
LAIF	3,996	2.89	3,996
Investment Agreement	80,836	3.90 - 5.02	80,836
Deposits	2,404	-	2,404
<b>Total</b>	<b>\$ 282,373</b>		<b>\$ 282,373</b>

**Restricted Investments in the Debt Service Funds**

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and amounts to be held for the withdrawal of qualified reimbursements. These accounts are reported in capital projects and debt service funds. As of June 30, 2008, the amounts held by the trustees aggregated \$282.4 million of which \$282.4 million is available to be used for restricted projects. All restricted investments held

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
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by trustees as of June 30, 2008 were invested in a money market mutual funds, LAIF and investment agreements, and were in compliance with the bond indentures.

Total Agency cash and investments as of June 30, 2008, are as follow (in thousands):

	<u>Equity in Pooled Cash and Investment</u>	<u>Restricted Cash and Investment With Fiscal Agent</u>	<u>Total Governmental Funds</u>
Central District	\$ 47,379	\$ 61,635	\$ 109,014
Coliseum	44,972	83,698	128,670
Central City East	30,172	75,482	105,654
Low and moderate housing	45,745	45,451	91,196
Oakland Army Base	25,339	-	25,339
Debt Service	900	3	903
Nonmajor governmental funds	<u>33,260</u>	<u>16,104</u>	<u>49,364</u>
<b>TOTAL</b>	<b><u>\$ 227,767</u></b>	<b><u>\$ 282,373</u></b>	<b><u>\$ 510,140</u></b>

**(4) NOTES RECEIVABLE**

Notes receivable consisted of advances to developers of various Agency housing and redevelopment projects. These advances are evidenced by promissory notes. A summary of notes receivable at June 30, 2008, follows (in thousands):

	<u>Central District</u>	<u>Coliseum</u>	<u>Low and Moderate Housing</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Housing development project	\$ -	\$ -	\$ 113,598	\$ 1,462	\$ 115,060
Development loans	45,921	200	-	720	46,841
Small business loans	<u>128</u>	<u>-</u>	<u>-</u>	<u>1,128</u>	<u>1,256</u>
Gross notes receivable	46,049	200	113,598	3,310	163,157
Less: Allowance for uncollectible accounts	<u>(12,134)</u>	<u>-</u>	<u>(33,551)</u>	<u>(1,043)</u>	<u>(46,728)</u>
Net notes receivable	<u>\$ 33,915</u>	<u>\$ 200</u>	<u>\$ 80,047</u>	<u>\$ 2,267</u>	<u>\$ 116,429</u>

**(5) PROPERTY HELD FOR RESALE**

A summary of changes in property held for resale follows (in thousands):

	<u>1-Jul-07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers out</u>	<u>30-Jun-08</u>
Property held for resale	<u>\$120,586</u>	<u>\$10,010</u>	<u>\$761</u>	<u>\$8,100</u>	<u>\$121,735</u>

The increases in Property Held for Resale represent the purchases of land in the amounts of \$8.0 million for Wood Street Parcel-D, \$.6 million for 9418 Edes Ave., and \$1.1 million for 2777 Foothill Blvd. The OBRA capitalized remediation expenses of \$.3 million. Decreases included the \$.4 million sale of the Fox parking lot and a \$.4 million transfer to the City for street improvements from Other Projects.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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The Henry J. Robinson Multi-Service Center provides services to disadvantaged persons living within or near the Central District Redevelopment Project Area by operating major transitional housing, emergency shelter and drop-in programs for the homeless population in Oakland. Redevelopment Agency Management has determined that beginning with fiscal year 2007-08, the Agency intends to continue the use of the Henry Robinson Multi-Service Center for such services into the foreseeable future and therefore has decided to transfer this facility from its list of "Property Held for Resale" and report it as a long term depreciable capital asset in its government-wide financial statements. The total amount transferred is \$5.1 million and is reflected in the above transfer column.

The Fox Theater property was transferred to Fox Oakland Theater, Inc. ("FOT") through a long term (60 year) lease and a Disposition and Development Agreement ("DDA"). The \$3.0 million value of the land was therefore transferred from "Property Held for Resale" to fixed asset.

**(6) CAPITAL ASSETS**

A summary of changes in Fixed Assets follows (in thousands):

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	-	\$ 3,360	\$ -	\$ 3,360
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	-	3,360	-	3,360
Capital assets, being depreciated:				
Facilities and improvements	-	4,740	-	4,740
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	-	4,740	-	4,740
Less accumulated depreciation:				
Facilities and improvements	-	1,213	-	1,213
TOTAL ACCUMULATED DEPRECIATED	-	1,213	-	1,213
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	-	3,527	-	3,527
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ -	\$ 6,887	\$ -	\$ 6,887

The Henry J. Robinson Multi-Service Center provides services to disadvantaged persons living within or near the Central District Redevelopment Project Area by operating major transitional housing, emergency shelter and drop-in programs for the homeless population in Oakland. Redevelopment Agency Management has determined that beginning with fiscal year 2007-08, the Agency intends to continue the use of the Henry Robinson Multi-Service Center for such services into the foreseeable future and therefore has decided to transfer this facility from its list of "Property Held for Resale" and report it as a long term depreciable capital asset in its government-

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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June 30, 2008

wide financial statements. The transfer is reported at historical cost as an expenditure in the Agency's governmental funds. The historical cost of the property transferred is \$5.1 million less a \$1.2 million in depreciation expense since acquisition in 1992 has been charged to urban redevelopment and housing activities resulting in Net capital assets after depreciation is \$3.9 million.

The Fox Theater property was transferred to Fox Oakland Theater, Inc. ("FOT") through a long term (60 year) lease and a Disposition and Development Agreement ("DDA"). The \$3.0 million value of the land was therefore transferred from "Property Held for Resale" to fixed asset.

**(7) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**Due From/Due To:**

"Due to" and "Due from" balances have primarily been recorded when funds overdraw their share of pooled cash and investment. The composition of interfund balances as of June 30, 2008, is as follows (in thousands):

**DUE FROM/DUE TO OTHER FUNDS:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Low Moderate Housing	Central City East	\$ 501
TOTAL		<u>\$ 501</u>

**Interfund Transfers (in thousands):**

	<u>Transfers In</u>				
	<u>Central District</u>	<u>Low and Moderate Housing</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Fund</u>
Transfers out:					
Central District	\$ -	12,165	25,044	-	37,209
Coliseum	-	7,648	7,454	453	15,555
City Central East	-	5,506	6,682	-	12,188
Oakland Army Base	-	1,452	-	-	1,452
Low and Moderate Housing	350	-	7,552	-	7,902
Debt Service	-	-	-	-	-
Nonmajor Governmental Funds	<u>1,033</u>	<u>3,740</u>	<u>920</u>	<u>148</u>	<u>5,841</u>
TOTAL	<u>\$ 1,383</u>	<u>\$ 30,511</u>	<u>\$ 47,652</u>	<u>\$ 601</u>	<u>\$ 80,147</u>

The Central District, Coliseum, Low & Moderate Housing, and Nonmajor Governmental Funds transferred funds to the Debt Service Fund for payment of City advances and principal and interest on the tax allocation debt. The transfers to the Low and Moderate Housing Fund, as reflected

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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above, represent the 20% tax increment allocation in accordance with sections 33334.2 and 33334.3 of the California Community Redevelopment Law plus an additional 5% as mandated by City Council Resolution. The transfer of \$.5 million to Non-major Governmental Funds from the Coliseum Fund represents the 10% school set aside based on tax increment received in the Coliseum project area, net of the housing set aside, debt payment and the AB1290 mandatory pass through.

**(8) LONG-TERM DEBT**  
**General Long-Term Obligations** (in thousands)

	July 1, 2007	Additions	Deductions	June 30, 2008	Due within One Year
Tax Allocation					
Bonds	\$ 422,510	-	\$ (15,565)	\$ 406,945	\$ 14,790
Housing Set-Aside					
Revenue Bonds	91,700	-	(2,235)	89,465	2,390
General Obligation					
Bond	<u>265</u>	<u>-</u>	<u>(45)</u>	<u>220</u>	<u>50</u>
Total Bonds Payable	514,475	-	(17,845)	496,630	17,230
Deferred amounts:					
Issuance premiums	12,208	-	(1,176)	11,032	1,145
Refunding loss	<u>(4,628)</u>	<u>-</u>	<u>299</u>	<u>(4,329)</u>	<u>(292)</u>
Subtotal	522,055	-	(18,722)	503,333	18,083
Uptown remediation costs	1,191	-	(758)	433	433
Fox Court Remediation costs	-	414	(35)	379	379
Army Base remediation costs	7,407	-	(1,579)	5,828	2,000
Advances from City of Oakland	<u>31,157</u>	<u>815</u>	<u>(1,340)</u>	<u>30,632</u>	<u>1,380</u>
<b>TOTAL</b>	<u>\$ 561,810</u>	<u>\$ 1,229</u>	<u>\$ (22,434)</u>	<u>\$ 540,605</u>	<u>\$ 22,275</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
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General Long-Term Obligations consist of the following:

	Final Maturity Year	Interest Rates	Balance at June 30, 2008 (in thousands)
<b>TAX ALLOCATION BONDS</b>			
Central District Senior Tax Allocation Refunding Series 1992:			
Term bonds	2009-2014	5.50%	<u>35,910</u>
Central District Subordinated Tax Allocation Bonds Series 2003:			
Serial bonds	2009	4.00%	3,185
Serial bonds	2010-2012	5.00%	12,970
Serial bonds	2013-2020	5.50%	<u>87,865</u>
			<u>104,020</u>
Central District Subordinated Tax Allocation Bonds Series 2005:			
Serial bonds	2020-2022	5.00%	<u>44,360</u>
Central District Subordinated Tax Allocation Bonds Series 2006T:			
Term bonds	2009-2016	5.252%	19,755
Term bonds	2017-2021	5.411%	<u>10,680</u>
			<u>30,435</u>
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-TE:			
Term bonds	2032-2036	5.00%	<u>4,945</u>
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-T:			
Term bonds	2009-2016	5.283%	2,820
Term bonds	2017-2032	5.587%	<u>9,165</u>
			<u>11,985</u>
Central City East Tax Allocation Bonds Series 2006A-TE:			
Term bonds	2034-2036	5.00%	<u>13,780</u>
Central City East Tax Allocation Bonds Series 2006A-T:			
Term bonds	2009-2016	5.263%	12,515
Term bonds	2017-2034	5.537%	<u>48,495</u>
			<u>61,010</u>
Coliseum Area Tax Allocation Bonds Series 2006B-TE:			
Serial bonds	2009-2020	4.00%-4.50%	7,655
Term bonds	2021-2026	5.00%	5,350
Term bonds	2027-2031	5.00%	5,860
Term bonds	2032-2036	5.00%	<u>9,355</u>
			<u>28,220</u>
Coliseum Area Tax Allocation Bonds Series 2006B-T:			
Term bonds	2009-2016	5.263%	12,470
Term bonds	2017-2035	5.537%	<u>59,810</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

		<u>72,280</u>
TOTAL TAX ALLOCATION BONDS		<u>406,945</u>
GENERAL OBLIGATION BOND-Tribune Tower	2009-2012	5.643% <u>220</u>
SUBORDINATED HOUSING SET-ASIDE BONDS		
Revenue Series 2000T:		
Term bonds	2009-2011	7.82% 6,205
Revenue Series 2006A:		
Term bonds	2018	5.00% 2,195
Refunding Series 2006A-T:		
Term bonds	2009	5.182% 475
Term bonds	2010	5.219% 500
Term bonds	2011	5.248% 530
Term bonds	2012	5.268% 2,860
Term bonds	2013	5.308% 3,010
Term bonds	2014	5.344% 3,170
Term bonds	2015-2017	5.383% 10,565
Term bonds	2018-2022	5.653% 19,635
Term bonds	2023-2026	5.827% 12,525
Term bonds	2027-2037	5.927% <u>27,795</u>
		<u>81,065</u>
TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS		<u>89,465</u>
TOTAL BONDS PAYABLE		<u>\$ 496,630</u>

**Advances from City to the Redevelopment Agency**

The City has made various advances to the Agency for redevelopment projects. As of June 30, 2008 the total outstanding balance was \$30.6 million , comprised of the following (in thousands):

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>	<u>Due within One Year</u>
Central District	\$ 17,058	\$ 47	\$ ( 572)	\$ 16,533	\$ 609
Oak Center	13,669	768	( 700)	13,737	700
Stanford/Adeline	247	—	( 59)	188	66
West Oakland	183	—	( 9)	174	5
<b>TOTAL</b>	<u>\$ 31,157</u>	<u>\$ 815</u>	<u>\$ (1,340)</u>	<u>\$ 30,632</u>	<u>\$ 1,380</u>

Payments to the City are contingent upon the availability of funds from the Projects.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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**Outstanding Defeased Bonds**

For financial reporting purposes, the Agency's advanced-refunded debt is considered defeased and therefore removed as a liability from the Agency's government-wide financial statements. Cumulatively, the defeased bonds had an outstanding debt balance of \$75.3 million at June 30, 2008.

**Bond Indentures**

There are a number of limitations and restrictions contained in the various bond indentures. The Agency believes it is in compliance with all significant limitations and restrictions.

**Annual Future Payments**

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2008 (in thousands).

<u>Year ending June 30: s</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	17,230	26,602
2010	16,865	25,645
2011	18,680	24,667
2012	19,665	23,645
2013	20,645	22,585
2014-2018	105,225	95,898
2019-2023	135,220	63,001
2024-2028	44,775	38,867
2029-2033	58,615	24,582
2034-2038	59,710	6,560
TOTAL	<u>\$ 496,630</u>	<u>\$ 352,052</u>

**Conduit Debt**

The Agency issued Certificates of Participation to fund the acquisition of the Oakland Museum. The debt is secured by the Museum's building and the annual lease payments made by the City of Oakland to fund the debt service. As of June 30, 2008, there was one series of certificates outstanding with an aggregate principal amount payable of \$13.4 million. The Agency is not obligated to make the debt payments. The Agency has, therefore, not recorded either the Museum as an asset or the related debt. The City has recorded both the Museum and the debt on its government-wide statement of net assets.

**(9) TRANSACTIONS WITH THE CITY OF OAKLAND**

The Agency and the City are closely related but are separate legal entities. The City Council members serve as the governing board for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2008, the Agency reimbursed the City \$33.7 million for these expenditures.

In addition, the City provides advances and loans for the Agency debt service payments and other redevelopment projects. The Agency has entered into repayment agreements to reimburse the City for all amounts advanced and loaned to the Agency. In accordance with these agreements, the Agency reimbursed the City \$2.3 million for the fiscal year ended June 30, 2008; \$1.3 million in loan principal and \$1.0 million in interest expense.

**(10) COMMITMENTS AND CONTINGENCIES**

**Oakland Redevelopment Agency**

As of June 30, 2008, the Agency entered into contractual commitments of approximately \$65.9 million for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2008, the Agency committed to funding \$60.0 million and had issued \$1.6 million in letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City of Oakland.

The Agency is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**Uptown Project Environmental Remediation**

The Uptown Project area demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to Environmental Hazard Abatement Activities. As of June 30, 2008, the total liability outstanding in connection with the Agency's environmental remediation activities was \$.4 million.

### **Fox Court Environmental Remediation**

The Fox Court area demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to Environmental Hazard Abatement Activities. As of June 30, 2008, the total liability outstanding in connection with the Agency's environmental remediation activities was \$.4 million.

### **Oakland Army Base Environmental Remediation**

Land originally conveyed to OBRA from the Army, portions of which were subsequently conveyed to the Agency and the Port of Oakland, may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA then, and subsequently the Agency and the Port, are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. OBRA received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs including the \$3.5 million insurance premium. Of the \$13.0 million grant, \$11.0 million has been spent of which \$10.2 million has been reimbursed and received as of June 30, 2008. The remaining \$2.0 million of grant expenditures will be shared equally between the agency and the Port.

The next \$11.5 million of environmental remediation costs are to be shared equally by the Agency and the Port. As a result, the Agency will have as its share in the remaining Oakland Army Base remediation costs, a total of \$6.7 million. The next \$9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to \$30 million in environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance. The Agency believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

**(11) RELATED PARTY TRANSACTIONS**

**The Fox Oakland Theater**

Fox Oakland Theater, Inc. ("FOT") is a 501(c)(3) organization set up by and for the benefit of the Redevelopment Agency and City of Oakland. FOT was set up to renovate the Fox Theater. The Redevelopment Agency transferred the Fox Theater property to FOT in August 2006 through a long term lease and a Disposition and Development Agreement ("DDA") which included a \$25.5 million loan. The Fox Theater property was held by the Agency as property held for resale. It was transferred to a fixed asset due to the long term lease which was valued at \$6.5 million in the lease and DDA. All FOT board members are City of Oakland employees and there is no direct staff for FOT. FOT set up a for profit entity, Fox Theater Manager, Inc. ("FT Manager"), and then two LLC managed by FT Manager, Fox Theater Landlord LLC and Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is unsecured.

**(12) SUBSEQUENT EVENTS**

**Educational Revenue Augmentation Funds**

On September 23, 2008, AB 1389 was signed into law requiring redevelopment agencies statewide to shift a one-time \$350 million of property tax increment to the State's Educational Revenue Augmentation Fund (ERAF) as a way to reduce the State's \$24.3 billion budget deficit for fiscal year 2008-09. The ERAF money will then be paid to schools and community colleges, relieving the State of payments. The Agency's share of the revenue shift is approximately \$8.5 million and payment is to be made by May 10, 2009.

**Recent Changes in the Economic Environment and Its Impact to the Agency**

The recent turmoil in the financial market has been unprecedented. In the September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as \$100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt (bonds issued). In addition, the federal government recently assumed control of American International Group, Inc. (AIG), the largest insurance company in the U.S.; Lehman Brothers Holdings, Inc. was seized by government regulators and its branches and assets sold to JP Morgan Chase & Co. On October 3, 2008, the President of the United States signed into law the \$700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

With such volatility in the market due to uncertainty in the global financial market, City Council on October 21, 2008, authorized the Finance & Management Agency's investment staff to invest in the United States Treasury Securities for a not-to-exceed period of 60 days to further diversify its portfolio, thus reducing its risks and exposure to the depressed financial markets. The ability to invest in U.S. Treasuries will also provide liquidity and safety to the portfolio. Currently, there is

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
Notes to Basic Financial Statements  
June 30, 2008

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no loss in asset value for the Agency. The Finance & Management Agency's investment staff continues to focus investment decisions in accordance with the City Council Investment Policy's primary investment priorities of safety, liquidity, and yield in that order.

COMBINING FINANCIAL  
STATEMENTS and  
SUPPLEMENTAL  
INFORMATION

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**  
**(In Thousands)**

	<u>Acorn</u>	<u>Broadway MacArthur San Pablo</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>						
Cash and investments	\$ 1,832	\$ 7,568	\$ 10,771	\$ 10,446	\$ 2,643	\$ 33,260
Tax increment receivable	21	90	137	5	-	253
Accrued interest receivable	10	43	61	66	10	190
Accounts receivable, net	-	-	-	141	-	141
Due from other funds	-	-	-	-	-	-
Advances to the City	5	15	-	7	419	446
Due from other governments	-	-	-	-	-	-
Notes receivable, net	509	-	-	1,758	-	2,267
Property held for resale	-	-	-	4,411	-	4,411
Restricted cash and investments	-	16,096	-	8	-	16,104
<b>TOTAL ASSETS</b>	<u>\$ 2,377</u>	<u>\$ 23,812</u>	<u>\$ 10,969</u>	<u>\$ 16,842</u>	<u>\$ 3,072</u>	<u>\$ 57,072</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ 36	\$ 44	\$ 19	\$ 892	\$ 991
Due to the City	-	584	1,777	122	11	2,494
Due to other governments	-	692	1,057	112	-	1,861
Deposits and other liabilities	12	25	-	1	6	44
Deferred revenue	530	89	137	1,904	419	3,079
Deposits and other liabilities	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>542</u>	<u>1,426</u>	<u>3,015</u>	<u>2,158</u>	<u>1,328</u>	<u>8,469</u>
<b>FUND BALANCES</b>						
Reserved for property held for resale	-	-	-	4,411	-	4,411
Reserved for advances and notes receivable	5	15	-	7	-	27
Reserved for approved capital projects/activities	1,830	22,371	7,954	10,266	-	42,421
Unreserved	-	-	-	-	1,744	1,744
<b>TOTAL FUND BALANCES</b>	<u>1,835</u>	<u>22,386</u>	<u>7,954</u>	<u>14,684</u>	<u>1,744</u>	<u>48,603</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,377</u>	<u>\$ 23,812</u>	<u>\$ 10,969</u>	<u>\$ 16,842</u>	<u>\$ 3,072</u>	<u>\$ 57,072</u>

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year ended June 30, 2008**  
**(In Thousands)**

	<u>Acorn</u>	<u>Broadway MacArthur San Pablo</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund</u>	<u>TOTAL</u>
<b>REVENUES</b>						
Tax increment	\$ 1,232	\$ 5,251	\$ 8,041	\$ 173	\$ -	\$ 14,697
Interest on restricted cash and investments	-	754	-	-	-	754
Interest on pooled cash and investments	50	219	266	508	71	1,114
Interest on notes receivable	-	-	-	39	-	39
Rents and reimbursements	-	-	-	1,157	-	1,157
Other	59	130	-	164	-	353
<b>TOTAL REVENUES</b>	<u>1,341</u>	<u>6,354</u>	<u>8,307</u>	<u>2,041</u>	<u>71</u>	<u>18,114</u>
<b>EXPENDITURES</b>						
Current:						
Urban redevelopment and housing	755	3,253	3,645	4,204	92	11,949
<b>TOTAL EXPENDITURES</b>	<u>755</u>	<u>3,253</u>	<u>3,645</u>	<u>4,204</u>	<u>92</u>	<u>11,949</u>
Excess (deficiency) of revenues over expenditures	586	3,101	4,662	(2,163)	(21)	6,165
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	481	120	601
Transfers out	(308)	(2,691)	(2,024)	(1,917)	-	(6,940)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(308)</u>	<u>(2,691)</u>	<u>(2,024)</u>	<u>(1,436)</u>	<u>120</u>	<u>(6,339)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND</b>						
Change in fund balances	278	410	2,638	(3,599)	99	(174)
Fund balances at beginning of year	1,557	21,976	5,316	18,283	1,645	48,777
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 1,835</u>	<u>\$ 22,386</u>	<u>\$ 7,954</u>	<u>\$ 14,684</u>	<u>\$ 1,744</u>	<u>\$ 48,603</u>



**WILLIAMS, ADLEY & COMPANY, LLP**  
Certified Public Accountants / Management Consultants

**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***

The Members of the Council  
of the Redevelopment Agency of the  
City of Oakland

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (the Agency), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting (Findings 2008-01, 2008-02).



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, 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 include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Agency responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Agency Council members, the finance and management committee, the Agency's management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, Adley & Company, LLP*

Oakland, California  
December 4, 2008

Redevelopment Agency of the City of Oakland  
Schedule of Findings and Responses  
June 30, 2008

**Significant Deficiencies**

Finding 2008-01: Accounting for Capital Assets

**Criteria:** The COSO framework recognizes that an entity must first have in place an appropriate set of financial reporting objectives. At a high level, the objective of the financial reporting is to prepare reliable financial statements, which involves attaining reasonable assurance that the financial statements are free of material misstatements.

**Condition:** Improper recording of capital asset transactions

**Cause:** There was a lack of review of property held for resale by ORA management and poor communication by ORA management with the Controller's Office, regarding changes in intended uses of properties held for resale.

**Effect:** Material audit adjustments were required for capital asset accounts during the audit process.

**Recommendation:** We recommend that the Agency revise its procedures to include periodic reviews of capital assets and land held for resale accounts to ensure all property is properly classified.

*Client response:*

The Redevelopment Agency in collaboration with the City of Oakland's Real Estate division have systems and procedures in place that will allow for the proper review, monitoring and reporting of Agency owned property held for resale, as well as, procedures for maintaining necessary lines of communications with the Controller's office. Agency staff will work with the staff of the Controller's office to ensure that those procedures are current and followed by both parties thereby decreasing the potential to have a miscommunication or improper reporting.

Finding 2008-02: Ineffective Controls over the Period-End Financial Reporting Process

**Criteria:** The COSO framework for effective internal control over financial reporting states that control activities relating to reliable financial reporting should be established and communicated throughout the organization with corresponding procedures resulting in management directives being carried out. Although there are written policies and procedures for the recording of conversion entries for reporting purposes, we found that these procedures and controls did not address all aspects of the reporting process.

**Condition:** Controls over the year-end financial reporting process need to be strengthened.

**Cause:** The established policies and procedures did not address proper classification of certain revenues in the government-wide Statement of Activities.

**Effect:** Transactions were improperly recorded during the reporting process, which required adjustment during the audit.

Redevelopment Agency of the City of Oakland  
Schedule of Findings and Responses  
June 30, 2008

**Significant Deficiencies**

(Continued)

**Recommendation:** We recommend that the Agency provide additional training, guidance and supervision to accounting personnel regarding the year-end financial reporting - process.

*Client response:*

Even though there is no impact on ORA's net assets, management agrees with the finding and will provide additional training and guidance for staff responsible for report preparation.