

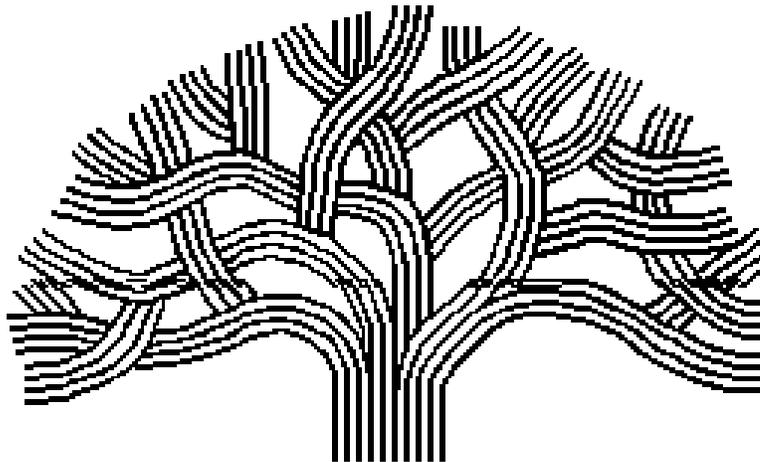
REDEVELOPMENT AGENCY

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, 2007

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
FINANCIAL REPORT

PROJECT TEAM

William E. Noland
Director
Finance and Management Agency

Ace A. Tago
Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Osborn K. Solitei, *Acting Assistant Controller*

FINANCIAL STATEMENT PREPARATION

Financial Statement Leaders

Franklin Catalya

Myrna Bangloy

Bruce Levitch

Accounting Team (GL & ORA)

Erico Parras
Rogelio Medalla
Edward Chun
Felipe Kiocho
Michelle Wong

Lani Pallotta
Theresa Woo
Jennifer Luong
Connie Chu

Leland Lee
Norma Torres
Andy Wang
David Warner

CLERICAL SUPPORT

Ebony Thomas, *Administrative Assistant*

SPECIAL ASSISTANCE

Katano Kasaine

Donna Treglown

SPECIAL ASSISTANCE – DEPARTMENTS & OFFICES

City Administrator's Office

City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
TABLE OF CONTENTS
June 30, 2007

| | PAGE |
|--|-------------|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis (Required Supplementary Information) | 3 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 11 |
| Statement of Activities..... | 12 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 13 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets for Governmental Activities | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | 15 |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 16 |
| Notes to Basic Financial Statements..... | 17 |
| Supplementary Financial Information | |
| Combining Balance Sheet – Nonmajor Governmental Funds..... | 38 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | 39 |
| Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 40 |



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

The Members of the Redevelopment Agency
of the City of Oakland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, 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 fiscal year ended June 30, 2007, 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 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2007, and the respective changes in financial position thereof for the fiscal 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 6, 2007 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.

Management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

Macias Gini & Cannelo LLP
Certified Public Accountants
Walnut Creek, California

December 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. 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 \$152.3 million compared to \$63.3 million for the previous fiscal year. Net assets grew by \$89.0 million or 140.5%. The net growth was driven primarily by the absorption of Oakland Base Reuse Authority (OBRA) on August 7, 2006 by the Agency or \$59.0 million increase in net assets, improved property tax receipts of \$109.6 versus \$89.7 million and a 141.5% or \$181.2 million increase in restricted cash and investments due to unspent bond proceeds for redevelopment activities. These increases in assets were offset by a 56.3% or \$202.4 million increase in long-term liabilities as a result of new debts issued for redevelopment projects activities.
- For the year ended June 30, 2007, the Agency's governmental fund balances were \$601.8 million compared to \$324.9 million in the previous fiscal year, an increase of 85.2%, or \$276.9 million. The increase in fund balance is primarily attributable to: (1) by the absorption of Oakland Base Reuse Authority of \$59.0 million in net assets or 18.1%; and (2) the net increase of 70.5%, or \$229.3 million in tax allocation bond proceeds. The fund balance of \$601.7 million is distributed by redevelopment project area as follows: 28.6% or \$172.2 million for the Central District; 20.1% or \$120.8 million for the Coliseum; 11.3% or \$68.3 million for the Oakland Army Base; 15.9% or \$95.6 million for Low and Moderate Housing; 8.1% or \$48.8 million for Non-major Projects; and 16.0% or \$96.0 million for Central East.
- The overall net change in fund balances in the governmental funds resulted in an increase of 85.2% or \$276.9 million compared to the prior fiscal year. The increase is attributed to the absorption of the Oakland Base Reuse Authority an increase of 18.1% or \$59.0 million and the issuance of new debt in the amount of \$229.3 million.

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 nonmajor governmental funds. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

Oakland Base Reuse Authority

The Oakland Base Reuse Authority (OBRA), reported as a discretely presented component unit of the Agency in the prior fiscal year, was dissolved and its assets and obligations transferred to and were accepted by the Agency on August 7, 2006. Also transferred were the rights and obligations with respect to the balance of \$1.05 million of a \$2.4 million public works grant awarded by the United States Department of Commerce Economic Development Administration. The OBRA is now accounted for and reported as a project area of the Agency.

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 17-37 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 nonmajor 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 \$152,259,273 at the close of the fiscal year ended June 30, 2007.

As of the end of the fiscal year, the Agency had restricted net assets of \$601,799,265. The net assets include \$95,606,630 reserved for Low and Moderate Housing. The balance of \$506,192,635 in restricted net assets include an investment of \$120,585,672 in Community Development (Property Held for Resale). The Agency uses Property Held for Resale to provide services to citizens; consequently, these assets are not available for future spending. The remaining restricted net assets of \$385,606,963 represent resources that are subject to external restrictions on how they may be used. The Agency's deficit in unrestricted net assets of

\$449,539,992 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**

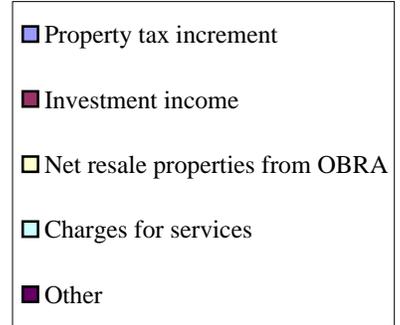
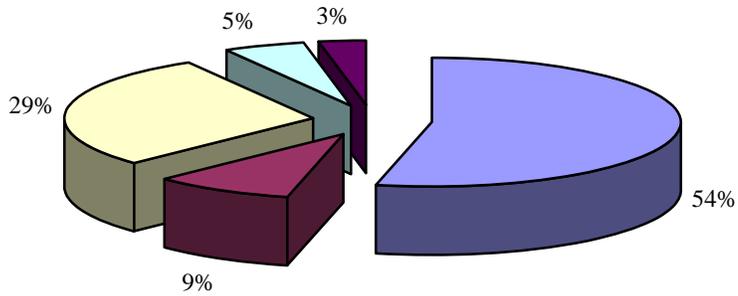
| | June 30, 2007 | June 30, 2006 |
|--|-----------------------|----------------------|
| Assets: | | |
| Current and other assets | \$ 631,112,314 | \$ 393,138,140 |
| Property held for resale | 120,585,672 | 53,265,943 |
| Total assets | 751,697,986 | 446,404,083 |
| Liabilities: | | |
| Long-term liabilities | 561,810,641 | 359,531,123 |
| Other liabilities | 37,628,072 | 23,559,824 |
| Total liabilities | 599,438,713 | 383,090,947 |
| Net assets: | | |
| Restricted for: | | |
| Low and moderate housing | 95,606,630 | 94,174,096 |
| Urban redevelopment projects and housing | 506,192,635 | 230,763,503 |
| Unrestricted | (449,539,992) | (261,624,463) |
| Total net assets | \$ 152,259,273 | \$ 63,313,136 |

Governmental activities. Governmental activities increased the Agency's net assets by 194%, or \$88,946,137. Key elements of this increase are as follows:

**Changes in Net Assets
Governmental Activities**

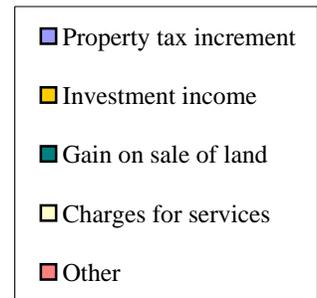
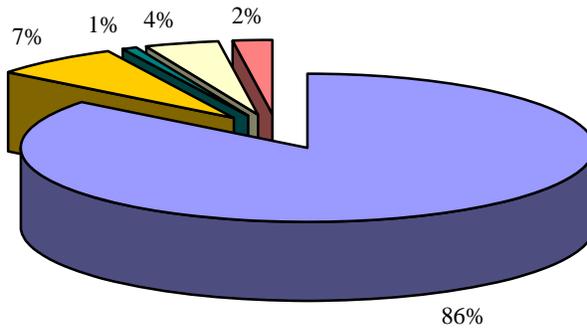
| | June 30, 2007 | June 30, 2006 |
|---|-----------------------|----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 10,622,180 | \$ 4,201,680 |
| General revenues: | | |
| Property tax increment | 109,612,810 | 89,669,068 |
| Investment income | 18,589,606 | 7,319,473 |
| Gain on sale of land | - | 1,033,541 |
| Other | 6,396,442 | 2,460,708 |
| Total general revenues | 134,598,858 | 100,482,790 |
| Special Items: | | |
| Net resale properties from OBRA | 59,020,242 | - |
| Total charges for services, general revenues, and special items | 204,241,280 | 104,684,470 |
| Expenses: | | |
| Urban redevelopment and housing | 88,068,790 | 57,437,938 |
| Interest on long-term debt | 27,226,353 | 16,952,202 |
| Total expenses | \$ 115,295,143 | \$ 74,390,140 |
| Increase in net assets | \$ 88,946,137 | \$ 30,294,330 |
| Net assets, beginning of year | 63,313,136 | 33,018,806 |
| Net assets, end of year | \$ 152,259,273 | \$ 63,313,136 |

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



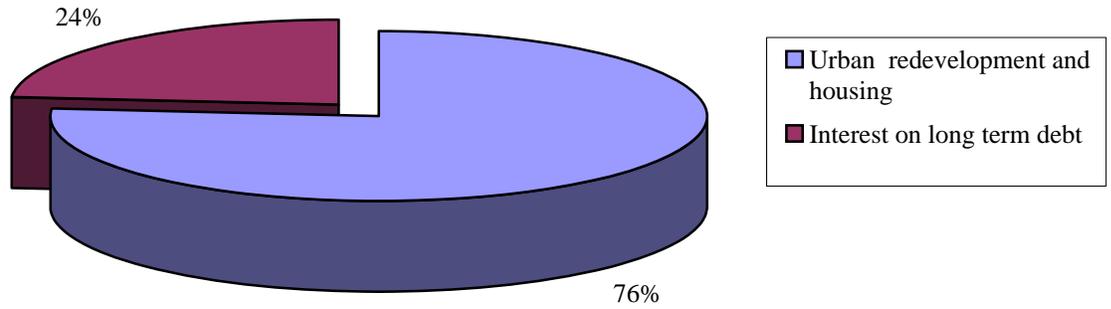
Total Revenues \$204,241,280

**Redevelopment Agency of the City of Oakland
Sources of Revenue
For FY 2005-06**



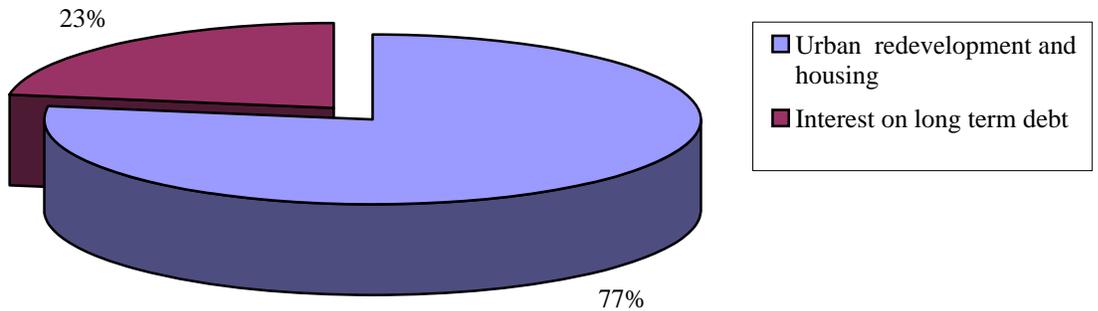
Total Revenues \$104,684,470

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



Total Expenditures \$115,295,143

**Redevelopment Agency of the City of Oakland
Functional Expenses
For FY 2005-06**



Total Expenditures \$74,390,140

Analysis of Changes in Net Assets

The revenues in governmental activities for the Agency exceeded expenses by \$88,946,137 for the year ended June 30, 2007. This represents an increase of 194%, or \$58,651,807 compared to the prior year's change in net assets of \$30,294,330.

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 \$204,241,280 while expenses totaled \$115,295,143 for the year ended June 30, 2007 compared to \$104,684,470 and 74,390,140 respectively for the year ended June 30, 2006.

Revenues increased compared to the previous fiscal year by \$99,556,811 or 95%. The net growth was driven by the absorption of Oakland Base Reuse Authority on August 7, 2006 by the Agency or \$59.0 million increase in net assets plus improved property tax receipts of \$109.6 versus \$89.3 million and a 142%, or \$181.2 million increase in restricted cash and investments due to unspent bond proceeds for redevelopment activities

Government wide expenses increased by \$40,905,003 or 55.0%. The increase is primarily attributable to the 53.6% surge in redevelopment activities and an increase of 60.2% in interest expense primarily related to the issuance of new bonds.

Financial Analysis of the Agency's Funds

As of June 30, 2007, the Agency's governmental funds reported combined ending fund balances of \$601,799,267, a net increase of 85.2%, or \$276,861,666 compared to the prior fiscal year. The net increase represents (1) a 22.7% or \$20,275,929 increase in property tax increment collections attributed to improved property valuations in the project areas; (2) unspent proceeds from the issuance of Bonds in the amount of \$229,295,000 for the development in all redevelopment project areas; (3) and finally the absorption of Oakland Base Reuse Authority on August 7, 2006 by the Agency or \$59,020,242.

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 does not have any capital assets because its property acquisitions are treated as redevelopment properties held for resale.

Long-term debt

At June 30, 2007, the Agency had total long-term debt outstanding of \$514,475,000, an increase of 61%; over the previous fiscal year. The increase was primarily due to the issuance of four new bond issues: Central City East Redevelopment bonds 2006A-TE and 2006 A-T Coliseum Area Redevelopment Bonds 2006 Series B-TE and 2006 Series B-T, Broadway/MacArthur/San Pablo Redevelopment Bond issues 2006C-TE and 2006 series C-T and Central District 2006T to finance activities in the redevelopment projects in those Redevelopment Areas, and to pay the

costs of issuance of the Series 2006 Bonds, including bond insurance and reserve account surety bond premiums.

Bond Ratings

The Agency's bond ratings at June 30, 2007 are as follows:

| | <u>Insured By</u> | <u>Rating</u> | <u>Balance Outstanding</u> |
|------------------------------------|-------------------|---------------|--------------------------------|
| Tax allocation | FGIC/MBIA/AMBAC | AAA/Aaa/A- | \$ 422,510,000 |
| Housing set-aside revenue bonds | MBIA | AAA/AAA/Aaa | 91,700,000 |
| General obligation bonds | N/A | Not Rated | 265,000 |
| TOTAL | | | <u>\$ 514,475,000</u> |

Long-term liabilities at June 30, 2007 and June 30, 2006, are comprised of the following:

| | <u>FY 2007</u> | <u>FY 2006</u> |
|------------------------------------|-----------------------|-----------------------|
| Tax allocation bonds payable | \$ 422,510,000 | \$ 224,335,000 |
| Housing set-aside revenue bonds | 91,700,000 | 94,470,000 |
| General obligation bonds | 265,000 | 310,000 |
| SUBTOTAL | <u>514,475,000</u> | <u>319,115,000</u> |
| Deferred amounts, net | 7,580,348 | 7,334,702 |
| Uptown remediation costs | 1,190,990 | 1,407,872 |
| OBRA remediation costs | 7,548,883 | - |
| Advances from City of Oakland | 31,157,111 | 31,673,550 |
| TOTAL | <u>\$ 561,952,332</u> | <u>\$ 359,531,124</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, 2007

ASSETS

| | |
|---|------------------------|
| Cash and investments | \$ 187,187,025 |
| Tax increment receivable | 9,662,808 |
| Accrued interest receivable | 35,590 |
| Accounts receivable (net of allowance for uncollectibles of \$194,145) | 3,758,141 |
| Due from the City of Oakland | 14,551,944 |
| Notes receivable (net of allowance for uncollectibles of \$37,476,377) | 97,581,181 |
| Property held for resale | 120,585,672 |
| Restricted cash and investments | 309,212,709 |
| Deferred charges - bond issuance costs | <u>9,122,916</u> |
| TOTAL ASSETS | <u>751,697,986</u> |

LIABILITIES

| | |
|--|--------------------|
| Accrued interest payable | 10,865,368 |
| Accounts payable and accrued liabilities | 4,828,924 |
| Due to the City of Oakland | 2,954,586 |
| Due to other governments | 15,240,457 |
| Deposits and other liabilities | 3,738,737 |
| Noncurrent liabilities (net of unamortized refunding losses and premiums): | |
| Due within one year | 22,767,724 |
| Due in more than one year | <u>539,042,917</u> |
| TOTAL LIABILITIES | <u>599,438,713</u> |

NET ASSETS (Deficit)

| | |
|--|---------------------------|
| Restricted for: | |
| Low and Moderate Housing | 95,606,630 |
| Urban redevelopment projects and housing | 506,192,635 |
| Unrestricted (deficit) | <u>(449,539,992)</u> |
| TOTAL NET ASSETS | <u>\$ 152,259,273</u> |

See accompanying notes to the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Activities

For the year ended June 30, 2007

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | <u>(Component Unit) Oakland Base Reuse Authority</u> |
|--|-----------------------|---------------------------------|---|--|--|
| | | <u>Charges for Services</u> | <u>Capital Grants and Contributions</u> | | |
| Governmental Activities: | | | | | |
| Urban redevelopment and housing | \$ 88,068,790 | \$ 10,622,180 | \$ - | \$ (77,446,610) | \$ - |
| Interest on long-term debt | <u>27,226,353</u> | <u>-</u> | <u>-</u> | <u>(27,226,353)</u> | <u>-</u> |
| Total governmental activities | <u>\$ 115,295,143</u> | <u>\$ 10,622,180</u> | <u>\$ -</u> | <u>(104,672,963)</u> | <u>-</u> |
| Component Unit | | | | | |
| Oakland Base Reuse Authority | <u>\$ 91,350,317</u> | <u>\$ -</u> | <u>\$ -</u> | | <u>(91,350,317)</u> |
| General Revenues: | | | | | |
| Property tax increment | | | | 109,612,810 | - |
| Investment income | | | | 18,589,606 | - |
| Other | | | | <u>6,396,442</u> | <u>-</u> |
| Total general revenues | | | | 134,598,858 | - |
| Special Items: | | | | | |
| Net resale properties from OBRA | | | | <u>59,020,242</u> | <u>-</u> |
| Total general revenues and special items | | | | <u>193,619,100</u> | <u>-</u> |
| Change in net assets | | | | 88,946,137 | (91,350,317) |
| Net assets at beginning of year | | | | <u>63,313,136</u> | <u>91,350,317</u> |
| Net assets at end of year | | | | <u>\$ 152,259,273</u> | <u>\$ -</u> |

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Balance Sheet

Governmental Funds

June 30, 2007

| | <u>Capital Projects</u> | | | | | | | |
|--|-------------------------|-----------------------|--------------------------|---------------------------------|--------------------------|---------------------|------------------------------------|---------------------------------|
| | <u>Central District</u> | <u>Coliseum</u> | <u>Central City East</u> | <u>Low and Moderate Housing</u> | <u>Oakland Army Base</u> | <u>Debt Service</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
| ASSETS | | | | | | | | |
| Cash and investments | \$ 42,863,712 | \$ 36,289,240 | \$ 21,554,356 | \$ 35,690,666 | \$ 23,364,105 | \$ 421,164 | \$ 27,003,782 | \$ 187,187,025 |
| Tax increment receivable | 3,403,694 | 2,172,829 | 1,868,136 | - | 774,499 | - | 1,443,650 | 9,662,808 |
| Accrued interest receivable | 35,590 | - | - | - | - | - | - | 35,590 |
| Accounts receivable (net of allowance for uncollectibles of \$194,145) | 547,710 | 325,962 | 691,087 | 307,311 | 1,054,176 | 3,811 | 828,084 | 3,758,141 |
| Due from other funds | - | - | - | 2,451,499 | - | 144,265 | 93,664 | 2,689,428 |
| Advances to the City of Oakland | 12,008,501 | 11,971 | 37,946 | 1,884,041 | 191,319 | - | 418,166 | 14,551,944 |
| Notes receivable (net of allowance for uncollectibles of \$37,476,377) | 30,390,000 | 200,000 | - | 65,336,287 | - | - | 1,654,894 | 97,581,181 |
| Property held for resale | 65,462,381 | 1,710,653 | - | - | 48,611,449 | - | 4,801,189 | 120,585,672 |
| Restricted cash and investments | 64,657,980 | 89,155,889 | 77,141,799 | 60,116,154 | - | 599,494 | 17,541,393 | 309,212,709 |
| TOTAL ASSETS | \$ 219,369,568 | \$ 129,866,544 | \$ 101,293,324 | \$ 165,785,958 | \$ 73,995,548 | \$ 1,168,734 | \$ 53,784,822 | \$ 745,264,498 |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Accrued interest payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 968,812 | \$ - | \$ 968,812 |
| Accounts payable and accrued liabilities | 913,150 | 450,374 | 122,528 | 2,328,747 | 565,998 | - | 448,127 | 4,828,924 |
| Due to other funds | 809,740 | 519,410 | 884,115 | - | 171,475 | - | 304,688 | 2,689,428 |
| Due to the City of Oakland | 234,391 | 1,918,370 | 2,805 | 292,961 | 125,009 | 159,439 | 221,611 | 2,954,586 |
| Due to other governments | 2,329,709 | 5,527,600 | 3,925,659 | - | 1,326,125 | - | 2,131,364 | 15,240,457 |
| Deposits and other liabilities | 297,300 | - | - | 4,284 | 3,393,092 | - | 44,061 | 3,738,737 |
| Deferred revenue | 42,540,625 | 669,846 | 333,682 | 67,553,336 | 88,598 | - | 1,858,202 | 113,044,289 |
| TOTAL LIABILITIES | 47,124,915 | 9,085,600 | 5,268,789 | 70,179,328 | 5,670,297 | 1,128,251 | 5,008,053 | 143,465,233 |
| FUND BALANCES | | | | | | | | |
| Reserved for advances to the City of Oakland | 930,943 | 11,971 | 37,946 | 141,507 | 191,319 | - | 425,943 | 1,739,629 |
| Reserved for property held for resale | 65,462,381 | 1,710,653 | - | - | 48,611,449 | - | 4,801,189 | 120,585,672 |
| Reserved for approved capital projects/activities | 105,851,329 | 119,058,320 | 95,986,589 | 95,465,123 | 19,522,483 | 40,483 | 41,904,491 | 477,828,818 |
| Unreserved - reported in Capital Project Funds | - | - | - | - | - | - | 1,645,146 | 1,645,146 |
| TOTAL FUND BALANCES | 172,244,653 | 120,780,944 | 96,024,535 | 95,606,630 | 68,325,251 | 40,483 | 48,776,769 | 601,799,265 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 219,369,568 | \$ 129,866,544 | \$ 101,293,324 | \$ 165,785,958 | \$ 73,995,548 | \$ 1,168,734 | \$ 53,784,822 | \$ 745,264,498 |

See accompanying notes to the basic 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, 2007**

| | | |
|---|----|-------------|
| Fund balance - total governmental funds | \$ | 601,799,265 |
|---|----|-------------|

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

| | | |
|---|--|-----------|
| 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. | | 9,122,916 |
|---|--|-----------|

| | | |
|--|----|----------------|
| Total accrued interest on long-term debt | \$ | (10,865,368) |
| Less the amount reported in the funds statements | | <u>968,812</u> |

| | | |
|--|--|-------------|
| Net amount of accrued interest which was not reported in the funds, but rather is recognized as an expenditure when due. | | (9,896,556) |
|--|--|-------------|

| | | |
|--|--|-------------|
| 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. | | 113,044,289 |
|--|--|-------------|

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

| Type | Amount | |
|-------------------------------------|---------------------|----------------------|
| Tax Allocation Bonds | \$ (422,510,000) | |
| Housing Set-Aside Revenue Bonds | (91,700,000) | |
| General Obligation Bonds | (265,000) | |
| Issuance premiums | (12,208,532) | |
| Refunding loss | 4,628,184 | |
| Uptown remediation costs | (1,190,990) | |
| Oakland Army Base remediation costs | (7,407,192) | |
| Advances from the City of Oakland | <u>(31,157,111)</u> | |
| Subtotal | | <u>(561,810,641)</u> |

| | | |
|---------------------------------------|----|--------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>152,259,273</u> |
|---------------------------------------|----|--------------------|

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, 2007

| | <u>Central District</u> | <u>Coliseum</u> | <u>Central City East</u> | <u>Low and Moderate Housing</u> | <u>Oakland Army Base</u> | <u>Debt Service</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-----------------------------|-----------------------|--------------------------|---|------------------------------|---------------------|--|---|
| REVENUES | | | | | | | | |
| Tax increment | \$ 43,635,081 | \$ 27,637,996 | \$ 19,628,295 | \$ - | \$ 5,211,639 | \$ - | \$ 13,499,799 | \$ 109,612,810 |
| Interest on restricted investments | 2,510,759 | 2,907,644 | 2,332,353 | 3,166,710 | - | 38,470 | 544,322 | 11,500,258 |
| Interest on pooled investments | 1,761,928 | 1,421,272 | 565,552 | 1,316,005 | 923,497 | 19,441 | 1,036,859 | 7,044,554 |
| Interest on notes receivable | - | - | - | 4,138 | - | - | 40,656 | 44,794 |
| Rents and reimbursements | 3,166,644 | 12,900 | - | - | 6,838,223 | - | 604,413 | 10,622,180 |
| Other | 1,527,333 | 427,045 | 369,830 | 1,938,653 | 191,666 | 33,808 | 1,908,107 | 6,396,442 |
| TOTAL REVENUES | <u>52,601,745</u> | <u>32,406,857</u> | <u>22,896,030</u> | <u>6,425,506</u> | <u>13,165,025</u> | <u>91,719</u> | <u>17,634,156</u> | <u>145,221,038</u> |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| Urban redevelopment and housing | 35,283,268 | 14,933,112 | 6,128,620 | 24,288,240 | 6,847,088 | 51,197 | 8,928,900 | 96,460,425 |
| Debt Service: | | | | | | | | |
| Payment on advances | - | - | - | - | - | 1,116,372 | - | 1,116,372 |
| Retirement of long-term debt | - | - | - | - | - | 12,040,000 | - | 12,040,000 |
| Interest | - | - | - | - | - | 21,997,655 | - | 21,997,655 |
| Bond issuance cost | 635,000 | 1,829,274 | 1,345,119 | - | - | - | 485,355 | 4,294,748 |
| TOTAL EXPENDITURES | <u>35,918,268</u> | <u>16,762,386</u> | <u>7,473,739</u> | <u>24,288,240</u> | <u>6,847,088</u> | <u>35,205,224</u> | <u>9,414,255</u> | <u>135,909,200</u> |
| Excess (deficiency) of revenues over expenditures | 16,683,477 | 15,644,471 | 15,422,291 | (17,862,734) | 6,317,937 | (35,113,505) | 8,219,901 | 9,311,838 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Tax allocations bonds issued | 33,135,000 | 79,861,564 | 76,300,000 | - | - | 22,728,436 | 17,270,000 | 229,295,000 |
| Premium on bonds issued | - | 1,147,548 | 600,119 | - | - | - | 215,355 | 1,963,022 |
| Payment to refunding bond escrow agent | - | - | - | - | - | (22,728,436) | - | (22,728,436) |
| Transfers in | 363,330 | - | - | 27,439,353 | - | 35,447,877 | 1,215,146 | 64,465,706 |
| Transfers out | (32,442,286) | (11,174,087) | (6,494,880) | (8,144,085) | (1,302,910) | (36,150) | (4,871,308) | (64,465,706) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>1,056,044</u> | <u>69,835,025</u> | <u>70,405,239</u> | <u>19,295,268</u> | <u>(1,302,910)</u> | <u>35,411,727</u> | <u>13,829,193</u> | <u>208,529,586</u> |
| SPECIAL ITEMS | | | | | | | | |
| Net resale properties from OBRA | - | - | - | - | 59,020,241 | - | - | 59,020,241 |
| Change in fund balances | 17,739,521 | 85,479,496 | 85,827,530 | 1,432,534 | 64,035,268 | 298,222 | 22,049,094 | 276,861,665 |
| Fund balances at beginning of year | 154,505,132 | 35,301,448 | 10,197,005 | 94,174,096 | 4,289,983 | (257,739) | 26,727,674 | 324,937,599 |
| FUND BALANCES AT END OF YEAR | <u>\$ 172,244,653</u> | <u>\$ 120,780,944</u> | <u>\$ 96,024,535</u> | <u>\$ 95,606,630</u> | <u>\$ 68,325,251</u> | <u>\$ 40,483</u> | <u>\$ 48,776,769</u> | <u>\$ 601,799,265</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, 2007**

Net change in fund balances - total governmental funds \$ 276,861,665

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

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. 16,377,556

The issuance of long-term debt provides current financial resources 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.

| | | |
|---|------------------|-------------------|
| Principal of bonds issued | \$ (229,295,000) | |
| Premium on bonds issued | (1,963,022) | |
| Bond issuance costs | 4,294,748 | |
| Amortization of bond issuance costs | (844,925) | |
| Retirement of long-term debt | 12,040,000 | |
| Payment to refunding escrow agent | 22,728,436 | |
| Payment on advances | 1,116,372 | |
| Interest on advances | (797,153) | |
| Amortization of premiums on bonds issued | 1,178,903 | |
| Amortization of refunding loss | (294,964) | |
| Oakland Army Base remediation costs | (7,407,192) | |
| Site Clearance and toxics remediation cost | 216,882 | (199,026,915) |
| | | |
| Changes in accrued interest on bonds payable | | (5,266,169) |
| Change in net assets of governmental activities | | \$ 88,946,137 |

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

Discretely Presented Component Unit

The Oakland Base Reuse Authority (OBRA) was established in 1995 as a Joint Powers Authority (JPA) by the City, the Agency, and the County of Alameda (County). OBRA was established to assure the effective transition of military facilities in Oakland that have been or may be selected for closure. The governing body consisted of the Mayor of Oakland/Board Chairman and four other members of the Oakland City Council/Board of Directors. The OBRA is presented in a separate column in the Agency-wide Statement of Activities financial statements as a discretely-presented component unit of the Agency.

On August 7, 2006 OBRA was dissolved and as its assets and obligations were transferred to and were accepted by the Agency. The OBRA assets transferred to the Agency was net of the amount of the property held for resale that was transferred to the Port of Oakland as part of OBRA's dissolution. Also transferred were the rights and obligations with respect to the balance of \$1.05 million of the \$2.4 million public works grant awarded by the United States Department of Commerce Economic Development Administration.

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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. All other revenues are considered to be measurable and available only when the Agency receives the cash.

OBRA, the Agency's discretely presented component unit, is accounted for using proprietary fund accounting, and its financial statements are prepared on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred. Grants are recognized as revenue when all eligibility requirements have been met.

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.

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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, 2007, 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 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 short period of time until it can be resold for development.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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 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 reservation 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 tax 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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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 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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

(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, 2007:

| | <u>Fair Value</u> |
|-------------------------------------|-----------------------|
| Cash and investments (unrestricted) | \$ 187,187,025 |
| Restricted cash and investments | <u>309,212,709</u> |
| Total cash and investments | <u>\$ 496,399,734</u> |

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, 2007, the Agency's cash and investment pool totaled \$187,187,025. 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, 2007 the Agency's investment in LAIF was \$40,406,573 (\$35,153,331 in pooled cash and investments and \$5,253,242 in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$19.7 billion. Of that amount, 96.534% is invested in non-derivative financial products and 3.466% 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 City's position in the pool.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

Custodial Credit Risk:

At June 30, 2007, the carrying amount of the Agency's deposits was \$2,153,629 and the bank balance was \$2,083,863. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$400,000 was FDIC insured and \$1,683,863 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 prequalify financial institutions, diversify its portfolio and by establishing 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, 2007:

Pooled Cash and Investments

Ratings as of Fiscal Year Ended June 30, 2007

| | <u>Fair Value</u> | <u>AAA/Aaa</u> | <u>A-1/P1</u> | <u>Not Rated</u> |
|-------------------------------------|------------------------------|------------------------------|-----------------------------|-----------------------------|
| U.S. Gov't. Agency Securities | \$ 55,535,667 | \$ 55,535,667 | \$ - | \$ - |
| U.S. Gov't. Agency Securities Disc. | 20,744,700 | 20,744,700 | - | - |
| Money Market Funds | 30,206,665 | 30,206,665 | - | - |
| LAIF | 35,153,331 | - | - | 35,153,331 |
| Negotiable CD's | 6,000,000 | - | 6,000,000 | - |
| Commercial Paper | <u>37,658,760</u> | <u>-</u> | <u>37,658,760</u> | <u>-</u> |
| Subtotal | 185,299,123 | <u>\$ 106,487,032</u> | <u>\$ 43,658,760</u> | <u>\$ 35,153,331</u> |
| Deposits | <u>1,887,902</u> | | | |
| Total | <u>\$ 187,187,025</u> | | | |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

Restricted Cash and Investments

Ratings as of Fiscal Year Ended June 30, 2007

| | <u>Fair Value</u> | <u>AAA</u> | <u>A-1/P1</u> | <u>Not Rated</u> |
|-------------------------------------|------------------------------|------------------------------|------------------------------|-----------------------------|
| U.S. Gov't. Agency Securities | \$ 15,976,562 | \$ 15,976,562 | \$ - | \$ - |
| U.S. Gov't. Agency Securities Disc. | 33,502,101 | 33,502,101 | - | - |
| Money Market Funds | 52,212,967 | 52,212,967 | - | - |
| LAIF | 5,253,242 | - | - | 5,253,242 |
| Commercial Paper | 108,418,540 | - | 108,418,540 | - |
| Investment Agreements | <u>93,583,571</u> | <u>-</u> | <u>-</u> | <u>93,583,571</u> |
| Subtotal | 308,946,983 | <u>\$ 101,691,630</u> | <u>\$ 108,418,540</u> | <u>\$ 98,836,813</u> |
| Deposits | <u>265,726</u> | | | |
| Total | <u>\$ 309,212,709</u> | | | |

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 \$63,064,288 and Federal Home Loan Bank for \$44,858,080, which represents 12.8% and 9.1% of the total Agency portfolio respectively. The Agency has investments in commercial paper with Lockhart Funding for \$33,833,408, Rhineland Funding for \$25,766,362 and Prudential Funding for \$24,937,200 representing 6.8%, 5.2% and 5.0% of the Agency portfolio respectively at June 30, 2007. The Agency also has investment agreements with FSA Capital Management in the amount of \$41,385,641 and Natixis Funding Corporation \$52,197,930 representing 8.4% and 10.6% of the Agency portfolio respectively at June 30, 2007.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

The following table shows the diversification of the Agency's portfolio:

| Pooled Cash and Investments | | | Restricted Investments | | |
|-------------------------------------|------------------------------|-----------------------|-------------------------------------|------------------------------|-----------------------|
| | <u>Fair Value</u> | <u>% of Portfolio</u> | | <u>Fair Value</u> | <u>% of Portfolio</u> |
| U.S. Gov't. Agency Securities | \$ 55,535,667 | 29.67% | U.S. Gov't. Agency Securities | \$ 15,976,562 | 5.17% |
| U.S. Gov't. Agency Securities Disc. | 20,744,700 | 11.08% | U.S. Gov't. Agency Securities Disc. | 33,502,101 | 10.83% |
| Money Market Funds | 30,206,665 | 16.14% | Money Market Funds | 52,212,967 | 16.89% |
| LAIF | 35,153,331 | 18.78% | LAIF | 5,253,242 | 1.70% |
| Negotiable CD's | 6,000,000 | 3.21% | Commercial Paper | 108,418,540 | 35.06% |
| Commercial Paper | 37,658,760 | 20.12% | Investment Agreements | 93,583,571 | 30.27% |
| City Pooled Cash | <u>1,887,902</u> | <u>1.01%</u> | Deposits | <u>265,726</u> | <u>0.09%</u> |
| Total | <u>\$ 187,187,025</u> | <u>100.00%</u> | Total | <u>\$ 309,212,709</u> | <u>100%</u> |

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 152 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, 2007, the Agency had the following investments and original maturities:

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.S. Gov't. Agency Securities | \$ 55,535,667 | 3.277 - 5.443 | \$ 23,812,917 | \$ 31,722,750 |
| U.S. Gov't. Agency Securities Disc. | 20,744,700 | 4.939 - 5.171 | 20,744,700 | - |
| Money Market Funds | 30,206,665 | 5.190 - 5.290 | 30,206,665 | - |
| LAIF | 35,153,331 | 5.25 | 35,153,331 | - |
| Negotiable CD's | 6,000,000 | 5.240 - 5.270 | 6,000,000 | - |
| Commercial Paper | 37,658,760 | 3.719 - 10.582 | 37,658,760 | - |
| City Pooled Cash | <u>1,887,902</u> | N/A | <u>1,887,902</u> | - |
| Total | <u>\$ 187,187,025</u> | | <u>\$ 155,464,275</u> | <u>\$ 31,722,750</u> |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

Restricted Investments

| | <u>Fair Value</u> | <u>Interest Rates</u> | <u>Maturities</u> | |
|-------------------------------------|------------------------------|-----------------------|------------------------------|-----------------------------|
| | | | <u>12 Months or Less</u> | <u>1-3 Years</u> |
| U.S. Gov't. Agency Securities | \$ 15,976,562 | 5.214 - 5.575 | \$ 12,983,125 | \$ 2,993,437 |
| U.S. Gov't. Agency Securities Disc. | 33,502,101 | 5.059 - 5.151 | 33,502,101 | - |
| Money Market Funds | 52,212,967 | 1.25 - 5.17 | 52,212,967 | - |
| LAIF | 5,253,242 | 4.7 - 4.92 | 5,253,242 | - |
| Commercial Paper | 108,418,540 | 4.808 - 8.007 | 108,418,540 | - |
| Investment Agreements | 93,583,571 | 3.91 - 5.02 | - | 93,583,571 |
| Deposits | 265,726 | - | 265,726 | - |
| Total | <u>\$ 309,212,709</u> | | <u>\$ 212,635,701</u> | <u>\$ 96,577,008</u> |

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, 2007, the amounts held by the trustees aggregated \$309,212,709 of which \$308,613,215 is available to be used for restricted projects and \$599,494 is held in reserve accounts. All restricted investments held by trustees as of June 30, 2007 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, 2007, are as follows:

| | <u>Equity in Pooled Cash and Investment</u> | <u>Restricted Cash and Investment With Fiscal Agent</u> | <u>Total Governmental Funds</u> |
|-----------------------------|---|---|---------------------------------|
| Central District | \$ 42,863,712 | \$ 64,657,980 | \$ 107,521,692 |
| Coliseum | 36,289,240 | 89,155,889 | 125,445,129 |
| Central City East | 21,554,356 | 77,141,799 | 98,696,155 |
| Low and moderate housing | 35,690,666 | 60,116,154 | 95,806,820 |
| Oakland Army Base | 23,364,105 | - | 23,364,105 |
| Debt Service | 421,164 | 599,494 | 1,020,658 |
| Nonmajor governmental funds | 27,003,782 | 17,541,393 | 44,545,175 |
| TOTAL | <u>\$ 187,187,025</u> | <u>\$ 309,212,709</u> | <u>\$ 496,399,734</u> |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

(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, 2007, follows:

| | <u>Central</u> | | <u>Low and</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|----------------------|-------------------|----------------------|---------------------|----------------------|
| | <u>District</u> | <u>Coliseum</u> | <u>Moderate</u> | <u>Governmental</u> | <u>Governmental</u> |
| | | | <u>Housing</u> | <u>Funds</u> | <u>Funds</u> |
| Housing development project | \$ - | \$ - | \$ 98,887,164 | \$ 1,555,347 | \$ 100,442,511 |
| Development loans | 33,144,702 | 200,000 | - | 1,049,286 | 34,393,988 |
| Small business loans | 127,641 | - | - | 93,419 | 221,060 |
| Gross notes receivable | 33,272,343 | - | 98,887,164 | 2,898,052 | 135,057,559 |
| Less: Allowance for uncollectible accounts | <u>(2,882,343)</u> | <u>-</u> | <u>(33,550,877)</u> | <u>(1,043,158)</u> | <u>(37,476,378)</u> |
| Net notes receivable | <u>\$ 30,390,000</u> | <u>\$ 200,000</u> | <u>\$ 65,336,287</u> | <u>\$ 1,654,894</u> | <u>\$ 97,581,181</u> |

(5) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows:

| | <u>July 1, 2006</u> | <u>Increases</u> | <u>June 30, 2007</u> |
|--------------------------|---------------------|---------------------|----------------------|
| Property held for resale | <u>\$53,265,943</u> | <u>\$67,319,729</u> | <u>\$120,585,672</u> |

The increase in Property Held for Resale represents the transfer of property from OBRA to the Agency of \$46,534,025 plus the capitalization of \$2,077,424 in remediation costs for OBRA, and the purchases of land in the amount of \$16,997,627 for the Uptown Project and \$1,710,653 for 7001 Oakport.

(6) 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, 2007, is as follows:

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

DUE FROM/DUE TO OTHER FUNDS:

| Receivable Fund | Payable Fund | Amount |
|------------------------|---------------------|---------------------------|
| Low Moderate Housing | Central District | \$665,475 |
| | Coliseum | 425,746 |
| | Central City East | 884,115 |
| | Oakland Army Base | 171,475 |
| | Non Major Funds | 304,688 |
| | | <u>2,451,499</u> |
| Debt Service | Central District | 144,265 |
| Non Major Funds | Coliseum | 93,664 |
| TOTAL | | <u><u>\$2,689,428</u></u> |

Interfund Transfers:

| | Transfers In | | | | |
|--------------------------------|-----------------------------|---|-----------------------------|--|--|
| | Central District | Low and Moderate Housing | Debt Service | Nonmajor Governmental Funds | Total Governmental Fund |
| Transfers out: | | | | | |
| Central District | \$ - | \$ 10,908,770 | \$ 21,533,516 | \$ - | \$ 32,442,286 |
| Coliseum | - | 6,909,499 | 3,049,442 | 1,215,146 | 11,174,087 |
| City Central East | - | 4,907,074 | 1,587,806 | - | 6,494,880 |
| Oakland Army Base | - | 1,302,910 | - | - | 1,302,910 |
| Low and Moderate Housing | 350,000 | - | 7,794,085 | - | 8,144,085 |
| Debt Service | - | 36,150 | - | - | 36,150 |
| Nonmajor Governmental Funds | <u>13,330</u> | <u>3,374,950</u> | <u>1,483,028</u> | <u>-</u> | <u>4,871,308</u> |
| TOTAL | <u><u>\$ 363,330</u></u> | <u><u>\$ 27,439,353</u></u> | <u><u>\$ 35,447,877</u></u> | <u><u>\$ 1,215,146</u></u> | <u><u>\$ 64,465,706</u></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 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 \$1,215,146 to Nonmajor 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. The transfer from the Low and Moderate Housing Fund to Central District Fund is for repayment of \$350,000 Henry Robinson Multi-Service Center as provided in the adopted budget for fiscal year 2007.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

(7) LONG-TERM DEBT

General Long-Term Obligations

Central City East Redevelopment Project Tax Allocation Bonds Series 2006A-TE & Series 2006A-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$13,780,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE (the “Series 2006A-TE Bonds”) and \$62,520,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-T (Federally Taxable) (the “Series 2006A-T Bonds”). The collective Series 2006A-TE Bonds and Series 2006A-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Central City East Redevelopment Project Area. The Series 2006A-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2034; the interest rates of these bonds range from 5.263% to 5.537%.

The Series 2006A-TE Bonds and Series 2006A-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central City East Redevelopment Project Area.

Coliseum Area Redevelopment Project Tax Allocation Bonds Series 2006B-TE & Series 2006B-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$28,770,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE (the “Series 2006B-TE Bonds”) and \$73,820,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-T (Federally Taxable) (the “Series 2006B-T Bonds”). The collective Series 2006B-TE Bonds and Series 2006B-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Coliseum Area Redevelopment Project Area as well as to refund all of the outstanding Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003. The Series 2006B-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rates of these bonds range from 4.000% to 5.000%. The Series 2006B-T Bonds are federally taxable with a final maturity of September 1, 2035; the interest rates of these bonds range from 5.263% to 5.537%.

The Series 2006B-TE Bonds and Series 2006B-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Coliseum Redevelopment Project Area.

The refunding resulted in a cash flow savings of \$2,797,908. In addition, the Agency obtained a net economic gain on this financing of \$626,658.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds Series 2006C-TE & Series 2006C-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$4,945,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE (the “Series 2006C-TE Bonds”) and \$12,325,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-T (Federally Taxable) (the “Series 2006C-T Bonds”). The collective Series 2006C-TE Bonds and Series 2006C-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Broadway/MacArthur/San Pablo Redevelopment Project Area. The Series 2006C-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006C-T Bonds are federally taxable with a final maturity of September 1, 2032; the interest rates of these bonds range from 5.283% to 5.587%.

The Series 2006C-TE Bonds and Series 2006C-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Broadway/MacArthur/San Pablo Redevelopment Project Area.

Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 2006T (Federally Taxable)

On November 21, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$33,135,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2006T (Federally Taxable) (the “Series 2006T Bonds”). The Series 2006T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Central District Redevelopment Project Area. The Series 2006T Bonds are federally taxable with a final maturity of September 1, 2021; the interest rates of these bonds range from 5.252% to 5.411%.

The Series 2006T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central District Redevelopment Project Area. As of June 30, 2007 the outstanding debt balance consisted of the following:

| | July 1, 2006 | Additions | Deductions | June 30, 2007 | Due within One Year |
|------------------------------------|---------------------|------------------|-------------------|----------------------|--------------------------------|
| Tax Allocation Bonds | \$224,335,000 | \$229,295,000 | \$(31,120,000) | \$ 422,510,000 | \$ 15,565,000 |
| Housing Set-Aside Revenue Bonds | 94,470,000 | — | (2,770,000) | 91,700,000 | 2,235,000 |
| General Obligation Bond | <u>310,000</u> | <u>—</u> | <u>(45,000)</u> | <u>265,000</u> | <u>45,000</u> |
| Total Bonds Payable | 319,115,000 | 229,295,000 | (33,935,000) | 514,475,000 | 17,845,000 |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

Deferred amounts:

| | | | | | |
|----------------------------------|------------------------------|------------------------------|-------------------------------|------------------------------|-----------------------------|
| Issuance premiums | 11,424,412 | 1,963,023 | (1,178,903) | 12,208,532 | 1,176,385 |
| Refunding loss | <u>(4,089,710)</u> | <u>(833,438)</u> | <u>294,964</u> | <u>(4,628,184)</u> | <u>(285,127)</u> |
| Subtotal | 326,449,702 | 230,424,585 | (34,818,939) | 522,055,348 | 18,736,258 |
| Uptown remediation costs | 1,407,872 | - | (216,882) | 1,190,990 | 1,190,990 |
| Army Base remediation costs | - | 9,484,616 | (2,077,424) | 7,407,192 | 1,500,000 |
| Advances from City of Oakland | <u>31,673,550</u> | <u>797,153</u> | <u>(1,313,592)</u> | <u>31,157,111</u> | <u>1,340,476</u> |
| TOTAL | <u>\$ 359,531,124</u> | <u>\$ 240,706,354</u> | <u>\$ (38,426,837)</u> | <u>\$ 561,810,641</u> | <u>\$ 22,767,724</u> |

General Long-Term Obligations consist of the following:

| | Year ending June 30 Maturity | Interest Rates | Balance at June 30, 2007 |
|--|---|---------------------------|-------------------------------------|
| TAX ALLOCATION BONDS | | | |
| Central District Senior Tax Allocation | | | |
| Refunding Series 1992: | | | |
| Serial bonds | 2008 | 6.00% | 5,835,000 |
| Term bonds | 2009-2014 | 5.50% | <u>35,910,000</u> |
| | | | <u>41,745,000</u> |
| Central District Subordinated Tax | | | |
| Allocation Bonds Series 2003: | | | |
| Serial bonds | 2008-2009 | 4.00% | 6,275,000 |
| Serial bonds | 2010-2012 | 5.00% | 12,970,000 |
| Serial bonds | 2013-2020 | 5.50% | <u>87,865,000</u> |
| | | | <u>107,110,000</u> |
| Central District Subordinated Tax | | | |
| Allocation Bonds Series 2005: | | | |
| Serial bonds | 2008-2022 | 5.00% | <u>44,360,000</u> |
| Central District Subordinated Tax | | | |
| Allocation Bonds Series 2006T: | | | |
| Term bonds | 2008-2016 | 5.252% | 22,455,000 |
| Term bonds | 2017-2021 | 5.411% | <u>10,680,000</u> |
| | | | <u>33,135,000</u> |
| Broadway/MacArthur/San Pablo | | | |
| Tax Allocation Bonds Series 2006C-TE: | | | |
| Term bonds | 2032-2036 | 5.00% | <u>4,945,000</u> |
| Broadway/MacArthur/San Pablo | | | |
| Tax Allocation Bonds Series 2006C-T: | | | |
| Term bonds | 2008-2016 | 5.283% | 3,160,000 |
| Term bonds | 2017-2032 | 5.587% | <u>9,165,000</u> |
| | | | <u>12,325,000</u> |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

| | | | |
|--|-----------|-------------|----------------------|
| Central City East Tax Allocation | | | |
| Bonds Series 2006A-TE: | | | |
| Term bonds | 2034-2036 | 5.00% | <u>13,780,000</u> |
| | | | |
| Central City East Tax Allocation | | | |
| Bonds Series 2006A-T: | | | |
| Term bonds | 2008-2016 | 5.263% | 14,025,000 |
| Term bonds | 2017-2034 | 5.537% | <u>48,495,000</u> |
| | | | <u>62,520,000</u> |
| | | | |
| Coliseum Area Tax | | | |
| Allocation Bonds Series 2006B-TE: | | | |
| Serial bonds | 2008-2020 | 4.00%-4.50% | 8,205,000 |
| Term bonds | 2021-2026 | 5.00% | 5,350,000 |
| Term bonds | 2027-2031 | 5.00% | 5,860,000 |
| Term bonds | 2032-2036 | 5.00% | <u>9,355,000</u> |
| | | | <u>28,770,000</u> |
| | | | |
| Coliseum Area Tax | | | |
| Allocation Bonds Series 2006B-T: | | | |
| Term bonds | 2008-2016 | 5.263% | 14,010,000 |
| Term bonds | 2017-2035 | 5.537% | <u>59,810,000</u> |
| | | | <u>73,820,000</u> |
| | | | |
| TOTAL TAX ALLOCATION BONDS | | | <u>422,510,000</u> |
| | | | |
| GENERAL OBLIGATION BOND-Tribune Tower | 2008-2012 | 5.643% | <u>265,000</u> |
| | | | |
| SUBORDINATED HOUSING SET-ASIDE BONDS | | | |
| Revenue Series 2000T: | | | |
| Term bonds | 2008-2011 | 7.82% | 7,980,000 |
| | | | |
| Revenue Series 2006A: | | | |
| Term bonds | 2008-218 | 5.00% | 2,195,000 |
| | | | |
| Refunding Series 2006A-T: | | | |
| Term bonds | 2008 | 5.153% | 460,000 |
| Term bonds | 2009 | 5.182% | 475,000 |
| Term bonds | 2010 | 5.219% | 500,000 |
| Term bonds | 2011 | 5.248% | 530,000 |
| Term bonds | 2012 | 5.268% | 2,860,000 |
| Term bonds | 2013 | 5.308% | 3,010,000 |
| Term bonds | 2014 | 5.344% | 3,170,000 |
| Term bonds | 2015-2017 | 5.383% | 10,565,000 |
| Term bonds | 2018-2022 | 5.653% | 19,635,000 |
| Term bonds | 2023-2026 | 5.827% | 12,525,000 |
| Term bonds | 2027-2037 | 5.927% | <u>27,795,000</u> |
| | | | <u>81,525,000</u> |
| | | | |
| TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS | | | <u>91,700,000</u> |
| | | | |
| TOTAL BONDS PAYABLE | | | <u>\$514,475,000</u> |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2007

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. As of June 30, 2007 the total outstanding balance was \$31,157,111, comprised of the following:

| | <u>July 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>June 30, 2007</u> | <u>Due within One Year</u> |
|------------------|----------------------|------------------|-----------------------|----------------------|--------------------------------|
| Central District | \$17,842,977 | \$ — | \$ (784,548) | \$ 17,058,429 | \$ 572,511 |
| Oak Center | 13,337,839 | 797,153 | (466,204) | 13,668,788 | 700,000 |
| Stanford/Adeline | 302,314 | — | (54,996) | 247,318 | 62,418 |
| West Oakland | 190,420 | — | (7,844) | 182,576 | 5,547 |
| TOTAL | <u>\$ 31,673,550</u> | <u>\$797,153</u> | <u>\$ (1,313,592)</u> | <u>\$ 31,157,111</u> | <u>\$ 1,340,476</u> |

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

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 \$82.2 million at June 30, 2007.

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

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, 2007.

| Year ending June 30: s | Governmental Activities | |
|-----------------------------------|--------------------------------|-----------------------|
| | Principal | Interest |
| 2008 | \$ 17,845,000 | \$ 20,600,778 |
| 2009 | 17,230,000 | 26,741,163 |
| 2010 | 16,865,000 | 25,791,569 |
| 2011 | 18,680,000 | 24,811,089 |
| 2012 | 19,665,000 | 29,204,807 |
| 2013-2017 | 102,145,000 | 101,659,950 |
| 2018-2022 | 132,310,000 | 70,161,453 |
| 2023-2027 | 61,470,000 | 41,776,111 |
| 2028-2032 | 55,530,000 | 27,756,668 |
| 2033-2037 | <u>72,735,000</u> | <u>10,138,713</u> |
| TOTAL | <u>\$ 514,475,000</u> | <u>\$ 378,642,301</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, 2007, there was one series of certificates outstanding with an aggregate principal amount payable of \$16,295,000. 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.

(8) 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 represents reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2007, the Agency reimbursed the City \$21,485,562 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 \$2,335,066 for the fiscal year ended June 30, 2007; \$1,116,372 in principal and \$1,218,694 in interest.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

(9) SPECIAL ITEM - OBRA

The dissolution of OBRA and its absorption by the Agency on August 7, 2006 resulted in substantial revenue for the Agency of \$59,020,242 mainly due to the transfer of real property at the former Oakland Army Base. The dissolution involved the distribution of real property between the Agency and the Port. The Agency's portion of the OBRA properties had a total historical value of \$46,534,025. In addition to the real property received, the Agency also received other OBRA's assets and liabilities in the net amount of \$67,217 and the \$12,419,000 payment by the Port for one of the parcels of land included in the agreed property transfers.

(10) COMMITMENTS AND CONTINGENCIES

Oakland Redevelopment Agency

As of June 30, 2007, the Agency has entered into contractual commitments of approximately \$55,165,978 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, 2007, the Agency was committed to fund \$48,842,846 in loans and had issued \$1,648,000 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, 2007, the total liability outstanding in connection with the Agency's environmental remediation activities was \$1,190,990.

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 has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs including the \$3.5 million insurance

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2007

premium. Of the \$13.0 million grant, \$9.6 million has been spent of which 9.0 million has been reimbursed and received as of June 30, 2007. The remaining \$3.4 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 \$7.4 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 additional 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.

**COMBINING FINANCIAL
STATEMENTS and
SUPPLEMENTAL
INFORMATION**

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

| | <u>Acorn</u> | <u>Broadway/Mac Arthur/San Pablo</u> | <u>West Oakland</u> | <u>Other Projects</u> | <u>Redevelopment Planning Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|---|---------------------|--|---------------------|-----------------------|--|--|
| ASSETS | | | | | | |
| Cash and investments | \$ 1,097,933 | \$ 5,685,154 | \$ 5,975,472 | \$ 12,587,018 | \$ 1,658,205 | \$ 27,003,782 |
| Tax increment receivable | 34,615 | 434,554 | 824,909 | 149,572 | - | 1,443,650 |
| Accounts receivable, net | 39,313 | 50,045 | 51,085 | 672,765 | 14,876 | 828,084 |
| Due from other funds | - | - | - | 93,664 | - | 93,664 |
| Advances to the City of Oakland | 10,480 | - | 9,764 | 221 | 397,701 | 418,166 |
| Notes receivable, net | 509,475 | - | - | 1,145,419 | - | 1,654,894 |
| Property held for resale | - | - | - | 4,801,189 | - | 4,801,189 |
| Restricted cash and investments | - | 17,302,125 | - | 239,268 | - | 17,541,393 |
| TOTAL ASSETS | <u>\$ 1,691,816</u> | <u>\$ 23,471,878</u> | <u>\$ 6,861,230</u> | <u>\$ 19,689,116</u> | <u>\$ 2,070,782</u> | <u>\$ 53,784,822</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 277,506 | \$ 1,611 | \$ 152,349 | \$ 16,661 | \$ 448,127 |
| Due to other funds | 5,202 | 90,104 | 179,509 | 29,873 | - | 304,688 |
| Due to the City of Oakland | 13,383 | 157,547 | 338 | 45,350 | 4,993 | 221,611 |
| Due to other governments | - | 872,147 | 1,257,324 | 1,893 | - | 2,131,364 |
| Deposits and other liabilities | 12,250 | 25,000 | - | 530 | 6,281 | 44,061 |
| Deferred revenue | 103,997 | 74,133 | 106,873 | 1,175,498 | 397,701 | 1,858,202 |
| TOTAL LIABILITIES | <u>134,832</u> | <u>1,496,437</u> | <u>1,545,655</u> | <u>1,405,493</u> | <u>425,636</u> | <u>5,008,053</u> |
| FUND BALANCES | | | | | | |
| Reserved for property held for resale | - | - | - | 4,801,189 | - | 4,801,189 |
| Reserved for advances and notes receivable | 415,958 | - | 9,764 | 221 | - | 425,943 |
| Reserved for approved capital projects/activities | 1,141,026 | 21,975,441 | 5,305,811 | 13,482,213 | - | 41,904,491 |
| Unreserved | - | - | - | - | 1,645,146 | 1,645,146 |
| TOTAL FUND BALANCES | <u>1,556,984</u> | <u>21,975,441</u> | <u>5,315,575</u> | <u>18,283,623</u> | <u>1,645,146</u> | <u>48,776,769</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,691,816</u> | <u>\$ 23,471,878</u> | <u>\$ 6,861,230</u> | <u>\$ 19,689,116</u> | <u>\$ 2,070,782</u> | <u>\$ 53,784,822</u> |

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2007

| | <u>Acorn</u> | <u>Broadway/Mac Arthur/San Pablo</u> | <u>West Oakland</u> | <u>Other Projects</u> | <u>Redevelopment Planning Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|---------------------|--|---------------------|-----------------------|--|--|
| REVENUES | | | | | | |
| Tax increment | \$ 1,083,003 | \$ 4,360,735 | \$ 6,286,614 | \$ 1,769,447 | \$ - | \$ 13,499,799 |
| Interest on restricted cash and investments | - | 544,322 | - | - | - | 544,322 |
| Interest on pooled cash and investments | 67,328 | 154,854 | 128,419 | 615,808 | 70,450 | 1,036,859 |
| Interest on notes receivable | - | - | - | 40,656 | - | 40,656 |
| Rents and reimbursements | - | - | - | 604,413 | - | 604,413 |
| Other | 7,405 | 947,575 | - | 953,127 | - | 1,908,107 |
| TOTAL REVENUES | <u>1,157,736</u> | <u>6,007,486</u> | <u>6,415,033</u> | <u>3,983,451</u> | <u>70,450</u> | <u>17,634,156</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Urban redevelopment and housing | 358,337 | 2,205,894 | 1,669,987 | 4,645,207 | 49,475 | 8,928,900 |
| Debt Service: | | | | | | |
| Bond issuance costs | - | 485,355 | - | - | - | 485,355 |
| TOTAL EXPENDITURES | <u>358,337</u> | <u>2,691,249</u> | <u>1,669,987</u> | <u>4,645,207</u> | <u>49,475</u> | <u>9,414,255</u> |
| Excess (deficiency) of revenues over expenditures | 799,399 | 3,316,237 | 4,745,046 | (661,756) | 20,975 | 8,219,901 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | - | 1,215,146 | - | 1,215,146 |
| Transfers out | (838,322) | (1,447,816) | (1,585,169) | (1,000,001) | - | (4,871,308) |
| Proceeds from bonds issued | - | 17,270,000 | - | - | - | 17,270,000 |
| Premiums on bonds issued | - | 215,355 | - | - | - | 215,355 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(838,322)</u> | <u>16,037,539</u> | <u>(1,585,169)</u> | <u>215,145</u> | <u>-</u> | <u>13,829,193</u> |
| Change in fund balances | (38,923) | 19,353,776 | 3,159,877 | (446,611) | 20,975 | 22,049,094 |
| Fund balances at beginning of year | 1,595,906 | 2,621,665 | 2,155,698 | 18,730,234 | 1,624,171 | 26,727,674 |
| FUND BALANCES AT END OF YEAR | <u>\$ 1,556,984</u> | <u>\$ 21,975,441</u> | <u>\$ 5,315,575</u> | <u>\$ 18,283,623</u> | <u>\$ 1,645,146</u> | <u>\$ 48,776,769</u> |



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

To the Members of the Redevelopment Agency
of the City of Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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 fiscal year ended June 30, 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 15, 2007. 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 Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Notes Receivable

During the testing of notes receivable, we obtained a supporting schedule that details the beginning balances, current year activity, and ending balances for outstanding notes. During our testing of additions to notes receivable, we discovered a new note that was already recorded as an addition in the previous year. This duplicate entry caused an overstatement of assets in the amount of \$1,732,171.

We recommend the supporting schedule for notes receivable be analyzed for accuracy during the Agency's closing process to reduce the risk of financial statement misstatements.

Management Response:

Management acknowledges the finding and the correction was made accordingly. The Community and Economic Development Agency staff and the Accounting Division staff of the Finance and Management Agency will closely monitor the tracking of Agency loans and notes receivables in the future.

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 Agency's internal control.

Our consideration of 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 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 the significant deficiency described above is not 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's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described below.

Loan, Property and Blight Report Not Submitted to City Council

Under California Health & Safety Code Section 33080.1, every redevelopment agency shall present an annual report to its legislative body within six months of the end of the Agency's fiscal year. The annual report shall contain all of the following:

- a. An independent auditor's report on financial statements;
- b. An independent auditor's report on legal compliance;
- c. An annual Report of Financial Transactions of Community Redevelopment Agencies (fiscal statement), Health & Safety Code Section 33080.5;
- d. A housing activities report, Health & Safety Code Sections 33080.4 and 33080.7;
- e. A blight progress report (specifies actions and expenditures made in the previous fiscal year to alleviate blight), Health & Safety Code Section 33080.4;
- f. A loan report (identifies loans (receivable) which equal or exceed \$50,000 and that were found by the Agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the Agency), Health & Safety Code Section 33080.4; and
- g. A property report (describes properties owned by the Agency and those acquired in the previous fiscal year); Health & Safety Code Section 33080.4.

During our compliance testing, we noted that all seven reports were submitted to the State Controller on December 28, 2007; however, the reports were submitted to the Agency's Board of Directors on March 6, 2007, which is after the six months requirement. In addition, the Agency only submitted four of these reports, omitting the blight progress, loan and property reports.

We recommend the Agency implement a procedure to ensure the timely and complete submission of reports, as required by the Health & Safety Code.

Management Response:

Management acknowledges the finding by the auditors and the mandated timeline established by law. For practical reporting purposes, however, future compliance is a challenge because of the staff report review process involved including the Brown Act public notification requirement before the item is subject to review by the Agency's Board of Directors. Management's first priority is to meet the State Controller's December 31st deadline because of the significant monetary penalty imposed by law. Its second priority is to assess how compliance with the 180-day deadline for the above reports can be accomplished given the logistics involved with the City's year-end audits.

The Agency's response to the findings identified in our audit is included with the findings above. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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

Macias Gini & Connell LLP
Certified Public Accountants
Walnut Creek, California

December 6, 2007