

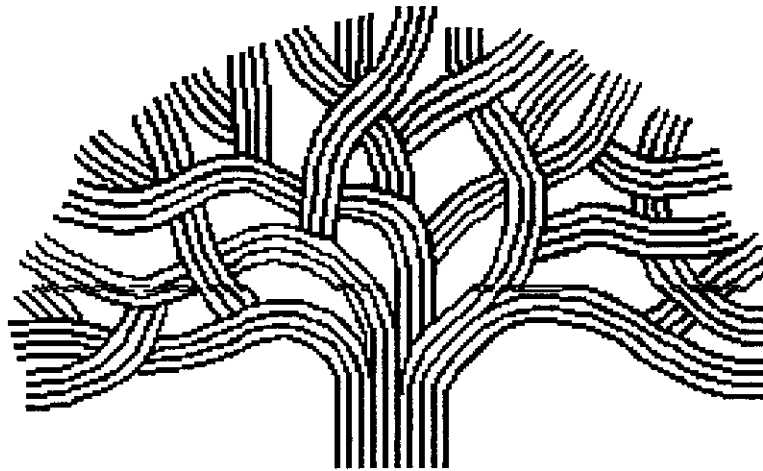
REDEVELOPMENT AGENCY

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, 2004

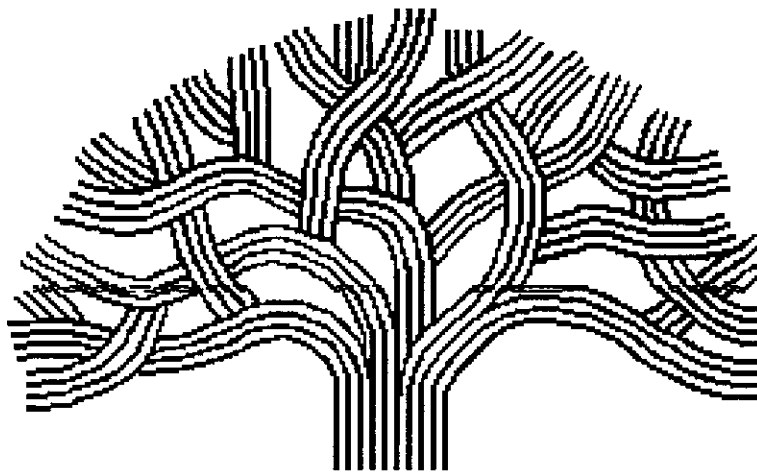
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**Basic Financial Statements
and
Supplemental Information**

Fiscal Year Ended June 30, 2004

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
FINANCIAL REPORT

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Director
Finance and Management Agency

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Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Ace A. Tago, Assistant Controller

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Katano Kasaine

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SPECIAL ASSISTANCE – DEPARTMENTS & OFFICES

City Manager's Office

City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

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

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 (Agency), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements as listed in the accompanying 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 did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for OBRA, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2005, 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.

The management's discussion and analysis, as listed in the accompanying table of contents, is not a required part of the basic financial statements of the Agency, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
January 18, 2005

Williams, Atley & Company, LLP
Certified Public Accountants

Oakland, California
January 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

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, 2004. 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 \$4,448,558 compared to a net deficit of (\$20,690,092) for the previous fiscal year. The significant increase in net assets is attributed to the repayment of \$11,843,745 in City advances to ORA and the reduction of its bonded liabilities by \$11,105,000.

- For the year ended June 30, 2004, the Agency's revenues for governmental activities were \$73,046,146 compared to \$69,518,080 for the prior fiscal year, an increase of \$3,528,066. The increase is primarily attributable to the increase in property taxes in the ORA project areas.

- The Agency's total expenses for the year ended June 30, 2004 was \$44,723,496 compared to \$57,518,050 for the prior year. The decrease of \$12,794,55 or 22% is attributed to the reduction in urban development and housing project activities primarily in the Low Moderate Housing project area. Although not as significant, expenses in other ORA project areas declined as well.

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 nine individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the Central District Fund, Coliseum Fund, Low and Moderate Housing Fund, and the Tax Allocation Debt Fund, all of which are considered to

be major funds. Data from the remaining funds are combined in a single, aggregated presentation. 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.

Discretely Presented Component Unit

Oakland Base Reuse Authority

This year, the Oakland Redevelopment Agency basic financial statements incorporates the Oakland Base Reuse Authority as a discretely presented component unit. As such, its activities for the fiscal year are reported in a separate column in the Agency's government-wide financial statements. See Note (1) in the basic financial statements for more details.

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 19-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the combining statements referred to earlier in connection with other nonmajor governmental funds are presented immediately following the footnotes.

Government-wide Financial 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.

Net Assets Governmental Activities

	June 30	
	2004	2003
Current and other assets	\$226,997,956	\$221,918,932
Property held for resale	<u>71,500,558</u>	<u>71,924,690</u>
Total assets	<u>298,498,514</u>	<u>293,843,622</u>
Long-term liabilities	279,546,593	302,103,779
Other liabilities	<u>14,503,363</u>	<u>12,429,935</u>
Total liabilities	<u>294,049,956</u>	<u>314,533,714</u>

Net assets/(deficit)

Restricted for:

Urban redevelopment and housing	212,453,079	238,187,429
Unrestricted (deficit)	<u>(208,004,521)</u>	<u>(258,877,521)</u>
Total net assets/(deficit)	<u>\$ 4,448,558</u>	<u>\$ (20,690,092)</u>

Analysis of Net Assets

Net assets may serve over time as a useful indicator of an Agency's financial position. In the case of the Agency, assets exceeded liabilities by \$4,448,558 at the close of the most recent fiscal year.

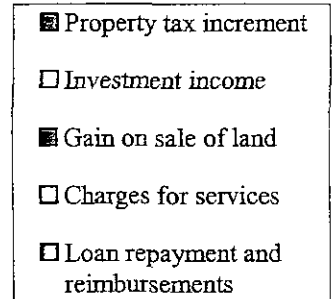
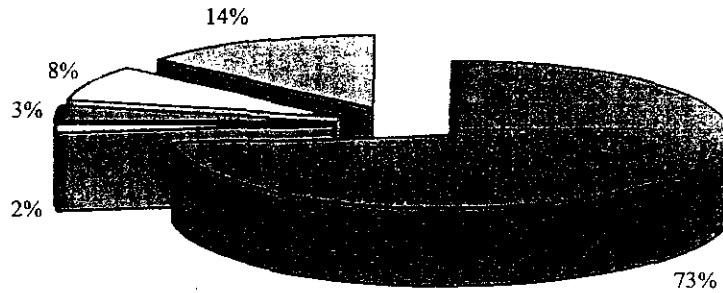
As of the end of the fiscal year, the Agency had restricted net assets of \$212,453,079. These are comprised of an investment of \$71,500,558 in Community Development (Property held for resale). The Agency uses Property Held for Resale to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Agency's net assets represents resources of \$140,952,521 that are subject to external restrictions on how they may be used. The Agency's deficit in unrestricted net assets of (\$208,004,521) is attributed to the issuance of bonds and other indebtedness to fund urban development and housing projects that are not capitalized.

Governmental activities. Governmental activities increased the Agency's net asset by 122% (\$4,448,558). Key elements of this increase are as follows:

**Changes in Net Assets
Governmental Activities**

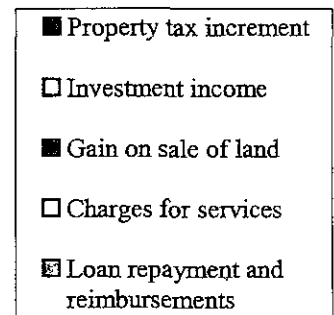
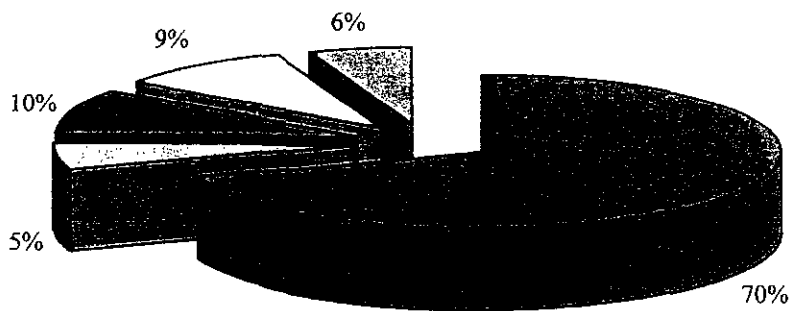
	June 30	
	2004	2003
Revenues:		
Program revenues:		
Charges for services	\$ 5,749,532	\$ 6,503,639
General revenues:		
Property tax increment	53,415,706	48,435,895
Investment income	1,469,536	3,817,452
Gain on sale of land	2,284,417	6,867,024
Other	<u>10,126,955</u>	<u>3,894,070</u>
Total revenues	<u>73,046,146</u>	<u>69,518,080</u>
Expenses:		
Urban redevelopment and housing	30,178,725	43,879,024
Interest on long-term debt	<u>14,544,771</u>	<u>13,639,026</u>
Total expenses	<u>44,723,496</u>	<u>57,518,050</u>
Increase in net assets	28,322,650	12,000,030
Net deficit beginning of year (as restated)	<u>(23,874,092)</u>	<u>(32,690,122)</u>
Net deficit end of year	<u>\$ 4,448,558</u>	<u>\$ (20,690,092)</u>

**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2003-04**



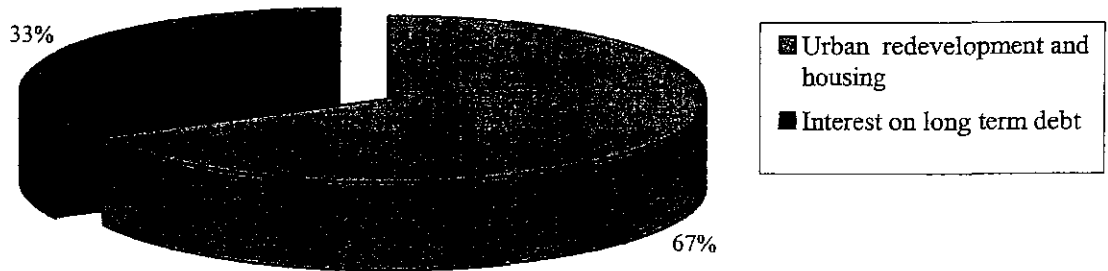
Total Revenues \$73,046,146

**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2002-03**



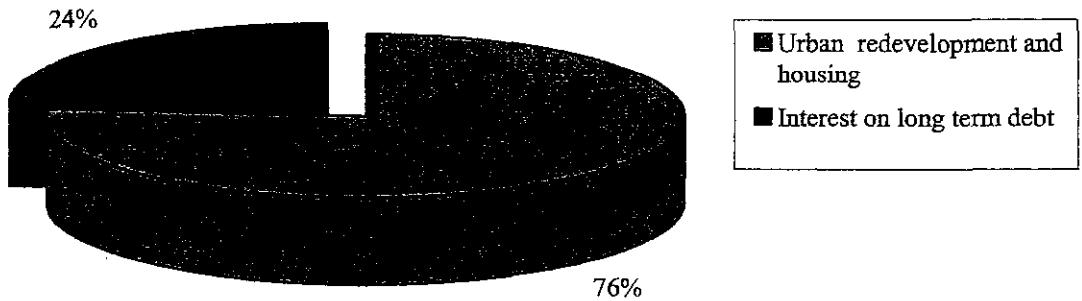
Total Revenues \$69,518,080

**Redevelopment Agency of Oakland
Functional Expenses
For FY 2003-04**



Total Expenditures \$44,723,496

**Redevelopment Agency of Oakland
Functional Expenses
For FY 2002-03**



Total Expenditures \$57,518,050

Analysis of Changes in Net Assets. The revenues in governmental activities for the Agency exceeded expenses by \$28,322,650 for the year ended June 30, 2004. This represents an increase in net assets of 119% compared to the restated June 30, 2003 balance, which had a deficit of (\$23,874,092).

The charts in the preceding pages illustrate the proportional distribution of revenues by source and expenses by function compared to the previous year. Revenues totaled \$73,046,146 while expenses totaled \$44,723,496 for the year ended June 30, 2004 compared to \$69,518,080 and \$57,518,050, respectively, for the year ended June 30, 2003.

Revenues increased compared to the previous fiscal year by \$3,528,066 or 5%. While the property tax increment revenues had increased by \$4,979,811 (10%) due to strong growth in net valuation as a result of solid improvements in redevelopment activities, investment income dropped by \$2,347,916 due to lower rates of return fueled by economic slowdown. Gain on the sale of land decreased by \$4,582,607 due to fewer sales of Agency properties while other revenues increased by \$6,232,885 due primarily to a pass through loan interest reclassified as principal.

Government wide expenses decreased by \$12,794,554 or 22% primarily attributable to the decrease in urban redevelopment and housing activities.

Financial Analysis of the Government's Funds

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus on the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Agency include Capital Projects and Debt Service.

As of June 30, 2004, the Agency's governmental funds reported combined ending fund balances of \$213,918,035, a net decrease of 43% or (\$5,813,886) compared to the prior year's restated ending fund balance. The net decrease is represented by: (1) a 10% (\$5,015,976) increase in property tax increment collections attributed to improved property valuations in the redevelopment project areas; (2) a decrease in gain on the sale of land due to fewer sales of Agency properties; (3) decrease in investment income due to lower rates of return fueled by economic slowdown, and (4) an increase in other revenues resulting primarily from a pass through loan interest reclassified as principal. The combined fund balances of \$213,918,035 is distributed as follows: 57% for the Central District Project area; 16% for the Low Moderate Housing Project area; 15% for the Coliseum Project area; and 12% for other Redevelopment Project areas.

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. However, OBRA, its discretely presented component unit shows depreciable capital assets of \$977,223 as of June 30, 2004.

Long-term debt. At June 30, 2004, the Agency had total long-term debt outstanding of \$279,546,593, a decrease of 7% over the previous fiscal year. The decrease was primarily due to repayment of advances and loans to the City for \$11,843,785 and reduction of its bonded liabilities by \$11,105,000.

Bond Ratings

The Agency's bond ratings at June 30, 2004 are as follows:

	Insured By	Rating	Balance Outstanding
Tax allocation*	FGIC/MBIA/AMBAC	AAA/Aaa/A-	\$ 197,095,000
Housing set-aside revenue bonds	MBIA	AAA/AAA/Aaa	38,070,000
General obligation bonds	Not rated by Agency		<u>390,000</u>
Total			<u>\$ 235,555,000</u>

*Coliseum Area Redevelopment Tax Allocation Bonds Series 2003 totaling \$23,085,000 are not insured because the issue carries an A rating and insurance costs would have increased the cost of issuance significantly. All ratings were done by Fitch, Standard & Poor's and Moody's Investors Service

Long-term liabilities at June 30, 2004, is comprised of the following:

	<u>FY 2004</u>	<u>FY 2003</u>
Tax allocation		
bonds payable	\$ 197,095,000	\$ 206,835,000
Housing set-aside		
revenue bonds	38,070,000	39,395,000
General obligation		
bonds	<u>390,000</u>	<u>430,000</u>
SUBTOTAL	235,555,000	246,660,000
Deferred amounts, net	7,975,006	8,767,150
Advances from City		
of Oakland	<u>36,016,587</u>	<u>46,676,629</u>
TOTAL	<u>\$ 279,546,593</u>	<u>\$ 302,103,779</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, 2004

	<u>Oakland Redevelopment Agency</u>	<u>Component Unit Oakland Base Reuse Authority</u>
ASSETS		
Cash	\$ 100	\$ -
Pooled cash and investments	99,484,820	5,935,986
Tax increment receivable	2,730,870	-
Accrued interest receivable	232,758	-
Receivables, (net of allowance for uncollectibles of \$200,000 for the Agency and \$44,638 for the component unit)		
Accounts receivable	200,763	544,177
Grants receivable	-	91,884
Due from primary government	29,448,966	-
Due from other government	6,174	-
Notes receivable, (net of allowance for uncollectible accounts of \$574,574)	45,851,096	-
Property held for resale	71,500,558	79,778,363
Restricted cash and investments with fiscal agent	45,743,905	-
Restricted cash in bank and investments	337,356	10,689,589
Capital assets		
Facilities and equipment, net of depreciation	-	977,223
Deferred charge - bond issuance costs	2,961,148	-
TOTAL ASSETS	<u>\$ 298,498,514</u>	<u>\$ 98,017,222</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2004

	<u>Oakland Redevelopment Agency</u>	<u>Component Unit Oakland Base Reuse Authority</u>
LIABILITIES		
Accounts payable	\$ -	\$ 531,103
Accrued interest payable	4,802,511	-
Accrued liabilities	4,214,016	788
Due to City	4,883,911	2,071,711
Due to other government	213,280	5,400,000
Deferred revenue and credits	-	1,053,955
Deposits	257,364	696,821
Other liabilities	132,281	-
Noncurrent liabilities (net of unamortized refunding losses and premiums):		
Due within one year	13,007,527	-
Due in more than one year	266,539,066	-
TOTAL LIABILITIES	<u>294,049,956</u>	<u>9,754,378</u>
NET ASSETS (DEFICIT)		
Restricted for:		
Invested in capital assets, net of related debt	-	977,223
Urban redevelopment projects and housing	212,453,079	81,349,635
Unrestricted (deficit)	<u>(208,004,521)</u>	<u>5,935,986</u>
TOTAL NET ASSETS	<u>\$ 4,448,558</u>	<u>\$ 88,262,844</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Activities

For the year ended June 30, 2004

<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	\$ 30,178,725	\$ 5,749,532	\$ -	\$ (24,429,193)	\$ -
Interest on long-term debt	<u>14,544,771</u>	<u>-</u>	<u>-</u>	<u>(14,544,771)</u>	<u>-</u>
Total governmental activities	<u>\$ 44,723,496</u>	<u>\$ 5,749,532</u>	<u>\$ -</u>	<u>(38,973,964)</u>	<u>-</u>
Component Unit					
Oakland Base Reuse Authority	<u>\$ 13,152,053</u>	<u>\$ 7,206,251</u>	<u>\$ 77,623,876</u>		<u>71,678,074</u>
General Revenues:					
Property tax increment				53,415,706	-
Investment income				1,469,536	213,364
Gain on the sale of land				2,284,417	-
Other				<u>10,126,955</u>	<u>-</u>
Total general revenues				<u>67,296,614</u>	<u>213,364</u>
Change in net assets				28,322,650	71,891,438
Net assets (deficit) at beginning of year (as restated)				<u>(23,874,092)</u>	<u>16,371,406</u>
Net assets at end of year				<u>\$ 4,448,558</u>	<u>\$ 88,262,844</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

**Balance Sheet
Governmental Funds
June 30, 2004**

	Capital Projects			Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Low and Moderate Housing		Tax Allocation Debt	
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ 100
Equity in pooled cash and investments	39,791,297	22,010,623	21,122,558	15,368,891	1,191,451	99,484,820
Tax increment receivable	1,157,721	903,411	456,063	213,675	-	2,730,870
Accrued interest receivable	49,487	-	233	183,038	-	232,758
Accounts receivable, net	142,371	-	-	58,392	-	200,763
Due from primary government	27,448,717	-	1,667,643	332,606	-	29,448,966
Due from other government	-	6,174	-	-	-	6,174
Notes receivable, net	3,186,880	-	40,038,939	2,625,277	-	45,851,096
Property held for resale	62,330,350	-	-	9,170,208	-	71,500,558
Restricted cash and investments with fiscal agent	18,303,303	13,632,885	13,276,014	-	531,703	45,743,905
Restricted cash in bank	75,846	-	-	261,510	-	337,356
TOTAL ASSETS	<u>\$ 152,485,972</u>	<u>\$36,553,093</u>	<u>\$76,561,450</u>	<u>\$ 28,213,697</u>	<u>\$ 1,723,154</u>	<u>\$295,537,366</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2004

	Capital Projects			Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Low and Moderate Housing		Tax Allocation Debt	
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accrued interest payable	\$ -	\$ -	\$ -	\$ -	\$ 1,392,550	\$ 1,392,550
Accrued liabilities	355,157	3,017,942	235,478	605,439	-	4,214,016
Due to primary government	1,943,670	1,896,274	498,535	456,248	89,184	4,883,911
Due to other government	213,280	-	-	-	-	213,280
Deposits	240,300	-	4,284	12,780	-	257,364
Deferred revenue	27,285,488	254,983	41,706,581	1,278,877	-	70,525,929
Other liabilities	101,000	-	-	31,281	-	132,281
TOTAL LIABILITIES	<u>30,138,895</u>	<u>5,169,199</u>	<u>42,444,878</u>	<u>2,384,625</u>	<u>1,481,734</u>	<u>81,619,331</u>
FUND BALANCES						
Reserved for property held for resale	62,330,350	-	-	9,170,208	-	71,500,558
Reserved for approved capital projects/activities	60,016,727	31,383,894	34,116,572	15,193,908	241,420	140,952,521
Unreserved	-	-	-	1,464,956	-	1,464,956
TOTAL FUND BALANCES	<u>122,347,077</u>	<u>31,383,894</u>	<u>34,116,572</u>	<u>25,829,072</u>	<u>241,420</u>	<u>213,918,035</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 152,485,972</u>	<u>\$36,553,093</u>	<u>\$76,561,450</u>	<u>\$ 28,213,697</u>	<u>\$ 1,723,154</u>	

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

Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,961,148
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	70,525,929
Long-term liabilities, including bonds payable and unamortized bond premiums, are not due and payable in the current period and, therefore, are not reported in the funds	(282,956,554)
Net assets of governmental activities	<u>\$ 4,448,558</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
For the year ended June 30, 2004

	Capital Projects			Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Low Moderate Housing		Tax Allocation Debt	
REVENUES						
Tax increment	\$ 33,330,536	\$ 14,998,937	\$ -	\$ 5,000,965	\$ -	\$ 53,330,438
Interest on restricted cash and investments	178,744	110,237	218,909	-	5,513	513,403
Interest on pooled cash and investments	437,172	81,258	94,372	91,499	13,287	717,588
Interest on notes receivable	190,105	-	48,440	-	-	238,545
Rents and reimbursements	3,697,197	-	-	2,052,335	-	5,749,532
Gain from sale of property held for resale	294,761	1,973,888	-	15,768	-	2,284,417
Other	1,607,459	-	2,533,460	171,080	-	4,311,999
TOTAL REVENUES	<u>39,735,974</u>	<u>17,164,320</u>	<u>2,895,181</u>	<u>7,331,647</u>	<u>18,800</u>	<u>67,145,922</u>
EXPENDITURES						
Current:						
Urban redevelopment and housing	13,422,586	8,037,406	8,989,075	5,143,222	-	35,592,289
Debt Service:						
Payment on advances	-	-	-	-	11,843,785	11,843,785
Retirement of long-term debt	-	-	-	-	11,105,000	11,105,000
Interest	-	-	-	-	14,833,734	14,833,734
TOTAL EXPENDITURES	<u>13,422,586</u>	<u>8,037,406</u>	<u>8,989,075</u>	<u>5,143,222</u>	<u>37,782,519</u>	<u>73,374,808</u>
Excess (deficiency) of revenues over expenditures	26,313,388	9,126,914	(6,093,894)	2,188,425	(37,763,719)	(6,228,886)
OTHER FINANCING SOURCES (USES)						
Proceeds from advances	-	-	-	415,000	-	415,000
Transfers in	350,000	-	14,582,518	746,818	36,963,585	52,642,921
Transfers out	(36,348,515)	(9,274,358)	(4,734,359)	(2,285,689)	-	(52,642,921)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(35,998,515)</u>	<u>(9,274,358)</u>	<u>9,848,159</u>	<u>(1,123,871)</u>	<u>36,963,585</u>	<u>415,000</u>
Change in fund balances	(9,685,127)	(147,444)	3,754,265	1,064,554	(800,134)	(5,813,886)
Fund balances at beginning of year (as restated)	132,032,204	31,531,338	30,362,307	24,764,518	1,041,554	219,731,921
FUND BALANCES AT END OF YEAR	<u>\$ 122,347,077</u>	<u>\$ 31,383,894</u>	<u>\$ 34,116,572</u>	<u>\$ 25,829,072</u>	<u>\$ 241,420</u>	<u>\$ 213,918,035</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Governmental Funds
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances
to the Statement of Activities
For the year ended June 30, 2004

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

Net change in fund balances - total governmental funds	\$ (5,813,886)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	85,268
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.	22,282,145
Changes in accrued interest on bonds payable	540,603
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed, thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	<u>11,228,520</u>
Change in net assets of governmental activities	<u><u>\$ 28,322,650</u></u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

(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;
- Grants received from the U.S. Department of Housing and Urban Development under the Urban Renewal Program, Neighborhood Development Program and Community Development Block Grant Program (through the City), as well as Section 312 rehabilitation loans; and
- Grants from other agencies, including the State of California and the Metropolitan Transportation Commission.

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 these 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 projects: Central District (which is segmented into several action areas including Chinatown, City Center, Uptown and City Hall Plaza); Coliseum; Acorn; Broadway/MacArthur/San Pablo; Oakland Army Base; Central City East; and Other Projects (Oak Center; Stanford/Adeline; and Oak Knoll). Oak Center completed planning for infrastructure improvements that will be completed in FY2004-06. Stanford/Adeline purchased a duplex to

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

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.

Discretely Presented Component Unit

The Oakland Base Reuse Authority ("OBRA") was established in 1995 as a Joint Powers Authority ("JPA") by the City of Oakland ("City"); Oakland Redevelopment Agency ("ORA"), a component unit of the City; 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. OBRA currently is assuming the effective transition of the Oakland Army Base ("OARB") to the ORA and the Port of Oakland ("Port"), a discretely presented component unit of the City.

OBRA was governed until June 30, 2003 by a nine-member Governing Body, which consisted of the Mayor of Oakland, four other members of the Oakland City Council, the Mayor of the City of Alameda, the member of the County Board of Supervisors representing the Third District, the member of the United States House of Representatives representing California's Ninth Congressional District, and the Executive Director of the Association of Bay Area Governments. Effective July 1, 2003, the governing body amended the JPA agreement, which among other things, reduced the members to the Mayor of Oakland/Board Chairman and four other members of the Oakland City Council/Board of Directors. In the event the JPA agreement is terminated for any reason, any and all remaining rights, powers and authority together with any property funds or assets of OBRA under the agreement shall be assigned by OBRA to ORA.

The votes of a majority of the governing body are required to take action on most matters. In addition, prior to July 1, 2003, the majority vote of the governing body required three votes from the members from the City to take action on certain specific issues, including the adoption of a Reuse Plan; *adoption of any recommended plan or land use proposal in contradiction to Oakland's land use plan, redevelopment or zoning plan*; delegation of any authority to another body by OBRA; adoption of any amendments to OBRA's Bylaws; termination of the JPA Agreement; and selection of the governing body's Chairperson. The revised Joint Powers Agreement requires OBRA to deposit its revenues in the City treasury. The City is responsible for investing and managing such funds. The OBRA is presented in a separate column in the Agency-wide financial statements as a discretely-presented component unit of ORA. Copies of OBRA's complete financial statements may be obtained from the OBRA Executive Director, CEDA/Redevelopment Division, 250 Frank Ogawa Plaza – 3rd floor, Oakland, CA 94612.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

OBRA, ORA'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.

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. 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.

Tax Allocation 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

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.

Revenues for Discretely Presented Component Unit

Rental revenue, in general, is recognized when due from tenants. However, revenue from leases with rent concessions or fixed escalations is recognized on a straight-line basis over the initial term of the lease. Direct cost of negotiating and consummating a lease are deferred and amortized over the initial term of the related lease. Rental revenue is not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Investments

The Agency's and Authority's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2004, and reflects the values as if the entities 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 with Fiscal Agents

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.

Restricted Cash in Bank and Investments

Rental revenues received from the University of California Office of the President (UCOP), Ice Rink, Preservation Park facilities, Rotunda parking lot 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 and Authority's redevelopment program. These properties are both residential and commercial. Costs of developing and 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 and Authority, generate rental or operating income. This income is recognized as it is earned in the Agency's and Authority'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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

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

Capital Assets

Capital assets are stated at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of transfer. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

Facilities and structures	3 to 40 years
Furniture and fixtures	3 to 10 years

Environmental Remediation Costs

Expenditures for environmental remediation of real properties acquired by purchase or donation are added to the recorded amounts when incurred. All estimated environmental remediation costs 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 debt service – To comply with debt covenants, these monies are set aside and held by a fiscal agent for future payment of debt service principal and interest.

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

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.

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Estimates

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

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the (\$282,956,554) reconciling item is as follows:

Long-term debt	\$(279,546,593)
Accrued interest payable	<u>(3,409,961)</u>
Net adjustment to decrease fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$ (282,956,554)</u>

Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of the \$22,282,145 reconciling item is as follows:

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Debt issued or incurred:	
Proceeds from advances	\$ (415,000)
Payments:	
Retirement of long-term debt	11,105,000
Payment on advances	11,843,785
Amortization of premium on bond issuance	1,006,492
Amortization of bond issuance costs	(275,041)
Amortization of deferred amount of refunding loss	(214,348)
Accrued interest on advances	<u>(768,743)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 22,282,145</u>

Another element of that reconciliation states that “Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.” The details of this \$11,228,520 reconciling item is as follows:

Net increase in notes receivable	\$ 3,307,708
Net increase in long-term pass through loans	<u>7,920,812</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 11,228,520</u>

(4) 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 classified in the governmental funds balance sheet as equity in pooled cash and investments.

Agency investments are categorized by type to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the Agency’s name. Category 3 includes uninsured and unregistered investments with the securities held by the counterparty or its trust department or agent but not in the Agency’s name. All other investments not evidenced by securities that exist in physical or book form are shown as non-categorized. The Agency had no Category 2 or 3 investments as of June 30, 2004.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

At June 30, 2004, cash and investments were categorized as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Risk Category</u>
Cash	\$ <u>100</u>	\$ <u>—</u>	
Restricted cash in bank	\$ <u>337,356</u>	\$ <u>—</u>	
Restricted cash and investments with fiscal agents:			
Commercial paper	\$ 2,978,440	\$ —	1
Federal agency issues	—	7,000,000	1
Local Agency Investment Fund	25,884,053	—	—
Government money market mutual funds	<u>9,881,412</u>	<u>—</u>	—
TOTAL	<u>\$ 38,743,905</u>	<u>\$ 7,000,000</u>	
Pooled cash and investments:			
Cash	\$ 846,829	\$ —	—
U.S. federal agency	—	72,885,514	1
Money market mutual funds	1,283,800	—	—
Local Agency Investment Fund	<u>24,468,677</u>	<u>—</u>	—
TOTAL	<u>\$ 26,599,306</u>	<u>\$ 72,885,514</u>	

Total Agency cash and investments as of June 30, 2004, are as follows:

	<u>Equity in Pooled Cash and Investments</u>	<u>Restricted Cash and Investments With Fiscal Agent</u>	<u>Restricted Cash in Bank</u>	<u>Total Governmental Funds</u>
Central District	\$ 39,791,297	\$ 18,303,303	\$ 75,846	\$ 58,170,446
Coliseum	22,010,623	13,632,885	—	35,643,508
Low and moderate housing	21,122,558	13,276,014	—	34,398,572
Tax allocation debt	1,191,451	531,703	—	1,723,154
Nonmajor governmental funds	<u>15,368,891</u>	<u>—</u>	<u>261,510</u>	<u>15,630,401</u>
TOTAL	<u>\$ 99,484,820</u>	<u>\$ 45,743,905</u>	<u>\$ 337,356</u>	<u>\$ 145,566,081</u>

Money market and commercial paper investments with maturities of one year or less have been stated at amortized cost. The amortized cost of these investments approximates fair value as of

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

June 30, 2004.

The fair value of investments is based on quotes obtained as of June 30, 2004. The current year decrease of \$1,383,566 resulting from current year changes in fair values in pooled investments is reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds and Government-wide Statement of Activities.

California Government Code requires collateral for demand deposits and certificates of deposit at 110% of all deposits not covered by federal deposit insurance. Since the Agency uses only authorized public depositories, all funds deposited with financial institutions are fully insured or collateralized by securities held by the Agency or its agent in the Agency's name.

California statutes authorize Agency officials to invest funds in United States bonds and obligations, guaranteed United States agency issues, bank certificates of deposit, bankers' acceptances, repurchase agreements and prime commercial paper issues.

The Local Agency Investment Fund (LAIF), a voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts. This program offers participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer. All securities are purchased under the authority of the Government Code Section 16430 and 16480.4.

As of June 30, 2004, the Agency's investment in LAIF is \$50,352,730. The total amount invested by all public agencies in LAIF on that date is \$21.9 billion. Of that amount, 99% is invested in non-derivative financial products and 1% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool.

As of June 30, 2004, the Agency's cash balance with Bank of America N.A. (the "Bank") is \$1,251,459. The Agency's bank deposit is insured up to \$100,000 with the Federal Deposit Insurance Corporation (FDIC). The remaining balance is secured by eligible securities posted as collateral by the agent of the bank, which is BNY Western Company, Los Angeles, California 90017.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Discretely Presented Component Unit

Oakland Base Reuse Authority

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

Unrestricted investments	\$ 5,935,986
Restricted:	
Cash on hand	200
Deposits	2,385,761
Investments	<u>8,303,628</u>
	<u>\$16,625,575</u>

Deposits

At June 30, 2004, the carrying amount of OBRA's deposits was \$2,385,761 and the bank balance was \$2,440,458. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$100,000 was FDIC insured and \$2,340,458 was collateralized with securities held by the pledging financial institution in OBRA's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in OBRA's name.

Investments

OBRA's Governing Body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy. The Authority had no investments in category 2 or 3 at June 30, 2004.

Investments consisted of the following at June 30, 2004:

Investments not subject to custodial credit risk categorization:	
Money market mutual funds	\$ 5,935,986
Local Agency Investment Fund	<u>8,303,628</u>
	<u>\$14,239,614</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

(5) 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, 2004, follows:

	Central District	Low and Moderate Housing	Nonmajor Governmental Funds	Total Governmental Funds
Housing development projects	\$ —	\$ 40,234,318	\$ 578,717	\$40,813,035
Development loans	2,818,000	—	1,947,060	4,765,060
Small business loans	<u>748,075</u>	<u>—</u>	<u>99,500</u>	<u>847,575</u>
Gross notes receivables	3,566,075	40,234,318	2,625,277	46,425,670
Less: Allowance for uncollectible accounts	<u>(379,195)</u>	<u>(195,379)</u>	<u>—</u>	<u>(574,574)</u>
Net notes receivable	<u>\$ 3,186,880</u>	<u>\$ 40,038,939</u>	<u>\$ 2,625,277</u>	<u>\$45,851,096</u>

(6) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows:

	July 1, 2003	Purchases	Sales	June 30, 2004
Property held for resale	<u>\$71,924,690</u>	<u>\$1,898,000</u>	<u>\$2,322,132</u>	<u>\$71,500,558</u>

Discretely Presented Component Unit

Oakland Base Reuse Authority

Following is a summary of changes in property held for resale:

	July 1, 2003	Conveyance	Transfer	June 30, 2004
Property held for resale	<u>\$ —</u>	<u>\$85,028,363</u>	<u>\$5,250,000</u>	<u>\$79,778,363</u>

On August 7, 2003, the Army conveyed approximately 366 acres of the OARB, plus certain buildings and improvements, to OBRA. All expenditures directly associated with the conveyance of the OARB incurred prior to August 7, 2003 were included in other assets, and transferred to property held for resale on this date. Immediately after OBRA obtained title to the Oakland Army Base, 70 acres (including 50 acres of submerged property) were conveyed to the Port.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

(7) INTERFUND TRANSFERS

	Transfers In				
	Central District	Low and Moderate Housing	Tax Allocation Debt	Nonmajor Governmental Funds	Total Governmental Funds
Transfers out:					
Central District	\$ —	\$ 8,940,145	\$ 27,408,370	\$ —	\$ 36,348,515
Coliseum	—	3,749,734	4,777,806	746,818	9,274,358
Low and Moderate Housing	350,000	—	4,384,359	—	4,734,359
Nonmajor Governmental Funds	—	1,892,639	393,050	—	2,285,689
TOTAL	\$ 350,000	\$ 14,582,518	\$ 36,963,585	\$ 746,818	\$ 52,642,921

The Central District, Coliseum, Low & Moderate Housing, and Nonmajor Governmental funds transferred funds to the Tax Allocation Debt Service fund for payment of long-term debt 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 \$746,818 to Nonmajor Governmental funds from the Coliseum fund represents the 10% school set aside based from tax increments received in the Coliseum project area, net of the housing set aside and the AB1290 mandatory pass through. The transfer from the Low and Moderate Housing Fund to Central District Fund is for repayment of Henry Robinson Multi Service Center as provided in the adopted budget for fiscal year 2004.

(8) CAPITAL ASSETS

Discretely Presented Component

Oakland Base Reuse Authority

Oakland Base Reuse Authority's capital assets as of June 30, 2004 and capital asset activity for the year then ended consisted only of capital assets being depreciated. Capital asset activity during the year ended June 30, 2004 consisted of the following:

	July 1, 2003	Increases	Decreases	June 30, 2004
Capital assets, being depreciated:				
Facilities and structures	\$ —	\$1,000,000	\$ —	\$1,000,000
Furniture and equipment	<u>249,159</u>	<u>206,852</u>	<u>—</u>	<u>456,011</u>
Total capital assets, being depreciated	<u>249,159</u>	<u>1,206,852</u>	<u>—</u>	<u>1,456,011</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Less accumulated depreciation for:				
Facilities and structures	—	(314,286)	—	(314,286)
Furniture and equipment	(24,854)	(139,648)	—	(164,502)
Total accumulated depreciation	(24,854)	(453,934)	—	(478,788)
 Total capital assets, being depreciated, net	 <u>\$ 224,305</u>	 <u>\$ 752,918</u>	 <u>\$ —</u>	 <u>\$ 977,223</u>

(9) LONG-TERM DEBT

General Long-Term Obligations

On January 1, 2003, the Agency defeased various bond issues namely, the Central District Redevelopment Project Area Tax Allocation Bonds, Series 1989A, the Subordinated Tax Allocation Refunding Bonds, Series 1992A, the Subordinated Tax Allocation Bonds, Series 1993A, and the Subordinated Tax Allocation Bonds, Series 1995A. These defeased bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old debt. For financial reporting purposes, the 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 \$51.6 million at June 30, 2004.

Long-term liability activity for the year ended June 30, 2004, was as follows:

	July 1, 2003	Additions	Deductions	June 30, 2004	Due within One Year
Tax Allocation Bonds	\$ 206,835,000	\$ —	\$ (9,740,000)	\$ 197,095,000	\$ 8,365,000
Housing Set-Aside Revenue Bonds	39,395,000	—	(1,325,000)	38,070,000	1,425,000
General Obligation Bond	<u>430,000</u>	<u>—</u>	<u>(40,000)</u>	<u>390,000</u>	<u>40,000</u>
Total Bonds Payable	246,660,000	—	(11,105,000)	235,555,000	9,830,000
Deferred amounts:					
Issuance premiums	11,139,476	—	(1,006,492)	10,132,984	1,006,492
Refunding loss	<u>(2,372,326)</u>	<u>—</u>	<u>214,348</u>	<u>(2,157,978)</u>	<u>(214,348)</u>
Subtotal	255,427,150	—	(11,897,144)	243,530,006	10,622,144
Advances from City of Oakland	<u>46,676,629</u>	<u>1,183,743</u>	<u>(11,843,785)</u>	<u>36,016,587</u>	<u>2,385,383</u>
TOTAL	<u>\$ 302,103,779</u>	<u>\$ 1,183,743</u>	<u>\$ (23,740,929)</u>	<u>\$ 279,546,593</u>	<u>\$ 13,007,527</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

General Long-Term Obligations consist of the following:

	Year ending June 30, 2004 Maturity	Interest Rates	Balance at June 30, 2004
TAX ALLOCATION BONDS			
Acorn Refunding Series 1988			
Term bonds	2005-2007	7.40%	\$ 1,030,000
Central District Senior Tax Allocation Refunding Series 1992:			
Serial bonds	2005-2008	5.90%-6.00%	21,325,000
Term bonds	2009-2014	5.50%	<u>35,910,000</u>
			<u>57,235,000</u>
Central District Subordinated Tax Allocation Bonds Series 2003:			
Serial bonds	2005-2006	3.00%	5,665,000
Serial bonds	2007-2009	4.00%	9,245,000
Serial bonds	2010-2012	5.00%	12,970,000
Serial bonds	2013-2020	5.50%	<u>87,865,000</u>
			<u>115,745,000</u>
Coliseum Area Tax Allocation Bonds Series 2003:			
Term bonds	2005-2009	2.50%-4.00%	2,045,000
Term bonds	2010-2014	3.40%-4.30%	2,440,000
Term bonds	2015-2019	4.50%-4.90%	3,035,000
Term bonds	2020-2023	5.00%-5.125%	3,045,000
Term bonds	2024-2034	5.25%	<u>12,520,000</u>
			<u>23,085,000</u>
TOTAL TAX ALLOCATION BONDS			197,095,000
GENERAL OBLIGATION BOND-Tribune Tower	2005-2012	5.643%	390,000
SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			
Series 2000T:			
Serial bonds	2005	7.39%	1,425,000
Term bonds	2006-2011	7.82%	11,160,000
Term bonds	2012-2016	7.93%	14,065,000
Term bonds	2017-2019	8.03%	<u>11,420,000</u>
TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			<u>38,070,000</u>
TOTAL BONDS PAYABLE			<u>\$235,555,000</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. As of June 30, 2004 the total outstanding balance was \$36,016,587, comprised of the following:

	July 1, 2003	Additions	Deductions	June 30, 2004	Due within One Year
Acorn	\$ 2,970,000	\$ —	\$ —	\$ 2,970,000	\$ 106,920
Central District	26,197,559	—	(7,611,624)	18,585,935	475,568
Coliseum	4,360,715	—	(3,432,161)	928,554	928,554
Oak Center	13,148,355	768,743	(800,000)	13,117,098	800,000
Stanford/Adeline	—	415,000	—	415,000	74,341
TOTAL	<u>\$ 46,676,629</u>	<u>\$ 1,183,743</u>	<u>\$ (11,843,785)</u>	<u>\$ 36,016,587</u>	<u>\$ 2,385,383</u>

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

Bond Indentures

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

Annual Future Payments

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2004.

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,830,000	\$ 13,396,271
2006	10,325,000	12,876,173
2007	10,920,000	12,300,855
2008	11,165,000	11,674,298
2009	11,775,000	11,037,405
2010-2014	67,915,000	44,422,342
2015-2019	82,155,000	22,146,024
2020-2024	19,815,000	4,021,954
2025-2029	5,065,000	2,422,219
2030-2034	<u>6,590,000</u>	<u>901,163</u>
TOTAL	<u>\$235,555,000</u>	<u>\$135,198,704</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

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, 2004, there were two series of certificates outstanding with an aggregate principal amount payable of \$23,693,914. 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.

(10) 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, 2004, the Agency reimbursed the City \$13,289,189 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 \$12,852,643 for the fiscal year ended June 30, 2004; \$11,843,785 in principal and \$1,008,858 in interest.

(11) COMMITMENTS AND CONTINGENCIES

Oakland Redevelopment Agency

As of June 30, 2004, the Agency has entered into contractual commitments of approximately \$2,007,812 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, 2004, the Agency was committed to fund \$17,373,456 in loans and had issued \$1,648,600 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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal year 2004-05, the Agency included in its Midcycle Amended Budget an ERAF shift of \$4,780,419.

On July 20, 2004, the Oakland Redevelopment Agency approved resolution #2004-38 C.M.S. authorizing the Agency Administrator to execute a Lease Disposition and Development Agreement (LDDA), ground leases, and related documents with the City of Oakland and Uptown Partners, (UP) LLC, a California limited liability corporation, for the development of a mixed-use residential rental and retail development project in the Uptown Activity Area of the Central District Redevelopment Project Area. Part of the LDDA is that in order for the project to proceed, the Uptown Activity Area must meet the minimum requirements for environmental clean-up. The Agency has made available the amount of \$3,585,600 for hazardous materials abatement. However, until the Agency and UP have obtained a final guaranteed, fixed price remediation contract, there is no assurance that this funding is adequate. If the final bid price is in excess of available funds, the parties will meet and confer to determine how any additional costs will be covered. Once funding has been identified for the excess above available funds, the Agency and UP will obtain a cost cap liability insurance policy in an amount equal to 100% of the guaranteed fixed price remediation contract. If unknown contaminants are discovered during construction, a pollution legal liability insurance policy will cover any remediation costs up to \$20,000,000 in aggregate. However, at this time, there is no reason to believe that there are any unidentified contaminants on the site that would require a clean-up of this order of magnitude.

Oakland Base Reuse Authority

Environmental Remediation

Land conveyed to OBRA from the Army 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 is 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. Of this grant amount, \$5.0 million has been received.

The next \$11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. 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. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

OBRA management 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.

Oakland Army Base Workforce Development Collaborative

OBRA and the Port have agreed to share equally in certain expenses related to the conveyance of the Economic Development Conveyance property. As of December 20, 2004, OBRA and the Port have paid a total of \$5.7 million to the Workforce Collaborative. OBRA could incur liabilities of up to \$2.55 million if the Port does not pay its share of the remaining \$5.1 million due to the Workforce Cooperative. No provisions have been made to reflect any contingent liabilities should the Port not pay its share of post-conveyance liabilities.

Litigation Settlement From the California Department of Transportation

OBRA, the Agency, the City and the Port filed a lawsuit against the Federal Highway Administration ("FHWA") and California Department of Transportation ("Caltrans"), claiming that FHWA had improperly transferred certain properties to Caltrans. The lawsuit was settled during the year ended June 30, 2003, and Caltrans agreed to pay \$11,600,000 to OBRA, of which the Port received \$5,800,000. OBRA recorded \$5,800,000 in revenues during the year ended June 30, 2003, which represents 50 percent of the settlement amount. None of these proceeds were spent during the years ended June 30, 2004 and 2003.

Lease Revenues

OBRA entered into a Master Lease with the Army on June 16, 1999 to lease approximately 366 acres plus related facilities and improvements at the OARB (the "Leased Premises") for the period that commenced on June 19, 1999 and ended on August 7, 2003. OBRA had no minimum lease payments for the use of the Leased Premises, but was responsible for its operation and maintenance for the benefit of the United States and the general public. OBRA sub-leased certain of the Leased Premises to various tenants for terms ranging from one month to four years. All of these subleases expired on August 7, 2003, when the OARB was conveyed to OBRA.

Tenants with subleases immediately prior to the conveyance entered into new leases with OBRA on August 7, 2003. The longest term of these leases is from August 7, 2003 to 90 days prior to the reconveyance of the property, with the reconveyance date currently set at August 6, 2006. All of OBRA's lease revenues for the year ended June 30, 2004 are from the lease/sub-lease of these properties, facilities and improvements.

OBRA entered into operating leases with members of the Oakland Army Base Workforce Development Collaborative ("Workforce Collaborative") on December 14, 2004 in which the members occupy certain buildings on the former OARB property and pay OBRA no minimum

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2004

payments throughout the lease terms, which are retroactive to January 1, 2003 and expire on various dates through August 2005. Accordingly, OBRA has not recognized any minimum lease payment revenues from these leases since December 31, 2002.

The following are the estimated minimum future rental revenues for the years after June 30, 2004 under non-cancelable operating leases having an initial term in excess of one year.

Year Ending June 30	
2005	\$ 5,721,000
2006	<u>4,911,000</u>
	<u>\$ 10,632,000</u>

(12) RESTATEMENT OF NET ASSETS

The Agency's net deficit at the beginning of the year ended June 30, 2004, has been adjusted to correct an error in recording amounts due to the primary government.

Total net deficit at June 30, 2003, as previously reported	\$ (20,690,092)
Adjustment for expenditures not accrued in the prior year	<u>(3,184,000)</u>
Total net deficit at July 1, 2003, as restated	<u>\$ (23,874,092)</u>

(13) RESTATEMENT OF FUND BALANCE

The Agency's fund balance at the beginning of the year ended June 30, 2004, has been adjusted to correct an error in recording amounts due to the primary government.

Total fund balance at June 30, 2003, as previously reported	\$ 222,915,921
Adjustment for expenditures not accrued in the prior year	<u>(3,184,000)</u>
Total fund balance at July 1, 2003, as restated	<u>\$ 219,731,921</u>

**COMBINING FINANCIAL
STATEMENTS and
SUPPLEMENTAL
INFORMATION**

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Oakland Army Base</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ 100
Equity in pooled cash and investments	1,787,035	1,322,877	1,264,364	9,500,664	1,493,951	15,368,891
Tax increment receivable	23,657	28,356	62,938	98,724	-	213,675
Accrued interest receivable	-	-	-	183,038	-	183,038
Accounts receivable, net	30,000	-	-	28,392	-	58,392
Due from primary government	-	-	-	-	332,606	332,606
Notes receivable, net	-	-	-	2,550,277	75,000	2,625,277
Property held for resale	2,970,000	-	-	6,200,208	-	9,170,208
Restricted cash in bank	-	-	-	261,510	-	261,510
TOTAL ASSETS	<u>\$ 4,810,692</u>	<u>\$ 1,351,233</u>	<u>\$ 1,327,302</u>	<u>\$ 18,822,813</u>	<u>\$ 1,901,657</u>	<u>\$ 28,213,697</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Oakland Army Base</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accrued liabilities	\$ -	\$ 239,317	\$ 354,830	\$ 10,934	\$ 358	\$ 605,439
Due to primary government	209,361	76,191	-	148,240	22,456	456,248
Deposits	12,250	-	-	530	-	12,780
Deferred revenue	17,262	20,342	30,161	803,506	407,606	1,278,877
Other liabilities	-	-	-	25,000	6,281	31,281
TOTAL LIABILITIES	<u>238,873</u>	<u>335,850</u>	<u>384,991</u>	<u>988,210</u>	<u>436,701</u>	<u>2,384,625</u>
FUND BALANCES						
Reserved for property held for resale	2,970,000	-	-	6,200,208	-	9,170,208
Reserved for approved capital projects/activities	1,601,819	1,015,383	942,311	11,634,395	-	15,193,908
Unreserved	-	-	-	-	1,464,956	1,464,956
TOTAL FUND BALANCES	<u>4,571,819</u>	<u>1,015,383</u>	<u>942,311</u>	<u>17,834,603</u>	<u>1,464,956</u>	<u>25,829,072</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,810,692</u>	<u>\$ 1,351,233</u>	<u>\$ 1,327,302</u>	<u>\$ 18,822,813</u>	<u>\$ 1,901,657</u>	<u>\$ 28,213,697</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Acorn	Broadway/ MacArthur	Oakland Army Base	Other Projects	Redevelopment Planning Fund/ West Oakland	Total Nonmajor Governmental Funds
REVENUES						
Tax increment	\$ 1,015,439	\$ 1,196,585	\$ 1,774,148	\$ 1,014,793	\$ -	\$ 5,000,965
Interest on pooled cash and investments	16,863	2,821	-	71,815	-	91,499
Rents and reimbursements	-	-	-	2,052,335	-	2,052,335
Gain from sale of property held for resale	-	-	-	15,768	-	15,768
Other	461	126,158	-	44,390	71	171,080
TOTAL REVENUES	<u>1,032,763</u>	<u>1,325,564</u>	<u>1,774,148</u>	<u>3,199,101</u>	<u>71</u>	<u>7,331,647</u>
EXPENDITURES						
Current:						
Urban redevelopment and housing	442,763	615,335	388,300	3,170,183	526,641	5,143,222
TOTAL EXPENDITURES	<u>442,763</u>	<u>615,335</u>	<u>388,300</u>	<u>3,170,183</u>	<u>526,641</u>	<u>5,143,222</u>
Excess (deficiency) of revenues over expenditures	590,000	710,229	1,385,848	28,918	(526,570)	2,188,425
OTHER FINANCING SOURCES (USES)						
Proceeds from advances	-	-	-	415,000	-	415,000
Transfers in	-	-	-	746,818	-	746,818
Transfers out	(646,910)	(299,146)	(443,537)	(896,096)	-	(2,285,689)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(646,910)</u>	<u>(299,146)</u>	<u>(443,537)</u>	<u>265,722</u>	<u>-</u>	<u>(1,123,871)</u>
Change in fund balance	(56,910)	411,083	942,311	294,640	(526,570)	1,064,554
Fund balances at beginning of year	4,628,729	604,300	-	17,539,963	1,991,526	24,764,518
FUND BALANCES AT END OF YEAR	<u>\$ 4,571,819</u>	<u>\$ 1,015,383</u>	<u>\$ 942,311</u>	<u>\$ 17,834,603</u>	<u>\$ 1,464,956</u>	<u>\$ 25,829,072</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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 (Agency) as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 18, 2005. 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. We did not audit the financial statements of the Oakland Base Reuse Authority, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for OBRA, is based on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by Agency staff in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, the results of our tests did disclose instances of noncompliance that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies*, which are described in the accompanying schedule of findings as finding nos. 04-1 through 04-3.

This report is intended solely for the information and use of the Finance and Management Committee, Agency 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 & Company LLP
Certified Public Accountants

Walnut Creek, California
January 18, 2005

Williams, Alley & Company, LLP
Certified Public Accountants

Oakland, California
January 18, 2005

Redevelopment Agency of the City of Oakland
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Finding No. 04-1: State Redevelopment Agency Compliance Requirements - Financial Disclosure and Reporting (Submission of Reports to State Controller)

Pursuant to California Health & Safety Code, Section 33080.1, the Agency is required to submit the following reports to its legislative body and the State Controller no later than six months following the end of its previous fiscal year:

- Independent Auditor's Report on Financial Statements
- Independent Auditor's Report on Legal Compliance
- Annual Report of Financial Transactions of Community Redevelopment Agencies
- Blight Progress Report
- Property Report
- Loan Report

The identified reports were not filed in a timely manner.

Recommendation

We recommend that the Agency establish policies and procedures to ensure that all required reports are prepared and submitted in a timely manner.

Management's Response

The delay in completing the Agency's fiscal year 2002-03 audit report was due to the change in the City's independent auditing firm and the technical problems associated with such a change.

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Finding No. 04-2: State Redevelopment Agency Compliance Requirements - Financial Disclosure and Reporting (Submission of Reports to State Controller)

Pursuant to California Code of Regulations, Title 2, Sections 18700–18753 and Government Code Section 87207, the Agency is required to file public disclosure statements for certain positions designated in its conflict of interest code.

During our testing, we noted that 1 of 35 employees tested did not file the required statement.
(Samuel Aigbekaen)

Recommendation

We recommend that the City adhere to established policies and procedures to ensure that public disclosure notices are properly filed in a timely manner.

Management's Response

Management agrees with the finding and will communicate it to the appropriate agencies for compliance.

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Finding No. 04-3: State Redevelopment Agency Compliance Requirements - Affordable Housing (Monitoring available levels of affordable housing to low- or moderate-income households)

Pursuant to California Health and Safety Code Section 33418, the Agency is required to maintain a system to monitor the levels of affordable housing made available to low- or moderate-income persons and families. As part of the monitoring, the Agency must require property owners or managers of low- or moderate-income housing to submit an annual report to the Agency. For each rental unit, this report must include the rental rate and income and family size of occupants. For each owner-occupied unit, the report must include whether there was an ownership change from the prior year and, if so, the income and family size of the new owners. The income information shall be supplied by the tenant in a certified statement on a form provided by the Agency. The Agency is also required to report the obtained information to the department of Housing and Community Development or the Controller.

During our testing, we noted that the Agency did not have reports on file for the three properties selected for testing. (*Mark Twain Senior Center, Hamilton Hotel, and the California Hotel*)

Recommendation

We recommend that the Agency establish policies and procedures to ensure that monitoring of affordable housing is performed annually and related documentation is maintained.

Management's Response

The Agency is in the process of developing a monitoring system to ensure that all housing projects are monitored for compliance with the California Health and Safety Code Section 33418.