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AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Osborn K. Solitei

SUBJECT: Oakland Army Base Audit Report
for Fiscal Year 2010-11

DATE: April 11, 2012

City Administrator
Approval

Date

4-25-12

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council accept the Oakland Army Base (a fund in the former Oakland Redevelopment Agency) audit report for the fiscal year ended June 30, 2011 as issued by Macias Gini & O'Connell LLP (MGO), the City's external auditor.

EXECUTIVE SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached Oakland Army Base (Base) Audit Report for fiscal year ended June 30, 2011.

The audited financial statements are mandated by the United States Department of the Army under the Oakland Army Base Economic Development Conveyance (EDC) of the former Oakland Army Base. The audited financial statements are the primary mechanism used by the United States Department of the Army to ensure accountability for all EDC property proceeds received during the reinvestment period.

The audited financial statements include the Base's basic financial statements and the Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses. The independent auditor's unqualified opinion letters for the report mentioned above declared that the basic financial statements and the supplemental schedule accurately represent the financial position of the Base as of June 30, 2011.

Item: _____
Finance & Management Committee
May 8, 2012

OUTCOME

This informational report is being presented in compliance with the United States Department of the Army under the Oakland Army Base Economic Development Conveyance (EDC) of the former Oakland Army Base.

BACKGROUND/LEGISLATIVE HISTORY

The requirements of preparing and submitting the audited annual financial statements are in accordance with the Economic Development Conveyance (EDC) legislation and the Memorandum of Agreement (MOA) between the U.S. Department of the Army and the Oakland Redevelopment Agency (ORA). The audited financial statements and the Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses detail the use and reinvestment of EDC proceeds under the twelve categories allowable by the federal government.

The financial statements must be audited and certified by an independent certified public accounting firm as required in the conveyance agreement. Macias Gini & O'Connell, LLP (MGO), an independent accounting firm and contractor, performed the financial audit for the year ending June 30, 2011.

ANALYSIS

MGO audited the Base's basic financial statements for the year ended June 30, 2011 in accordance with Generally Accepted Auditing Standards and Government Auditing Standards and issued their opinion that the financial statements were presented fairly in conformity with generally accepted accounting principles. The audit contains no findings and disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

MGO reviewed the Base's internal controls in compliance with the United States Department of the Army under the Oakland Army Base Economic Development Conveyance (EDC) of the former Oakland Army Base. No material weaknesses were identified.

PUBLIC OUTREACH/INTEREST

This item did not require any additional public outreach other than the required posting on the City's website.

COORDINATION

This report was routed to the City Administrator's Budget Office and Office of Neighborhood Investment and to the City Attorney Office for review.

Item: _____
Finance & Management Committee
May 8, 2012

COST SUMMARY/IMPLICATIONS

FISCAL IMPACT:

This is an informational report only; there is no fiscal impact.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified

Environmental: No environment opportunities have been identified

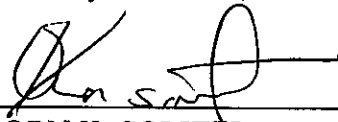
Social Equity: No social equity opportunities have been identified

CEQA

This report is not a project under CEQA.

For questions regarding this report, please contact Osborn K. Solitei, Controller at 510-238-3809.

Respectfully submitted,



OSBORN K. SOLITEI,
Office of the Controller, Controller

Attachments

Oakland Army Base Independent Auditor's Reports

Item: _____
Finance & Management Committee
May 8, 2012

OAKLAND ARMY BASE
(An Activity of the Former
Oakland Redevelopment Agency)

Independent Auditor's Reports,
Management's Discussion and Analysis,
Basic Financial Statements and
Other Supplementary Information

Year Ended June 30, 2011



Certified Public Accountants.

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Year Ended June 30, 2011

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Independent Auditor's Report

Honorable Mayor and Members of the Council
of the City of Oakland
Oakland, California

We have audited the accompanying financial statements of the Oakland Army Base (Base), an activity of the Oakland Army Base Fund of the former Oakland Redevelopment Agency (Agency), as of and for the year ended June 30, 2011, which collectively comprise the Base's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over the Base's financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency's capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of June 30, 2011, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, on June 29, 2011, the California State Legislature enacted legislation that was intended to provide for the dissolution of redevelopment agencies in the State of California unless certain payments were made to the State of California (Voluntary Alternative Redevelopment Plan). On December 29, 2011, the California Supreme Court (Supreme Court) largely upheld the legislation for the dissolution of redevelopment agencies. Furthermore, the Supreme Court invalidated the Voluntary Alternative Redevelopment Plan. Accordingly, the Agency was dissolved effective February 1, 2012 under the guidelines for dissolution as set forth in the legislation and all assets and obligations were transferred to the City of Oakland as the successor agency. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the Agency's internal control over the Base's 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Base's financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the City Council, management of the Agency, and the United States Department of the Army, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Counsel LLP

Oakland, California
March 27, 2012

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
Year Ended June 30, 2011

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the year ended June 30, 2011. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

The Oakland Base Reuse Authority (OBRA) was established in 1995 to assure the effective transition of closed military facilities in the City of Oakland (City) that have been or may be selected for closure for alternative non-military use. OBRA facilitated the transition of certain properties contained within and surrounding the former Oakland Army Base to the Oakland Redevelopment Agency and the Port of Oakland (Port). OBRA was previously reported as a discretely presented component unit of the Oakland Redevelopment Agency (Agency) prior to July 1, 2006.

On August 7, 2006, OBRA was dissolved and its assets and obligations were transferred to and accepted by the Agency. OBRA is accounted for and reported as the Oakland Army Base project area (Base) of the Agency.

Financial Highlights

- The Base's liquidity ratio (current assets to current liabilities) decreased to 9.9:1 in fiscal year 2011 from 10.4:1 in the previous fiscal year. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The slight decrease is attributable to the overall 33% increase in current liabilities due primarily to additional security deposits received during the year.
- The Base received \$7.1 million from the Agency during the fiscal year to support the Joint Infrastructure Development Fund for the purposes of infrastructure and public improvement planning, environmental review and documentation, design, construction drawings, construction and other economic redevelopment activities on the former Army Base.

Overview of the Financial Statements

The MD&A is intended to serve as an introduction to the Base's basic financial statements. The annual financial report for the Base includes this MD&A, the basic financial statements, the notes to the basic financial statements, and the supplementary information.

The Base is reported as an enterprise fund. Enterprise funds are a type of proprietary fund that is used to report information in a manner similar to a private-sector business. An enterprise fund is used to account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The Base was established to account for the financial resources and the costs of the redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 Year Ended June 30, 2011

The overview and analysis is intended to introduce the Base's basic financial statements, which consists of three components: statement of net assets; statement of revenues, expenses and changes in net assets; and statement of cash flows. The following is a brief explanation of the use of each of the statements:

The statement of net assets presents information on all of the Base'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 the financial position of the Base is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the Base's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The statement of cash flows presents the cash inflows and outflows from operating activities, capital and related financing activities, and non-capital financing activities and the resulting cash position at fiscal year-end.

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of June 30, 2011 and 2010:

Condensed Statements of Net Assets

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current and other assets	\$ 30,141,029	\$ 23,873,572	\$ 6,267,457	26%
Property held for resale	49,767,836	49,443,239	324,597	1%
Total assets	<u>79,908,865</u>	<u>73,316,811</u>	<u>6,592,054</u>	9%
Liabilities:				
Current and other liabilities	<u>3,044,285</u>	<u>2,291,418</u>	<u>752,867</u>	33%
Net assets:				
Restricted	50,111,444	54,348,459	(4,237,015)	-8%
Unrestricted	26,753,136	16,676,934	10,076,202	60%
Total net assets	<u>\$ 76,864,580</u>	<u>\$ 71,025,393</u>	<u>\$ 5,839,187</u>	8%

Net assets may serve over time as a useful indicator of financial position. Base assets exceeded liabilities by \$76.9 million at the end of fiscal year 2011.

Current assets of \$30.1 million exceeded current liabilities of \$3.0 million by \$27.1 million. The ratio of current assets against current liabilities is 9.9:1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 Year Ended June 30, 2011

The increase in unrestricted current assets is the result of a \$7.1 million transfer from the Agency during the fiscal year to support the Joint Infrastructure Development Fund for the purposes of infrastructure and public improvement planning, environmental review and documentation, design, construction drawings, construction and other economic redevelopment activities on the former Army Base.

Current liabilities primarily consist of \$1.8 million of payable to the City for administrative and municipal services provided in support of the Base, and \$0.8 million of refundable security deposits.

The following is a summary of the statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010:

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

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues:				
Lease revenues	\$ 1,880,382	\$ 1,402,264	\$ 478,118	34%
Utility sales	317,146	573,999	(256,853)	-45%
Total operating revenues	<u>2,197,528</u>	<u>1,976,263</u>	<u>221,265</u>	11%
Operating expenses:				
Cost of utility sales	741,665	819,769	(78,104)	-10%
Repairs and maintenance	29,809	57,123	(27,314)	-48%
Professional services and consultants	958,086	702,023	256,063	36%
General and administrative	1,931,490	1,706,733	224,757	13%
Total operating expenses	<u>3,661,050</u>	<u>3,285,648</u>	<u>375,402</u>	11%
Operating loss	<u>(1,463,522)</u>	<u>(1,309,385)</u>	<u>(154,137)</u>	12%
Nonoperating revenues (expenses):				
Interest and investment income	152,707	318,267	(165,560)	-52%
Total nonoperating revenues	<u>152,707</u>	<u>318,267</u>	<u>(165,560)</u>	-52%
Loss before transfers	(1,310,815)	(991,118)	(319,697)	32%
Transfers in	<u>7,150,002</u>	<u>-</u>	<u>7,150,002</u>	n/a
Change in net assets	5,839,187	(991,118)	6,830,305	-689%
Net assets:				
Beginning of year	71,025,393	72,016,511	(991,118)	-1%
End of year	<u>\$ 76,864,580</u>	<u>\$ 71,025,393</u>	<u>\$ 5,839,187</u>	8%

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
Year Ended June 30, 2011

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$1.9 million or 86% of operating revenues while utility sales generated \$0.3 million or 14% of operating revenues. Compared to the previous fiscal year, operating revenues slightly increased by 11% during fiscal year 2011.

Operating expenses increased by 11% during fiscal year 2011. The higher expenses in 2011 reflects increases of \$0.3 million in professional services and consultants fees that mainly related to remediation activities and \$0.2 million in administrative expenses for services provided by City personnel. These additional expenses were partially offset by lower utility costs and repairs and maintenance expenses.

Requests for Information

Requests for additional information or questions concerning the information provided in this report should be addressed to the Finance and Management Agency, Controller's Office, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612.

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Statement of Net Assets
June 30, 2011

Assets:

Unrestricted current assets:

Pooled cash and investments \$ 26,753,136

Restricted current assets:

Cash and investments held by fiscal agent 1,115,257

Receivables:

Interest 94,262

Federal grants 2,178,374

Total current assets 30,141,029

Restricted noncurrent assets:

Property held for resale 49,767,836

Total non-current assets 49,767,836

Total assets 79,908,865

Liabilities:

Current liabilities, payable from restricted assets:

Accounts payable 473,388

Security deposits 814,842

Due to the City of Oakland 1,756,055

Total current liabilities 3,044,285

Net assets:

Restricted 50,111,444

Unrestricted 26,753,136

Total net assets \$ 76,864,580

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Statement of Revenues, Expenses, and Changes in Net Assets
 Year Ended June 30, 2011

Operating revenues:	
Lease revenues	\$ 1,880,382
Utility sales	<u>317,146</u>
Total operating revenues	<u>2,197,528</u>
Operating expenses:	
Cost of utility sales	741,665
Repairs and maintenance	29,809
Professional services and consultants	958,086
General and administrative	<u>1,931,490</u>
Total operating expenses	<u>3,661,050</u>
Operating loss	(1,463,522)
Nonoperating revenues:	
Interest and investment income	<u>152,707</u>
Loss before transfers	(1,310,815)
Transfers in from Oakland Redevelopment Agency	<u>7,150,002</u>
Change in net assets	5,839,187
Net assets:	
Beginning of year	<u>71,025,393</u>
End of year	<u><u>\$ 76,864,580</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Statement of Cash Flows
 Year Ended June 30, 2011

Cash flows from operating activities:	
Cash receipts from tenants for rents and deposits	\$ 2,817,554
Cash payments to vendors for goods and services	(1,877,163)
Cash payments to City of Oakland for administrative costs	<u>(1,651,046)</u>
Net cash used in operating activities	(710,655)
Cash flows from noncapital financing activities:	
Transfers received from Oakland Redevelopment Agency	7,150,002
Cash flows from capital and related financing activities:	
Remediation costs associated with property held for resale	(324,597)
Cash flows from investing activities:	
Interest received on pooled investments	<u>127,455</u>
Change in cash and cash equivalents	6,242,205
Cash and cash equivalents, beginning of year	<u>21,626,188</u>
Cash and cash equivalents, end of year	<u>\$ 27,868,393</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,463,522)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts payable	290,435
Security deposits	620,026
Payable to the Oakland Army Base Workforce Development Collaborative	(456)
Due to the Port of Oakland	(437,582)
Due to the City of Oakland	<u>280,444</u>
Net cash used in operating activities	<u>\$ (710,655)</u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 1 – DESCRIPTION OF OPERATIONS

On August 7, 2006, the Oakland Army Base Reuse Authority (OBRA) was dissolved and its assets and obligations were transferred to and accepted by the former Oakland Redevelopment Agency (the Agency) in establishing the Oakland Army Base (the Base) Project Area. OBRA assets transferred to the Agency were net of the amount of the property held for resale that was transferred to the Port of Oakland as part of OBRA's dissolution. The Base accounts for the financial resources and the costs of the redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report the Base as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2011 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and relates to the timing of measurements made, regardless of the measurement focus applied. The Base is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise activities, subject to the same limitation. The Base has elected not to apply subsequent private-sector guidance.

(b) Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents and are carried at fair value.

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. 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

Facilities and structures with an adjusted basis of \$1,000,000 and furniture and equipment with an adjusted basis of \$456,812 have been fully depreciated in prior years and in the current year financial statements carry a net depreciable value of zero. While these assets are fully depreciated, they are still in use and remain on the books.

(d) Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. These properties are both residential and commercial. A primary function of the redevelopment process is to prepare land for specific private redevelopment.

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 Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in net assets.

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

(e) Operating Revenues and Expenses

The Base defines its operating revenues as lease revenues and utility sales, which are revenues derived from charges to tenants. Direct costs of negotiating and consummating a lease are deferred and amortized over the initial term of the related lease. Rental revenues are not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy. Utility sales are recorded when the services are provided to lessees. Operating expenses include utility costs, repair and maintenance, professional services and consultants, and administrative expenses. All other revenue not derived from these sources is classified as nonoperating in the accompanying statement of revenues, expenses and changes in net assets.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 Year Ended June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Net Assets

Net assets are classified in the following two components:

Restricted net assets derive from the various agreements with the United States Department of the Army (Army), the use of substantially all assets of the Base and related lease income. These assets are restricted for the operation, maintenance and economic development of real properties, facilities and improvements in the Oakland Army Base.

Unrestricted net assets consist of the remaining balance of net assets not subject to the aforementioned categorization.

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

(g) Use of Estimates

The financial statements require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Agency has adopted the investment policy of City, which is governed by provisions of the California Government Code and the City's Municipal Code. The Agency's investment policy allows the Base to invest cash balances in the Agency's cash and investment pool.

The Base's investment in the Agency's cash and investment pool is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The Base's investment in the pool may be deposited or withdrawn without notice or penalty. Income earned or losses arising from investments in the Agency's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average daily cash balance of such funds.

The Base's cash held in the Agency's cash and investment pool on June 30, 2011 was \$26,753,136. At June 30, 2011, the Agency's cash and investments pool was unrated and had a weighted average maturity of less than one year. The Base's restricted cash and investment was invested in money market funds and was rated AAA by Moody's Investors Services at June 30, 2011.

Additional information regard the Agency's cash and investment pool is presented in the notes of the Agency's basic financial statements.

NOTE 4 – PROPERTY HELD FOR RESALE

Activities for property held for resale for the year ended June 30, 2011 are as follows:

	Balance July 1, 2010	Additions	Transfers	Balance June 30, 2011
Property held for resale	\$ 49,443,239	\$ 324,597	-	\$ 49,767,836

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base 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, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base was awarded a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. As of June 30, 2011, the Base has spent \$13.0 million on this project, of which \$10.8 million has been received.

The next \$11.5 million of environmental remediation costs are to be shared equally by the Base and the Port. Subsequent costs will be paid from insurance proceeds from the environmental remediation policy. The environmental site liability policy will cover up to \$30 million in additional environmental remediation-related costs. The Base and Port have agreed to share equally in any environmental remediation-related costs that are not covered by insurance.

The Base's 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.

NOTE 6 – TRANSACTIONS WITH THE CITY OF OAKLAND

The Agency and the City are closely related but are separate legal entities. City Council members serve as the governing body for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2011, the Agency reimbursed the City \$1,651,046 for administrative services provided by the City for the Base.

NOTE 7 – SUBSEQUENT EVENT

On June 29, 2011, the California State Legislature enacted legislation that provided for the dissolution of redevelopment agencies in the State of California under Assembly Bill X1 26, unless certain payments were made to the State of California under Assembly Bill X1 27 (Voluntary Alternative Redevelopment Plan). On December 29, 2011, the California Supreme Court (Supreme Court) largely upheld the legislation for the dissolution of redevelopment agencies, but invalidated the Voluntary Alternative Redevelopment Plan. Accordingly, the Agency was dissolved effective February 1, 2012 under the guidelines for dissolution as set forth in the legislation. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

The City, as the Successor Agency, is required to dispose of the former Agency's assets in an expeditious fashion, including the Base. The City will also wind down the affairs of the former Agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board." The Oversight Board, which is comprised of seven member representatives from local government bodies, will oversee and approve the actions of the successor agency.

OAKLAND ARMY BASE
 (An Activity of the Former Oakland Redevelopment Agency)
 Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
 Year Ended June 30, 2011

	No-Cost EDC-Related	Other	Total
Operating revenues:			
Lease revenues	\$ 1,880,382	\$ -	\$ 1,880,382
Utility sales	317,146	-	317,146
Total operating revenues	2,197,528	-	2,197,528
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	631,979	-	631,979
Utility facilities	741,665	-	741,665
Maintenance of buildings	1,480	-	1,480
Maintenance of landscaping, grading, and other improvements	6,412	-	6,412
Leasing operations	285,094	-	285,094
Disposal of hazardous material	19,102	524,026	543,128
Planning/marketing of Base redevelopment and reuse	1,442,974	8,318	1,451,292
Total operating expenses	3,128,706	532,344	3,661,050
Operating loss	(931,178)	(532,344)	(1,463,522)
Nonoperating revenues:			
Interest income	83,227	69,480	152,707
Change in Net Assets	\$ (847,951)	\$ (462,864)	\$ (1,310,815)

See accompanying notes to the supplemental schedule.

OAKLAND ARMY BASE
(An Activity of the Former Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
Year Ended June 30, 2011

1. *Basis of Presentation*

In accordance with the requirements of the Oakland Army Base Economic Development Conveyance (EDC) Memorandum of Agreement (the Agreement), the accompanying supplementary schedule of no-cost EDC-related and other revenues and expenses (the Schedule) of the Oakland Army Base, an activity of the Oakland Army Base Project Area, is presented on the accrual basis of accounting.

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the year ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

2. *Revenues and Expenses Classified as Other Than No-Cost EDC*

Revenues classified as other than no-cost EDC revenues include interest income on unrestricted cash and investments. Expenses classified as other than no-cost EDC include expenditures of earnings from unrestricted cash and investments.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Members of the Council
of the City of Oakland
Oakland, California

We have audited the financial statements of the Oakland Army Base (Base), an activity of the Oakland Army Base Fund of the former Oakland Redevelopment Agency (Agency), as of and for the year ended June 30, 2011, and have issued our report thereon dated March 27, 2012. Our report includes an emphasis of a matter regarding a recently passed State legislation that dissolved the Agency effective February 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Base'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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management of the Agency, and the United States Department of the Army, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Counsel LLP

Oakland, California
March 27, 2012