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OAKLAND

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# AGENDA REPORT

**TO:** JOHN A. FLORES  
INTERIM CITY ADMINISTRATOR

**FROM:** Osborn K. Solitei

**SUBJECT:** Oakland Redevelopment Successor Agency (ORSA) Audit Report for FY 2013-14  
**DATE:** January 9, 2015

City Administrator

Date

1/28/15

Approval

**COUNCIL DISTRICT:** City-Wide

## RECOMMENDATION

Staff recommends that the City Council accept the Oakland Redevelopment Successor Agency (“ORSA”) Audited Financial Report for the year ended June 30, 2014.

## EXECUTIVE SUMMARY

The Finance Department, Controller’s Bureau is pleased to present to the City Council the attached Oakland Redevelopment Successor Agency audit report for fiscal year 2013-14 (**Attachment A**).

The audit report incorporates the management’s discussion and analysis, basic financial statements, notes to basic financial statements and 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*.

The Auditor’s unmodified opinion letter for the audit report mentioned above declared that the basic financial statements contained therein accurately represent the financial condition of ORSA as of June 30, 2014. The Auditors expressed an opinion that ORSA’s financial statements are fairly stated and in accordance with accounting principles generally accepted in the United States.

Item: \_\_\_\_\_  
Finance and Management Committee  
February 10, 2015

## **OUTCOME**

City Council acceptance of the ORSA report will provide relevant financial information to the City Council, residents of Oakland, creditors, investors and other interested parties. Also, the City will be in compliance with Section 809 of the City Charter, which state in part, "*The Council shall engage during the first month of each fiscal year an independent certified public accountant who shall examine and report to the Council on the annual financial statement of the City.*"

## **BACKGROUND/LEGISLATIVE HISTORY**

The Oakland Redevelopment Agency ("ORA") was established on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities were acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council served as the Redevelopment Agency's Board of Directors.

On June 28, 2011, Assembly Bill X1 26 ("AB X1 26") was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. On January 10, 2012, the City Council passed Resolution No. 83679 C.M.S. electing for the City of Oakland to serve as the successor agency to the Redevelopment Agency of the City of Oakland, effective February 1, 2012. Also, at the same meeting, the City Council elected to retain the housing assets, functions and powers previously performed by the former Agency.

Assembly Bill 1484 ("AB 1484") was enacted on June 27, 2012. AB 1484 provided that successor agencies must be organized as separate public entities from the sponsoring city. Therefore, on July 17, 2012, per Resolution No. 84107 C.M.S, the ORSA was created to serve as successor agency to the ORA to wind down the affairs of the former Redevelopment Agency. The ORSA is a separate public entity from the City, subject to the direction of the Oakland Oversight Board. The Oakland Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Alameda (County) representatives; one representative appointed by the County Superintendent of Education; one representative appointed by the Chancellor of California Community Colleges; and one representative appointed by the largest special district taxing entity, i.e. AC Transit.

In general, ORSA's assets can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable contractual commitments. In future years, ORSA will only be allocated property tax revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency, until all these enforceable obligations have been paid in full and all assets have been liquidated. Based upon the nature of its custodial role, the ORSA is reported as fiduciary fund (private-purpose trust fund).

## ANALYSIS

### **The Oakland Redevelopment Successor Agency Financial Report**

The FY 2013-14 ORSA report provides information on the Successor Agency's financial activities for the year ended June 30, 2014, and is divided into the following sections:

- **Financial Section:** This section contains the Successor Agency's basic financial statements; notes to basic financial statements; the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A);
- **Compliance Section:** This section provides 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*

The auditor's opinion contained in the document's Financial Section represents their unmodified opinion that the Successor Agency's financials are presented fairly and in conformity with Generally Accepted Accounting Principles ("GAAP"). The auditors considered the Successor Agency's internal control over financial reporting as a basis for designing their auditing procedures. The auditors did not identify any deficiencies in internal control over financial reporting. In addition, the auditors performed tests of compliance with certain provision of laws, regulations and grant agreements, non-compliance with which could have a direct and material effect on the financial statement.

### **Special Item: Transfer of Excess Bond Proceeds to the City**

The transfer of excess bond proceeds to the City as requested by ORSA and approved by the California Department of Finance ("DOF") pursuant to Health and Safety Code section 34719 (h) qualifies as a special item since this action was under the control of ORSA's Oversight Board.

Under ABx1 26, as amended by AB 1484, all new redevelopment activities were suspended, with limited exceptions and redevelopment agencies were dissolved on February 1, 2012. The DOF and the California State Controller's Office have varying degrees of responsibility and oversight under this legislation.

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Finance and Management Committee  
February 10, 2015

Pursuant to Health and Safety Code section 34179 (h), DOF has completed its review of the Oversight Bond action on Bond Spending and on November 6, 2013, it approved the Bond Spending Plan for ORSA, which allows ORSA to utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants. As required by HSC, section 34191.4(c) (2) (A), ORSA has listed excess bond proceeds on the January through June 2014 ROPS in the total amount of up to \$59.9 million, which has been approved by DOF. DOF approved the bond expenditure agreement between ORSA and the City to transfer excess tax allocation bond proceeds to the City. The special item loss of \$88.3 million recorded in the financial statements represents the excess bond proceeds transfer, including a reversal of the State Controller's Office asset transfer review order in August 2013 of \$28.9 million.

### **Financial Highlights**

For the fiscal year ended June 30, 2014, the Successor Agency achieved the following key financial results:

- Total liabilities exceeded total assets at June 30, 2014 by \$ 235.2 million – net position (deficit) held in trust. The net position deficit increase to \$235.2 million from prior year \$165.8 million mainly due to \$88.3 million transfer of excess bonds proceeds to the City.
- Total special item – The transfer of excess bond proceeds to the City as requested by ORSA and approved by DOF pursuant to Health and Safety Code section 34719 (h) was \$88.3 million. (See note 2, page 13 of Financial Report).
- Total long-term obligations at June 30, 2014 totaled \$458.6 million.

### **PUBLIC OUTREACH/INTEREST**

This item did not require any additional outreach other than the required posting on the City's website. <http://www.oaklandnet.com/government/fwawebsite/accounting/CAFR.htm>

### **COORDINATION**

This report was prepared in coordination with the Budget Office, Economic & Workforce Development Department and City Attorney's Office.

### **COST SUMMARY/IMPLICATIONS**

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

**SUSTAINABLE OPPORTUNITIES**

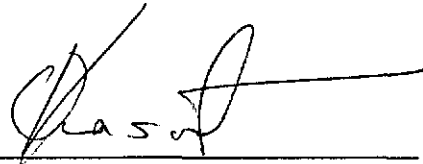
***Economic:*** No direct economic opportunities have been identified.

***Environmental:*** No environmental opportunities have been identified.

***Social Equity:*** No social equity opportunities have been identified.

For questions regarding this report, please contact Osborn K. Solitei, Director of Finance/  
Controller at (510) 238-3809.

Respectfully submitted,



OSBORN K. SOLITEI  
Director of Finance/ Controller  
Finance Department, Controller's Bureau

Attachment:

**A: *Oakland Redevelopment Successor Agency Audited Financial Report for the year ended  
June 30, 2014***

Item: \_\_\_\_\_  
Finance and Management Committee  
February 10, 2015



# CITY OF OAKLAND, CALIFORNIA

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY  
(A COMPONENT UNIT OF THE CITY OF OAKLAND, CALIFORNIA)  
FOR THE YEAR ENDED JUNE 30, 2014



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY  
FINANCIAL REPORT**

**PROJECT TEAM  
AUDIT/FINANCIAL STATEMENT COORDINATOR**

Osborn K. Solitei  
*Director of Finance/Controller*

**FINANCIAL STATEMENT PREPARATION**

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City Administrator's Office (CAO)

City Attorney's Office

Economic & Workforce Development Department

Finance Department – Treasury Bureau

Housing and Community Development (HCD)

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
For the Year Ended June 30, 2014

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**Independent Auditor’s Report**

Board of Directors  
Oakland Redevelopment Successor Agency  
Oakland, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Oakland Redevelopment Successor Agency (ORSA), a component unit of the City of Oakland (City), California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ORSA’s basic financial statements as listed in the table of contents.

***Management’s Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ORSA as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the ORSA'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ORSA's internal control over financial reporting and compliance.



Walnut Creek, California  
November 26, 2014

## **OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis - Unaudited  
For the Year Ended June 30, 2014

As management of the Oakland Redevelopment Successor Agency of the City of Oakland ("ORSA"), we offer readers of the ORSA's basic financial statements this narrative overview and analysis of the financial activities of ORSA for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the ORSA's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

On May 29, 2013, The Department of Finance (DOF) issued its finding on successor agency using excess bond proceeds from bonds issued prior to 2011 pursuant to Health and Safety (H&S) Code section 34191.4. Base on DOF's findings, the Oakland Oversight Board approved ORSA's Bond expenditure Agreement between ORSA and the City Of Oakland that would transfer current and future excess tax allocation bond proceeds to the City to fund redevelopment projects and programs on July 29, 2013. For the fiscal year ended June 30, 2104, ORSA reports a total transfer of \$88.3 million to the City.

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

This discussion and analysis is intended to serve as an introduction to the ORSA's basic financial statements. The ORSA's basic financial statements comprise two components: 1) basic financial statements and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. These financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting.

### **FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. At the close of June 30, 2014, ORSA has a net negative position of \$235.2 million. Under the former California Redevelopment Law, the former Agency issued bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues (See Note 6 to the basic financial statements).

In general, ORSA's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). These include public projects such as public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers. Once redevelopment projects that were public facilities were completed by the former Agency, the responsibilities for their continued maintenance and operations were transferred to the appropriate public entity such as City of Oakland ("City") including the capitalized redevelopment project costs.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2014

In addition, completed projects with private developers were also transferred to the developers in accordance with the Disposition and Development Agreements. Although completed public facilities and Joint Agency-Private Partnership projects were transferred to the City or private entities, the related debt remained with the former redevelopment agency and was transferred to ORSA.

Shown below is a schedule that summarizes the ORSA's net position held in trust:

Statement of Fiduciary Net Position  
(In thousands)

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Assets</b>		
Current and other assets	\$ 76,844	\$ 145,875
Restricted cash and investments	58,779	87,282
Property held for resale	100,271	100,271
<b>Total Assets</b>	<b>235,894</b>	<b>333,428</b>
 <b>Deferred Outflows of Resources</b>	 2,335	 2,953
 <b>Liabilities</b>		
Other liabilities	14,847	17,839
Long-term liabilities	458,584	484,303
<b>Total Liabilities</b>	<b>473,431</b>	<b>502,142</b>
 <b>Total net position held in trust</b>	 <b>\$ (235,202)</b>	 <b>\$ (165,761)</b>

As of June 30, 2014, ORSA has \$58.8 million in restricted cash and investments held in interest and principal reserves for repayment of debt, amounts required to be held in cash reserves per bond indenture, and temporary investments for unexpended bond proceeds. Other funds are held in escrow accounts pursuant to contracts and agreements made by the former Agency and their use is restricted for a particular purpose.

ORSA's property held for resale reflects a total net book value of \$100.3 million, of which a majority of the properties were funded by bond proceeds. On May 29, 2014, DOF approved the Long-Range Property Management Plan (LRPMP) to address the disposition and use of real property formerly owned by the former Agency, including designating property for future development.

ORSA's Long-term liabilities total \$458.6 million. Long-term liabilities are mainly represented by tax allocation bonds totaling \$332.2 million and housing set-aside bonds of \$117.6 million issued to finance redevelopment projects. The remaining balance represents the net of bond issuance premiums and discounts in the amount of \$8.8 million.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2014

**Operating activities** For the year ended June 30, 2014, ORSA's net position had decreased by \$69.4 million due primarily to the execution of California Department of Finance ("DOF") approved transfer of excess tax allocation bond proceeds to the City for \$88.3 million and an increase in net position before special item of \$18.9 million.

Key elements of the ORSA's additions and deductions are presented below:

Statement of Changes in Fiduciary Net Position  
(In thousands)

	Year Ended June 30, 2014	Year Ended June 30, 2013
<b>Additions</b>		
Redevelopment property tax revenues	\$ 73,684	\$ 65,174
Other revenues	16,827	12,322
Total additions	<u>90,511</u>	<u>77,496</u>
<b>Deductions</b>		
General and administrative	2,806	4,595
Project expenses	40,692	52,167
Payment to the County of Alameda	-	32,478
Interest on debt	27,240	28,574
Bond issuance costs	743	-
Other	162	-
Total deductions	<u>71,643</u>	<u>117,814</u>
<b>Special item from</b>		
Transfer of excess tax allocation bond proceeds	<u>(88,309)</u>	<u>-</u>
<b>Extraordinary item from</b>		
Approved asset transfers	<u>-</u>	<u>156,902</u>
Change in net position	<u>(69,441)</u>	<u>116,584</u>
Net position held in trust, beginning	<u>(165,761)</u>	<u>(282,345)</u>
Net position held in trust, end of year	<u>\$ (235,202)</u>	<u>\$ (165,761)</u>

For the year ended June 30, 2014, the County Auditor-Controller provided total property tax distributions of \$73.7 million. In addition, ORSA recognized \$15.5 million of federal and state grants revenue, \$0.5 million of investment income and \$1.0 million other revenue for the year ended June 30, 2014. Interest expense including accrued interest on ORSA's outstanding debt and amortization of deferred outflows for the period totaled \$27.2 million. The decrease in general and administrative expenditures is primary due to a 3% spending cap on administrative overhead. The decrease in project expenditure is mainly associated with the drop in Low and Moderate Housing funds from \$26.5 million in FY2013 to \$13.7 million in FY2014.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2014

**Debt Administration**

At June 30, 2014, ORSA had long-term bonds outstanding aggregating to \$449.8 million, a decrease of \$31.2 million from fiscal year 2013, resulting from debt refunding and debt service payments on outstanding long-term debts (Tax Allocation Bonds and Housing Set-Aside Bonds) which are backed by redevelopment property tax revenues.

Below is a breakdown of the long-term debt is as follows (in thousands):

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>Long-Term Debt</b>		
Tax allocation bonds	\$ 332,185	\$ 358,980
Housing set-aside bonds	<u>117,605</u>	<u>122,015</u>
Subtotal - Bonds outstanding	449,790	480,995
 Unamortized amounts:		
Premiums and discounts	<u>8,794</u>	<u>3,308</u>
 <b>Total long-term debt</b>	 <b><u>\$ 458,584</u></b>	 <b><u>\$ 484,303</u></b>

**Bond Ratings**

On September 5, 2013, Moody's confirmed the rating on ORSA's tax allocation bonds and subordinated housing set-aside bonds. The ratings reflect the credit strength of ORSA's value and size. The strengths that Moody's takes into account are ORSA's large geographic and total project area, sizable incremental and assessed valuation, and solid high period of debt service coverage.

The table below shows ORSA bond ratings for the outstanding bonds as of June 30, 2014:

<u>Type of Obligation</u>	<u>Ratings</u>		
	<u>Moody's</u>	<u>S &amp; P</u>	<u>Fitch</u>
<b>Tax Allocation Bonds:</b>			
<u>Central District Redevelopment Project</u>			
Subordinated Tax Allocation Bonds, Series 2006T	A3	AA-	N/A
Subordinated Tax Allocation Bond Series 2009T	N/A	A-	N/A
Subordinated Tax Allocation Refunding Bonds, Series 2013	N/A	A-	N/A
<u>Coliseum Area Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006B-TE, B-T	Ba1	A	N/A
<u>Central City East Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006A-TE, A-T	Ba1	A-	N/A
<u>Broadway/MacArthur/San Pablo Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006C-TE, C-T	Ba1	A+	N/A
Tax Allocation Bonds, Series 2010T	N/A	A-	N/A
<b>Subordinated Housing Set-Aside Bonds:</b>			
Revenue Refunding Bonds Series 2006A, A-T	Ba1	A	A-
Revenue Bonds, Series 2011A-T	Ba1	A	N/A

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2014

**REVENUES AND RECOGNIZED OBLIGATIONS PAYMENT SCHEDULE**

Pursuant to AB X1 26, ORSA is required to adopt a Recognized Obligation Payments Schedule (“ROPS”). A ROPS, listing all enforceable obligations due and payable in the six month coverage period, is prepared semi-annually and is the basis for the distribution of property tax revenues from the Redevelopment Property Tax Trust Fund (“Trust Fund”). Management has determined that the ROPS will replace the ORSA’s annual budget.

The semi-annual Administrative Budget for ORSA is presented and approved by the Successor Agency governing board and ORSA’s Oversight Board, and subsequently approved as part of the ROPS by the DOF.

**OUTSTANDING AUDITS AND REPORTING REQUIREMENTS**

ORSA staff continues to work closely with the SCO, the DOF, and the Alameda County Auditor-Controller to complete the outstanding audits and reporting requirements for compliance with AB X1 26 and AB 1484.

In August 2013, the SCO issued its review report on various transfers of assets between the City and the former Redevelopment under the authority of Health and Safety Code section 34167.5, and has ordered that a number of cash and real property assets be returned by the City to ORSA. The City and ORSA are in the process of taking steps needed to comply with this order.

In November 2013, DOF approved the bond expenditure agreement between ORSA and the City. ORSA may utilize proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the original bond covenants. The agreement between ORSA and the City to transfer excess pre-2011 bonds proceeds obligates the City to expend and maintain excess bond proceeds in accordance with the bond covenants. As required by HSC section 34191.4(c) (2) (A), ORSA has listed the excess bond proceeds on the January through June 2014 Recognized Obligation Payment Schedule (“ROPS”) in the total amount of \$59.9 million which is approved by DOF.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of ORSA’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Finance Department, Controller’s Bureau, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093. Additional financial data may also be found on the ORSA’s website ([www.oaklandnet.com](http://www.oaklandnet.com)).

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# **BASIC FINANCIAL STATEMENTS**

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**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Statement of Fiduciary Net Position

June 30, 2014

(In Thousands)

**ASSETS**

Current assets:

Cash and investments	\$	56,453
Receivables:		
Accrued interest		358
Accounts receivable (net of allowance for uncollectable of \$31)		1,327
Due from the City of Oakland		2,312
Prepaid expenses		2,375
Restricted cash and investments		58,779
Total current assets		<u>121,604</u>

Noncurrent assets:

Notes and loans receivable (net of allowance for uncollectable of \$48,120)		14,019
Property held for resale		100,271
Total noncurrent assets		<u>114,290</u>
Total assets		<u>235,894</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Unarmortized losses on refunding of debts		<u>2,335</u>
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**LIABILITIES**

Current liabilities:

Accounts payable and accrued liabilities		4,413
Accrued interest payable		8,773
Due to the City of Oakland		1,614
Deposits and other liabilities		47
Total current liabilities		<u>14,847</u>

Noncurrent liabilities:

Due within one year		20,709
Due in more than one year		437,875
Total noncurrent liabilities		<u>458,584</u>
Total liabilities		<u>473,431</u>

**NET POSITION**

Net position (deficit) restricted for redevelopment	\$	<u>(235,202)</u>
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See accompanying notes to the financial statements

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2014

(In Thousands)

**ADDITIONS**

Redevelopment property tax revenues	\$	73,684
Investment income:		
Investment income		462
Net depreciation in fair value of investments		(129)
Federal and state grants		15,529
Other		965
Total additions		<u>90,511</u>

**DEDUCTIONS**

General and administrative costs:		
Salaries, wages and benefits		2,437
Materials, supplies and other services		369
Project expenses		40,692
Interest on debt		27,240
Bond issuance costs		743
Other		162
Total deductions		<u>71,643</u>

**SPECIAL ITEM**

Transfer of excess tax allocation bond proceeds approved by the California Department of Finance to the City of Oakland		<u>(88,309)</u>
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<b>Change in net position</b>		(69,441)
Net position (deficit), beginning		<u>(165,761)</u>
<b>Net position (deficit), ending</b>	\$	<u><u>(235,202)</u></u>

See accompanying notes to the financial statements

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

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## **OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2014

(Amounts in Thousands)

### **NOTE 1 – REPORTING ENTITY**

The Redevelopment Agency of the City of Oakland (“Agency”) was established in 1956 by the Oakland City Council as a public entity legally separate from the City of Oakland (“City”). Until June 28, 2011, the Agency had the authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area.” Redevelopment projects are developed in cooperation with private developers. Public redevelopment projects are also developed under cooperation agreements between the Agency and the City or other public entity that will own the project.

On June 28, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and the wind down of redevelopment activity. At the City’s meeting on January 10, 2012, the City Council affirmed its decision as part of City resolution number 83679 C.M.S. to serve as the Successor to the Redevelopment Agency of the City of Oakland, effective February 1, 2012 as such a component unit of the City. Also upon dissolution, the City Council elected as part of resolution number 83680 C.M.S. to retain the housing assets, functions, and powers previously performed by the former Agency.

The Oakland Redevelopment Successor Agency (“ORSA”) was created to serve as a custodian of the assets and to wind down the affairs of the former Agency. ORSA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Alameda (“County”) representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and one representative from the largest special district taxing entity.

In general, ORSA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, ORSA will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of ORSA’s custodial role, ORSA is reported in a fiduciary fund (private-purpose trust fund) in the City’s financial statements.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Presentation***

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### ***Basis of Accounting***

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

***Investments***

ORSA records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that ORSA could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. Investment income, including unrealized gains and losses, is recognized as revenue.

ORSA follows the practice of pooling cash of all operating funds for investment. Income or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds based on their proportionate share of the average daily cash balance.

Proceeds from debt and other funds which are restricted for the payment of debt or for enforceable obligations in the Recognized Obligation Payment Schedule (“ROPS”) and held by fiscal agents by agreement are classified as restricted assets.

***Redevelopment Property Tax Revenues***

Pursuant to the Redevelopment Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into ORSA’s Redevelopment Property Tax Trust Fund (“Trust Fund”) administered by the County of Alameda’s Auditor-Controller for the benefit of holders of the former Agency’s enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the Trust Fund, plus any unencumbered redevelopment cash and funds from asset sales are distributed by the County to the local agencies in the project area unless needed to pay enforceable obligations.

Distributions are to be made twice each year on the following cycles:

Distribution Dates	Covers Recognized Obligation Payment Schedules to be Paid
January 2	January 1 through June 30
June 1	July 1 through December 31

The amounts distributed for ROPS are forward looking to the next six month period.

***Restricted Assets***

Assets are restricted for specified uses by bond debt requirements, grant provisions or other requirements and their use is limited by applicable bond covenants or agreements.

## OAKLAND REDEVELOPMENT SUCCESSOR AGENCY

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(Amounts in Thousands)

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Property Held for Resale*

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 estimated of net realizable value of each property parcel based on its current use. The ORSA does not depreciate property held for resale, as it is the intention of the ORSA to only hold the property for a period of time until it can be resold for development. California Department of Finance ("DOF") has approved ORSA Long-Range Property Management Plan of Agency's use or disposition of properties on May 29, 2014.

#### *Long-term Obligations*

The former Agency issued Tax Allocation Bonds and Housing Set-Aside Bonds to finance housing and other redevelopment projects. Long-term debt and other long-term obligations are reported as liabilities.

Issuance costs are expensed in the year of debt issuance. Long-term debt is reported net of the applicable premiums and discounts. The premiums and discounts are amortized as a component of the interest expense on a straight-line basis over the remaining life of the debt instrument.

#### *Special Item*

Special items are significant transactions or events within the control of management that are either 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) or 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates). The transfer of excess bond proceeds to the City as requested by ORSA and approved by DOF pursuant to Health and Safety Code section 34179 (h) qualifies as a special item since this action was under the control of ORSA's Oversight Board and met the criteria of infrequent.

Under ABx1 26, adopted on June 28, 2011, as amended by AB 1484 adopted on June 27, 2012, all new redevelopment activities were suspended, with limited exceptions, and redevelopment agencies were dissolved on February 1, 2012. Under this legislation, the DOF and the California State Controller's Office ("SCO") have varying degrees of responsibility and oversight.

Pursuant to Health and Safety Code (HSC) section 34179 (h), DOF has completed its review of the Oversight Bond action on Bond Spending Plan and on November 6, 2013, it approved the Bond Spending Plan for ORSA. The Plan allows ORSA to utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants. As required by HSC section 34191.4(c) (2) (A), ORSA has listed excess bond proceeds on the January through June 2014 ROPS in the total amount of up to \$59.9 million, which has been approved by DOF. DOF approved the bond expenditure agreement between ORSA and the City to transfer excess tax allocation bond proceeds to the City. The special item loss of \$88.3 million recorded in the financial statements represents the excess bond proceeds transfer, which includes a reversal of the State Controller's Office asset transfer review order in August 2013 of \$28.9 million.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Use of Estimates*

The preparation of basic financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE 3 – CASH AND INVESTMENTS**

The ORSA's cash and investments consist of the following at June 30, 2014

Cash and Investments	Amount
Unrestricted cash and investments	\$ 56,453
Restricted cash and investments	58,779
Total cash and investments	<u>\$ 115,232</u>

*Investments*

ORSA follows the investment policy of the City, which is governed by provisions of the California Government Code 53600 and the City's Municipal Code. ORSA also has investments subject to provisions of the bond indentures of the former Agency's various bond issues. According to the investment policy and bond indentures, ORSA is permitted to invest in the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. government agencies, time deposits, money market mutual funds invested in U.S. government securities, along with various other permitted investments.

As of June 30, 2014, ORSA invested a total amount of \$25.8 million with U.S. government agency securities, which is comprised of \$17.3 million from its unrestricted accounts, and \$8.5 from the Tax Allocation Bonds and the Housing Set-Aside Bonds reserve and capitalized interest. The remaining balance is invested in money market funds, negotiable CDs and deposits in the amount of \$79.8, \$5.5 and \$4.1 million respectively.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, ORSA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, ORSA will not be able to recover the value of the investment or collateral securities that are in the possession of another party

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of ORSA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is held in the ORSA's name.



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

As of June 30, 2014, the carrying amount of the ORSA's deposits was \$4.15 million. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$0.5 million, and the bank balance of \$3.65 million are collateralized with securities held by the pledging financial institutions as required by Section 53652 of the California Government Code.

ORSA invests in individual investments. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the ORSA employs the trust department of a bank or trustee as the custodian of certain ORSA investments, regardless of their form.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. ORSA investment policy has mitigated interest rate risk by establishing policies over liquidity. As of June 30, 2014, ORSA had the following investments and original maturities:

**Pooled Cash and Investments**

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturities</u>
			<u>Less than 1 Year</u>
U.S. Government Agency Securities (Discount)	\$ 17,299	0.03	\$ 17,299
Money Market Mutual Funds	33,000	0.01-0.07	33,000
Negotiable CDs	2,001	0.08	2,001
Sub-total	52,300		\$ 52,300
Deposits	4,153		
Total	\$ 56,453		

**Restricted Cash and Investments**

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturities</u>
			<u>Less than 1 Year</u>
U.S. Government Agency Securities	\$ 4,004	0.14	\$ 4,004
U.S. Government Agency Securities (Discount)	4,499	0.05	4,499
Money Market Mutual Funds	46,776	0.01	46,776
Negotiable CDs	3,500	0.15	3,500
Total	\$ 58,779		\$ 58,779

**Credit Risk**

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

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

The following tables show the ORSA's credit risk as rated by Standard & Poor's and Moody's for the pooled and restricted portfolios as of June 30, 2014:

**Pooled Cash and Investments**

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Ratings as of June 30, 2014</u>		
		<u>Aaa/AAA</u>	<u>Aaa/AA</u>	<u>A1/P1</u>
U.S. Government Agency Securities (Discount)	\$ 17,299	\$ -	\$ 17,299	\$ -
Money Market Mutual Funds	33,000	33,000	-	-
Negotiable CDs	2,001	-	-	2,001
Total	<u>\$ 52,300</u>	<u>\$ 33,000</u>	<u>\$ 17,299</u>	<u>\$ 2,001</u>

**Restricted Cash and Investments**

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Ratings as of June 30, 2014</u>		
		<u>Aaa/AAA</u>	<u>Aaa/AA</u>	<u>A1/P1</u>
U.S. Government Agency Securities	\$ 4,004	\$ -	\$ 4,004	\$ -
U.S. Government Agency Securities (Discount)	4,499	-	4,499	-
Money Market Mutual Funds	46,776	46,776	-	-
Negotiable CDs	3,500	-	-	3,500
Total	<u>\$ 58,779</u>	<u>\$ 46,776</u>	<u>\$ 8,503</u>	<u>\$ 3,500</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on ORSA. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The following table shows the diversification of ORSA's portfolio as of June 30, 2014:

<u>Type of Investment</u>	<u>Pooled</u>		<u>Restricted</u>	
	<u>Fair Value</u>	<u>% of Portfolio</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Government Agency Securities	\$ -	0.0%	\$ 4,004	6.8%
U.S. Government Agency Securities (Discount)	17,299	33.1%	4,499	7.7%
Money Market Mutual Funds	33,000	63.1%	46,776	79.6%
Negotiable CDs	2,001	3.8%	3,500	6.0%
Total	<u>\$ 52,300</u>	<u>100.0%</u>	<u>\$ 58,779</u>	<u>100.0%</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(Amounts in Thousands)

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

The following table shows ORSA's investments in one issuer that exceed 5% of ORSA's investment portfolio at June 30, 2014:

<u>Investment Type / Issuer</u>	<u>Amount</u>	<u>Percent of ORSA's Investment Portfolio</u>
U.S. Government Agency Securities:		
Federal Home Loan Mortgage Corporation	\$ 7,004	6.3%
Federal Home Loan Bank	12,799	11.5%

***Restricted Cash and Investments with Fiscal Agents***

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds. As of June 30, 2014, the amounts held by the trustees fell by \$28.5 million to \$58.8 million. All restricted investments held by trustees as of June 30, 2014 were invested in U.S. Government Agency Securities, money market mutual funds and negotiable certificates of deposit, and were in compliance with the bond indentures.

**NOTE 4 – LOANS RECEIVABLE**

Composition of loans receivable as of June 30, 2014 is as follows:

Housing development project loans	\$ 1,462
Economic development loans	60,677
Gross notes and loans receivable	<u>62,139</u>
Allowance for uncollectible	<u>(48,120)</u>
Total notes and loans receivable, net	<u>\$ 14,019</u>

As of June 30, 2014, ORSA has a total of \$14.0 million net notes and loans receivable, which is not expected to be received in the next twelve months.

**NOTE 5 – PROPERTY HELD FOR RESALE**

As of June 30, 2014, ORSA has a total \$100.3 million for properties booked at the lower of cost or estimated conveyance value. On May 29, 2014, pursuant to Health and Safety Code ("HSC") section 34191.4, the California Department of Finance approved ORSA Long-Range Property Management Plan ("LRPMP") addressing the disposition and use of former Redevelopment Agency properties and authorizing the disposition of properties pursuant to the plan.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 5 – PROPERTY HELD FOR RESALE (Continued)**

The table below shows a summary of the changes in the Property Held for Resale:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2014</b>
Property held for resale	\$ 100,271	\$ -	\$ -	\$ 100,271

**NOTE 6 – DEBT**

*Long-term Debt*

The following is a summary of bonds payable of ORSA as of June 30, 2014:

Type of Obligation	Original Issued Amount	Issued Year	Final Maturity Fiscal Year	Interest Rate Range	June 30, 2014 Principal Balance
<b>Tax Allocation Bonds:</b>					
<u>Central District Redevelopment Project</u>					
Subordinated Tax Allocation Bonds, Series 2006T	\$ 33,135	2006	2022	5.25% - 5.41%	\$ 15,275
Subordinated Tax Allocation Bond Series 2009T	38,755	2009	2021	5.30% - 8.50%	34,550
Subordinated Tax Allocation Refunding Bonds, 2013	102,960	2014	2022	3% - 5%	102,960
<u>Cohseum Area Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006B-TE	28,770	2006	2037	4.00% - 5.00%	25,195
Tax Allocation Bonds, Series 2006B-T	73,820	2006	2036	5.26% - 5.54%	64,615
<u>Central City East Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006A-TE	13,780	2006	2037	5.00%	13,780
Tax Allocation Bonds, Series 2006A-T	62,520	2006	2035	5.26% - 5.54%	53,320
<u>Broadway/MacArthur/San Pablo Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006C-TE	4,945	2006	2037	5.00%	4,945
Tax Allocation Bonds, Series 2006C-T	12,325	2006	2033	5.28% - 5.59%	10,255
Tax Allocation Bonds, Series 2010T	7,390	2010	2041	7.20% - 7.40%	7,290
Subtotal	<u>378,400</u>				<u>332,185</u>
<b>Subordinated Housing Set-Aside Bonds:</b>					
Revenue Refunding Bonds Series 2006A	2,195	2006	2019	5.00%	2,195
Revenue Bonds Series 2006A-T	82,645	2006	2037	5.03% - 5.93%	70,520
Revenue Bonds, Series 2011A-T	46,980	2011	2042	3.25% - 9.25%	44,890
Subtotal	<u>131,820</u>				<u>117,605</u>
Total Long-term Debt	<u>\$ 510,220</u>				<u>\$ 449,790</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 6 – DEBT (Continued)**

A summary of the changes in long-term debt for the year ended June 30, 2014 follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>	<u>One Year</u>
Bonds Payable:					
Tax allocation bonds	\$ 358,980	\$ 102,960	\$ (129,755)	\$ 332,185	\$ 14,610
Housing set-aside bonds	<u>122,015</u>	<u>-</u>	<u>(4,410)</u>	<u>117,605</u>	<u>4,990</u>
Sub-total	480,995	102,960	(134,165)	449,790	19,600
Less unamortized amounts:					
Issuance premiums	5,695	10,519	(5,169)	11,045	1,245
Issuance discount	<u>(2,387)</u>	<u>-</u>	<u>136</u>	<u>(2,251)</u>	<u>(136)</u>
Total	<u>\$ 484,303</u>	<u>\$ 113,479</u>	<u>\$ (139,198)</u>	<u>\$ 458,584</u>	<u>\$ 20,709</u>

***Tax Allocation Bonds and Housing Set-Aside Bonds***

The Tax Allocation Bonds (TAB), which are comprised of Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, Series 2006C TE/T, Series 2010T and Refunding Bond Series 2013 are issued primarily to finance redevelopment projects and are all secured by pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of taxes levied upon all taxable properties within each the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2014, the total principal and interest remaining on these TABs was estimated at \$509.4 million and the property tax revenues are pledged until the year 2041, the final maturity date of the bonds. The former Agency's debt service payments are requested through the Recognized Obligation Payment Schedule (ROPS) as enforceable obligations until the debt obligations have been satisfied.

Historically, upon receipt of property tax increment, the former Agency calculated the 80 percent and 20 percent and the voluntary 5 percent amount of tax increment and would then transfer the 20 percent and 5 percent portion to the Low and Moderate Income Housing Fund, as required by the California H&S Code and the former Agency board resolution. The previous requirement to bifurcate the tax increment into 80 percent and 20 percent portions was eliminated in AB X1 26. However, in order to maintain compliance with bond indentures secured by the 80 percent and 20 percent tax increment, the ORSA plans to request the funds through the ROPS from the Trust Fund pursuant to H&S Code section 34183(a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 6 – DEBT (Continued)**

***Housing Set-Aside Bonds***

The Housing set-aside bonds, which is comprised of Series 2006A, Series 2006A-T and Series 2011A-T are issued to finance affordable housing projects and are secured by a pledge and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) set-aside for the low and moderate income housing fund.

As of June 30, 2014, the total principal and interest remaining on the Housing set-aside bonds was estimated at \$227.5 million and the property tax revenues are pledged until the year 2042, the final maturity date of the bonds. The former Agency's debt service payments are requested through the Recognized Obligation Payment Schedule (ROPS) as enforceable obligations until the debt obligations have been satisfied.

In the future, in order to maintain compliance with bond indentures secured by the 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the ROPS from the Trust Fund pursuant to H&S Code section 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

***Debt Service Requirements***

The debt service requirements for all debt are based upon a fixed rate of interest. The annual requirements to amortize outstanding tax allocation bonds and housing set-aside bonds outstanding as of June 30, 2014, including mandatory sinking fund payments, are as follows:

Year Ending June 30:	Tax Allocation Bonds		Housing Set-Aside Bonds		Total	
	Principal	Interst	Principal	Interst	Principal	Interst
2015	\$ 14,610	\$ 18,036	\$ 4,990	\$ 7,809	\$ 19,600	\$ 25,845
2016	21,045	17,121	5,240	7,535	26,285	24,656
2017	23,295	15,878	5,505	7,226	28,800	23,104
2018	23,650	14,526	5,840	6,876	29,490	21,402
2019	25,520	13,127	6,205	6,506	31,725	19,633
2020 - 2024	95,790	45,050	31,110	26,110	126,900	71,160
2025 - 2029	37,585	30,220	12,530	19,394	50,115	49,614
2030 - 2034	49,005	18,412	13,395	15,570	62,400	33,982
2035 - 2039	38,845	4,674	17,990	10,703	56,835	15,377
2040 - 2042	2,840	212	14,800	2,134	17,640	2,346
<b>TOTAL</b>	<b>\$ 332,185</b>	<b>\$ 177,256</b>	<b>\$ 117,605</b>	<b>\$ 109,863</b>	<b>\$, 449,790</b>	<b>\$ 287,119</b>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2014

(Amounts in Thousands)

**NOTE 6 – DEBT (Continued)**

***Current Year Long-Term Debt Financings***

***Central District Redevelopment Project, Subordinated Tax Allocation Refunding Bonds, Series 2013***

On October 3, 2013, the Oakland Redevelopment Successor Agency issued \$102.96 million aggregate principal amount of Oakland Redevelopment Successor Agency Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 2013 (the “Series 2013 Bonds”) to refund all of the outstanding Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2003 and Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005, each previously issued by the Redevelopment Agency of the City of Oakland. The Series 2013 Bonds were issued with interest rates ranging from 3.00% to 5.00% producing yields ranging from 0.63% to 3.66%. The final maturity of the Series 2013 Bonds is September 1, 2022.

Issuance of the Series 2013 Bonds generated approximately \$9.3 million or 8.49% in net present value savings, which is approximately \$10.1 million in debt service savings through 2022.

***Conduit Debt***

The following long-term debt has been issued by the former Agency on behalf of named agents of the Agency. The bonds do not constitute an indebtedness of ORSA. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of ORSA, and neither the full faith and credit nor the taxing authority of ORSA, State, or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded.

The conduit debt issued and outstanding at June 30, 2014:

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2014</u>
Redevelopment Agency of the City of Oakland, Multifamily Housing			
Revenue Bonds (Uptown Apartment Project), 2005 Series A <sup>1</sup>	\$ 160,000	10/01/50	\$ -
TOTAL	<u>\$ 160,000</u>		<u>\$ -</u>

<sup>1</sup>On December 12, 2013, a full redemption for the Multifamily Housing Revenue Bonds (Uptown Apartment Project), Series A was received

***Outstanding Defeased Bonds***

For financial reporting purposes, the ORSA’s advance-refunded debt is considered defeased and therefore removed as a liability from ORSA’s statement of fiduciary net position. Cumulatively, the defeased bonds had an outstanding debt balance of \$43.0 million at June 30, 2014.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 7 – TRANSACTIONS WITH THE CITY OF OAKLAND**

***City Expenses***

In FY 2014, ORSA incurred a total of \$9.33 million expense in general administration and project-related overhead. Of this amount, \$2.81 million reimbursed the City for general and administrative overhead and \$6.52 million paid for project-related overhead and operational costs for support services provided by designated City employees.

***Due from the City of Oakland***

As of June 30, 2014, ORSA has a total due from the City in the amount of \$2.3 million, a decrease of \$46.6 million compared to the \$48.9 million at June 30, 2013. The decrease represents the completion of asset transfer as a result of SCO asset transfer review.

***Due to the City of Oakland***

At June 30, 2014, ORSA has a payable to the City in the amount of \$1.6 million which included the former Agency's Low and Moderate Housing Fund loan of \$1.4 million to the Central City East Project Funds where the Low and Moderate Housing Funds Assets were transferred to the Housing Successor and a payable of \$0.2 million to the City for support services.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

***Environmental Land Remediation Obligation***

As of June 30, 2014, a review of ORSA's property reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses). If in the future when a land remediation obligation occurs to a property due to a change in the purpose (i.e. convert to housing or retail project), ORSA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

***Ambac Bankruptcy***

On November 9, 2010, Ambac Financial Group Inc. ("Ambac") filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac is a holding company whose subsidiaries, including Ambac Assurance Corporation ("Ambac Assurance"), provide financial guarantees and other financial services to its clients. On May 1, 2013, Ambac emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010.

Ambac Assurance has issued a financial guaranty insurance policy for payment of principal and interest when due and a reserve fund account surety bond policy to satisfy the reserve requirement for the former Agency's tax allocation bonds. Ambac Assurance continues to provide policy coverage for the Agency's bonds listed in the table below. Ambac Assurance's obligation to honor claims in accordance with the terms of the policies has not been affected by the bankruptcy of Ambac. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2014  
(Amounts in Thousands)

**NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)**

Type of Obligation	Original Par Amount
<b>Tax Allocation Bonds:</b>	
<u>Coliseum Area Redevelopment Project</u>	
Tax Allocation Bonds, Series 2006B-TE	\$ 28,770
Tax Allocation Bonds, Series 2006B-T	73,820
<u>Central City East Redevelopment Project</u>	
Tax Allocation Bonds, Series 2006A-TE	13,780
Tax Allocation Bonds, Series 2006A-T	62,520
<u>Broadway/MacArthur/San Pablo Redevelopment Project</u>	
Tax Allocation Bonds, Series 2006C-TE	4,945
Tax Allocation Bonds, Series 2006C-T	12,325
 <b>Subordinated Housing Set-Aside Bonds:</b>	
Revenue Refunding Bonds Series 2006A, A-T	84,840

***Encumbrances***

At June 30, 2014, ORSA had encumbered \$1.16 billion for contracted obligations, per the ROPS covering the July 1, 2014 through December 31, 2014 period, which was approved by the DOF on May 29, 2014.

**NOTE 9 – LITIGATION**

***Litigation/Unpaid Claims***

ORSA is subject to various claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with certainty, it is reasonably possible that some of these legal actions could be decided unfavorably against ORSA. In the opinion of the City Attorney's Office for ORSA, none of these claims are expected to have a significant impact on the financial position or changes in financial position of ORSA.

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# **OTHER SUPPLEMENTARY INFORMATION**

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**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
Combining Schedule of Fiduciary Net Position  
June 30, 2014  
(In Thousands)

	<b>Redevelopment Obligation Retirement Fund</b>	<b>Planning Fund</b>	<b>Capital Project Funds</b>	<b>Federal &amp; State Grant</b>	<b>Debt Service</b>	<b>Eliminations</b>	<b>TOTAL</b>
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and investments	\$ 30,370	\$ 1,822	\$ 20,913	\$ 2,712	\$ 636	\$ -	\$ 56,453
Accrued interest receivable	174	10	159	12	3	-	358
Accounts receivable (net of allowance for uncollectable of \$31)	-	-	-	1,327	-	-	1,327
Due from other funds	9,428	-	-	-	-	(9,428)	-
Due from the City of Oakland	-	-	2,312	-	-	-	2,312
Prepaid expenses	-	-	-	-	2,375	-	2,375
Restricted cash and investments	-	-	44,920	-	13,859	-	58,779
Total current assets	<u>39,972</u>	<u>1,832</u>	<u>68,304</u>	<u>4,051</u>	<u>16,873</u>	<u>(9,428)</u>	<u>121,604</u>
<b>Noncurrent assets</b>							
Notes and loans receivable (net of allowance for uncollectable of \$48,120)	-	35	13,984	-	-	-	14,019
Property held for resale	-	-	100,271	-	-	-	100,271
Total noncurrent assets	<u>-</u>	<u>35</u>	<u>114,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,290</u>
Total assets	<u>39,972</u>	<u>1,867</u>	<u>182,559</u>	<u>4,051</u>	<u>16,873</u>	<u>(9,428)</u>	<u>235,894</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Unamortized losses on refunding of debts	-	-	-	-	2,335	-	2,335
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Accounts payable and accrued liabilities	-	862	2,625	926	-	-	4,413
Accrued interest payable	-	-	-	-	8,773	-	8,773
Due to other funds	-	-	9,428	-	-	(9,428)	-
Due to the City of Oakland	-	-	1,614	-	-	-	1,614
Deposits and other liabilities	-	6	41	-	-	-	47
Total current liabilities	<u>-</u>	<u>868</u>	<u>13,708</u>	<u>926</u>	<u>8,773</u>	<u>(9,428)</u>	<u>14,847</u>
<b>Noncurrent liabilities</b>							
Due within one year	-	-	-	-	20,709	-	20,709
Due in more than one year	-	-	-	-	437,875	-	437,875
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>458,584</u>	<u>-</u>	<u>458,584</u>
Total liabilities	<u>-</u>	<u>868</u>	<u>13,708</u>	<u>926</u>	<u>467,357</u>	<u>(9,428)</u>	<u>473,431</u>
<b>NET POSITION</b>							
Net position (deficit) restricted for redevelopment	<u>\$ 39,972</u>	<u>\$ 999</u>	<u>\$ 168,851</u>	<u>\$ 3,125</u>	<u>\$ (448,149)</u>	<u>\$ -</u>	<u>\$ (235,202)</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
Combining Schedule of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2014  
(In Thousands)

	Redevelopment Obligation Retirement Fund	Planning Fund	Capital Project Funds	Federal and State Grants	Debt Service	Eliminations	TOTAL
<b>ADDITIONS</b>							
Redevelopment property tax revenues	\$ 73,684	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,684
Investment income						-	
Interest on investments	48	83	293	1	37	-	462
Net appreciation (depreciation) in fair value of investments	(61)	(1)	(68)	-	1	-	(129)
Federal grants	-	-	-	-	223	-	223
State grants	-	-	-	15,306	-	-	15,306
Other	-	-	203	-	-	762	965
Total additions	<u>73,671</u>	<u>82</u>	<u>428</u>	<u>15,307</u>	<u>261</u>	<u>762</u>	<u>90,511</u>
<b>DEDUCTIONS</b>							
General and administrative costs							
Salaries, wages and benefits	-	2,437	-	-	-	-	2,437
Materials, supplies and other services	-	369	-	-	-	-	369
Project expenses	-	4,600	23,830	12,262	-	-	40,692
Debt service							
Interest on long-term debt	-	-	-	-	27,162	78	27,240
Payment to refunding bond escrow agent	-	-	78	-	-	(78)	-
Bond issuance costs	-	-	-	-	743	-	743
Other	-	-	-	-	162	-	162
Total deductions	<u>-</u>	<u>7,406</u>	<u>23,908</u>	<u>12,262</u>	<u>28,067</u>	<u>-</u>	<u>71,643</u>
Change in net position before other financing sources (uses) and special items	73,671	(7,324)	(23,480)	3,045	(27,806)	762	18,868
<b>OTHER FINANCING SOURCES (USES)</b>							
Tax allocation refunding bonds issued	-	-	-	-	102,960	(102,960)	-
Premium on bonds issued	-	-	-	-	10,519	(10,519)	-
Payment to refunding bond escrow agent	-	-	-	-	(112,717)	112,717	-
Transfers in	-	7,635	12,942	-	56,711	(77,288)	-
Transfers out	(72,554)	-	(4,734)	-	-	77,288	-
Total other financing sources (uses)	<u>(72,554)</u>	<u>7,635</u>	<u>8,208</u>	<u>-</u>	<u>57,473</u>	<u>(762)</u>	<u>-</u>
<b>SPECIAL ITEM</b>							
Transfer of excess tax allocation bond proceeds approved by the California Department of Finance to the City of Oakland	-	-	(88,309)	-	-	-	(88,309)
<b>Change in net position</b>	1,117	311	(103,581)	3,045	29,667	-	(69,441)
Net position (deficit) - beginning	38,855	688	272,432	80	(477,816)	-	(165,761)
<b>Net position (deficit), ending</b>	<u>\$ 39,972</u>	<u>\$ 999</u>	<u>\$ 168,851</u>	<u>\$ 3,125</u>	<u>\$ (448,149)</u>	<u>\$ -</u>	<u>\$ (235,202)</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
Combining Schedule of Fiduciary Net Position for Capital Project Sub-Funds  
June 30, 2014  
(In Thousands)

	Capital Projects						Total Capital Project Funds	
	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base		Other Projects
<b>ASSETS</b>								
Current assets								
Cash and investments	\$ -	\$ 7,133	\$ 7,791	\$ 2,373	\$ 1,749	\$ -	\$ 1,867	\$ 20,913
Accrued interest receivable	-	37	40	62	10	-	10	159
Due from the City of Oakland	1,780	532	-	-	-	-	-	2,312
Restricted cash and investments	482	67	184	38,340	5,847	-	-	44,920
Total current assets	<u>2,262</u>	<u>7,769</u>	<u>8,015</u>	<u>40,775</u>	<u>7,606</u>	<u>-</u>	<u>1,877</u>	<u>68,304</u>
Noncurrent assets								
Notes and loans receivable (net of allowance for uncollectable of \$48,120)	11,458	1,073	-	-	820	-	633	13,984
Property held for resale	44,949	44,295	11,027	-	-	-	-	100,271
Total noncurrent assets	<u>56,407</u>	<u>45,368</u>	<u>11,027</u>	<u>-</u>	<u>820</u>	<u>-</u>	<u>633</u>	<u>114,255</u>
Total assets	<u>58,669</u>	<u>53,137</u>	<u>19,042</u>	<u>40,775</u>	<u>8,426</u>	<u>-</u>	<u>2,510</u>	<u>182,559</u>
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable and accrued liabilities	350	166	121	1,551	369	-	68	2,625
Due to other funds	7,157	-	-	-	-	2,271	-	9,428
Due to the City of Oakland	-	-	1,437	-	-	177	-	1,614
Deposits and other liabilities	3	-	-	-	25	-	13	41
Total current liabilities	<u>7,510</u>	<u>166</u>	<u>1,558</u>	<u>1,551</u>	<u>394</u>	<u>2,448</u>	<u>81</u>	<u>13,708</u>
<b>NET POSITION</b>								
Net position (deficit) restricted for redevelopment	<u>\$ 51,159</u>	<u>\$ 52,971</u>	<u>\$ 17,484</u>	<u>\$ 39,224</u>	<u>\$ 8,032</u>	<u>\$ (2,448)</u>	<u>\$ 2,429</u>	<u>\$ - 168,851</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
Combining Schedule of Changes in Fiduciary Net Position for Capital Project Sub-Funds  
For the Year Ended June 30, 2014  
(In Thousands)

	Capital Projects							Total Capital Project Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Other Projects	
<b>ADDITIONS</b>								
Investment income								
Interest on investments	\$ 165	\$ 41	\$ 31	\$ 40	\$ 11	\$ -	\$ 5	\$ 293
Net depreciation in fair value of investments	(12)	(10)	(13)	(23)	(9)	-	(1)	(68)
Other	202	1	-	-	-	-	-	203
Total additions	<u>355</u>	<u>32</u>	<u>18</u>	<u>17</u>	<u>2</u>	<u>-</u>	<u>4</u>	<u>428</u>
<b>DEDUCTIONS</b>								
Project management								
Salaries, wages and benefits	1,998	1,027	645	1,467	557	-	154	5,648
Payment to refunding bond escrow agent	78	-	-	-	-	-	-	78
Total deductions	<u>4,721</u>	<u>1,679</u>	<u>929</u>	<u>13,708</u>	<u>2,468</u>	<u>-</u>	<u>403</u>	<u>23,908</u>
Change in net position before other financing sources (uses) and special items	(4,366)	(1,647)	(911)	(13,691)	(2,466)	-	(399)	(23,480)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	6,754	1,794	1,042	2,507	453	-	392	12,942
Transfers out	(4,734)	-	-	-	-	-	-	(4,734)
Total other financing sources (uses)	<u>2,020</u>	<u>1,794</u>	<u>1,042</u>	<u>2,507</u>	<u>453</u>	<u>-</u>	<u>392</u>	<u>8,208</u>
<b>SPECIAL ITEM</b>								
Transfer of excess tax allocation bond proceeds approved by the California Department of Finance to the City of Oakland	(27,625)	(11,887)	(37,069)	(10,000)	(1,728)	-	-	(88,309)
Change in net position	(29,971)	(11,740)	(36,938)	(21,184)	(3,741)	-	(7)	(103,581)
Net position (deficit), beginning	81,130	64,711	54,422	60,408	11,773	(2,448)	2,436	272,432
Net position (deficit), ending	<u>\$ 51,159</u>	<u>\$ 52,971</u>	<u>\$ 17,484</u>	<u>\$ 39,224</u>	<u>\$ 8,032</u>	<u>\$ (2,448)</u>	<u>\$ 2,429</u>	<u>\$ 168,851</u>



**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***

Board of Directors  
Oakland Redevelopment Successor Agency  
Oakland, California

We have audited, in accordance with the 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, the financial statements of the Oakland Redevelopment Successor Agency (ORSA), a component unit of the City of Oakland (City), California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ORSA’s basic financial statements, and have issued our report thereon dated November 26, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the ORSA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ORSA’s internal control. Accordingly, we do not express an opinion on the effectiveness of the ORSA’s internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the ORSA’s financial statements are free from 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*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 26, 2014