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CITY OF OAKLAND

AGENDA REPORT

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Finance and Management Agency
DATE: January 13, 2009

RE: **Informational Report presenting the Fiscal Year 2007/2008 Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Audit Report, and the Management Letter**

SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Audit Report, and the Management Letter.

The CAFR incorporates the audited basic financial statements of the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the ORA, and the Port of Oakland.

The ORA Audit Report provides an overview of the Redevelopment Agency financial activities during the fiscal year ended June 30, 2008.

The Management Letter outlines the Auditor's responsibility, provides advice on accounting policies, and makes recommendations designed to improve operational efficiencies and further strengthen internal controls.

The Auditor's unqualified opinion letters for the two audit reports mentioned above declared that the basic financial statements contained therein accurately represent the financial condition of the City as of June 30 2008.

FISCAL IMPACT

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

BACKGROUND

- **The Comprehensive Annual Financial Report**

The CAFR is presented in three sections:

- **Introductory Section:** This section includes information about the organizational structure of the City, including an overview of the City and its economy, and general government operations. This section also highlights the Government Finance Officers

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January 13, 2009

Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting award for the previous fiscal years.

- **Financial Section:** This section includes the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A), as required by GASB 34. The MD&A provides financial highlights and an analytical overview of the City's financial activities. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations. The fund financial statements present financial information for each of the City's major funds as well as non-major governmental funds. Capital Assets, including infrastructure, and the liability for the City's long-term debt are included in the Statement of Net Assets. Also incorporated in the City's basic financial statements are the audited financial statements for the OMERS, PFRS, ORA and the Port of Oakland as a discrete component unit of the City.
- **Statistical Section:** This section provides ten years of summary financial data, as well as demographic, economic, and statistical information related to the City and its operations.

- **The Management Letter**

The Management Letter is required by professional auditing standards. The letter outlines the Auditor's responsibility, provides advice on accounting policies, evaluates accounting estimates, proposes audit adjustments, and outlines any major difficulties encountered in performing the audit.

The Management Letter is intended solely for the information and use of the City Council, the Finance Committee, the Federal grantor agencies, and the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & O'Connell LLP, a certified public accounting firm, engaged by the City as the primary contractor for its year end audits, performed the audits of the Comprehensive Annual Financial Report (CAFR). They also performed the audit of the Oakland Wildlife Prevention Assessment District Audit Report that will be presented to the City Council's Public Safety Committee, and a separate audit of the Port of Oakland.

Williams, Adley & Company LLP, a certified public accounting firm and sub-contractor, performed the audit of the Oakland Redevelopment Agency.

Yano Accountancy Corporation, a certified public accounting firm and sub-contractor, performed the audits of the Oakland Municipal Employees Retirement System (OMERS), the Police and Fire Retirement System (PFRS), and the GANN Appropriation Limit attestation.

SUSTAINABLE OPPORTUNITIES

There are no economic, environmental, or social equity opportunities resulting from this report.

DISABILITY AND SENIOR CITIZEN ACCESS

The information contained in this report does not impact disability and senior citizen access.

RECOMMENDATION(S) AND RATIONALE

Staff recommends that the City Council accept the June 30, 2008 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Audit Report, and the Management Letter.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept the June 30, 2008 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Audit Report, and the Management Letter.

Respectfully submitted,

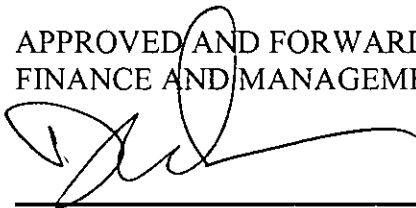


William E. Noland
Director, Finance and Management Agency

Prepared by:
Ace A. Tago, Controller
Finance and Management Agency

Attachments:
Comprehensive Annual Financial Report (CAFR)
Oakland Redevelopment Agency (ORA) Audit Report
Management Letter

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:



Office of the City Administrator

Item: _____
Finance and Management Committee
January 13, 2009

**THE COMPREHENSIVE ANNUAL
FINANCIAL REPORT (CAFR) WAS
PROVIDED SEPARATELY TO THE
COUNCIL AND IS AVAILABLE FOR
VIEWING IN THE OFFICE OF THE CITY
CLERK.**

**A COPY OF THE OAKLAND
REDEVELOPMENT AGENCY AUDIT
REPORT IS ALSO AVAILABLE FOR
VIEWING IN THE OFFICE OF THE CITY
CLERK.**

CITY OF OAKLAND



**FINANCE AND MANAGEMENT AGENCY
ACCOUNTING DIVISION**

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OAKLAND, CALIFORNIA 94612
(510) 238-3916

December 17, 2008

Citizens of the City of Oakland
The Honorable Mayor and
Members of the City Council

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Oakland, California (City). The Finance and Management Agency has prepared this report to present the financial position and the changes in net assets for the fiscal year ended June 30, 2008, and the cash flows of its proprietary fund types for the year then ended. The basic financial statements and supporting schedules have been prepared in compliance with Section 809 of the City Charter, with California Government Code Sections 25250 and 25253, and in accordance with generally accepted accounting principles (GAAP) for local governments as established by the Governmental Accounting Standards Board (GASB).

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP, and to comply with laws and regulations. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

The City's financial statements have been audited by a group of independent auditing firms that are licensed certified public accountants. The objective of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2008, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2008. The Independent Auditors Report is presented as the first component of the Financial Section of this report.

GASB Statement No. 34 (GASB 34) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the

MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The Reporting Entity and Its Services

The City has defined its reporting entity in accordance with generally accepted accounting principles that provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The Basic Financial Statements presents information on the activities of the City and its component units.

GAAP require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the City's operations. Therefore, they are reported as part of the Primary Government. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City operations.

Accordingly, we have included the operations of the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), and the Oakland Redevelopment Agency (Agency) as blended component units. The operations of the Port of Oakland (including the Oakland International Airport) is presented discretely. The Oakland-Alameda County Coliseum Authority (Authority) is a Joint Venture owned and operated by the City and the County of Alameda.

The Oakland Housing Authority, the Oakland Unified School District, and the Peralta Community College District were not included because they have limited relationships with the City and, therefore, did not meet the criteria for inclusion in the reporting entity. The City is also represented in six regional agencies that are excluded from the City's reporting entity. These agencies are the San Francisco Bay Area Rapid Transit District (BART), Alameda-Contra Costa Transit District (AC Transit), Bay Area Air Quality Management District, Association of Bay Area Governments (ABAG), East Bay Regional Park District, and the East Bay Municipal Utility District.

Profile of the Government

The City of Oakland was chartered as a city in 1854. It is situated on the eastern side of the Oakland/San Francisco Bay in the County of Alameda. Its western border offers nineteen miles of coastline, while the rolling hills to the east present views of the Bay and the Pacific Ocean. In between are traditional, well-kept neighborhoods, a progressive downtown that is experiencing a tremendous surge in growth, and superior cultural and recreational amenities. It is the administrative site for the County of Alameda, the regional seat for the federal government, the district location of primary state offices, and the transportation hub of commerce for the Bay Area.

In November 1998, the citizens of Oakland passed Measure X changing the form of government from Council-City Manager to Mayor-Council through a charter amendment. Legislative authority is vested in the City Council and executive authority is vested in the Mayor. The City

Administrator, appointed by and under the direction of the Mayor, has administrative authority to manage the day-to-day administrative and fiscal operations of the City. The City Auditor and the City Attorney are both elected officials and serve four-year terms.

The Mayor and City Council is the governing body of the City and comprises eight elected officials. One Council member is elected "at large", while the other seven Council members represent specific districts. The Mayor and City Council are elected to serve four-year terms.

On March 2, 2004, the citizens of Oakland passed Measure P: (1) to repeal the sunset provision of Measure X passed in November 1998 to retain the Mayor-Council form of government; (2) to change the term limit for Mayor from two terms to two consecutive terms; (3) to reduce the number of votes needed for the City Council to pass an ordinance on reconsideration from six votes to five votes; (4) to eliminate the prohibition on paying the Mayor more than the City Administrator; (5) to remove the rule that the Mayor vacates his or her office by missing ten consecutive City Council meetings; (6) to require the Mayor to advise the City Council before removing the City Administrator; and (7) to change the title of the City Manager to "City Administrator".

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under state law. These services include public safety (police and fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning, and general administrative services.

The City's budget is a detailed operating plan that identifies estimated costs in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be carried out during the fiscal year; (2) the estimated revenue available to finance the operating plan; and (3) the estimated spending requirements for the operating plan. The budget represents a process wherein policy decisions by the Mayor and the City Council are adopted, implemented and controlled. The notes to the required supplementary information summarizes the budgetary roles of various City officials and the timetable for their budgetary actions according to the City Charter. On June 30, 2006, the City Council, during its mid-cycle review, approved the City's revised budget for fiscal year 2006-07.

The City Charter prohibits expending monies for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, although for management purposes, the line item budget is controlled at the departmental level within funds. The City Administrator is authorized to administer the budget and may transfer monies from one activity, program or project to another within the same agency and fund. Supplemental appropriations or transfers of appropriations between funds or agencies must be approved by the City Council.

The City also maintains an encumbrance accounting system to provide budgetary controls for governmental funds. Encumbrances which would result in an overrun of an account balance are suspended in the system until additional funding is made available via budget change requests or withdrawn due to lack of funding. Encumbrances outstanding at June 30 and carried forward are

reported as reservations of the appropriate governmental fund's fund balance since they do not constitute expenditures or liabilities. Encumbrances that do not lapse but are brought forward to the new fiscal year are incorporated as part of the budget adopted by City Council for that year.

Economic Indicators and Next Fiscal Year's Budget and Tax Rates

The City of Oakland's primary economic indicators are highlighted on pages 16 and 17 in the Management Discussion and Analysis (MD&A) section of this report.

Cash Management Policies and Practices

To maximize interest income and maintain liquidity, the City pools operating cash of both the City and Port and invests these monies in securities of various maturities. These monies and operating funds of the Redevelopment Agency and the Oakland Base Reuse Authority are invested pursuant to the City's Investment Policy in compliance with Section 53601 of the California Government Code, the Nuclear Free Zone and Linked Banking Ordinances, and the Tobacco Divestiture Resolution. The objectives of the Investment Policy are to preserve capital, provide adequate liquidity to meet cash disbursements of the City, and to reduce overall portfolio needs while maintaining market-average rates of return. Investments are secured by collateral as required under law, with maturity dates staggered to ensure that cash is available when needed. The City Council receives quarterly reports on the performance of the City's pooled investment program.

The permitted investments include U.S. Treasury notes (with certain restrictions), federal agency issues, bankers' acceptances, commercial paper, corporate stocks and bonds with ratings of A1 or P1 by either Standard and Poor's or Fitch's, negotiable certificates of deposit, Local Agency Investment Fund, and repurchase agreements.

Risk Management

To finance its risks of general liability and workers' compensation, the City maintains a program of self-insurance, supplemented with commercial insurance of limited coverage that is sufficient to protect resources at the lowest reasonable cost. The City does maintain commercial fire insurance policies on all of its buildings. Additionally, the City insures for the perils of earthquake and flood on the Henry J. Kaiser Convention Center and the George F. Scotlan Memorial Convention Center.

The City Attorney represents the City in all of its legal matters, including claims investigation, civil litigation, and disposition of claims and lawsuits.

Insurance to protect and indemnify the City against the risks of general liability and property damage is required in virtually all of its public works, contractor-supplied, and professional services contracts.

Awards

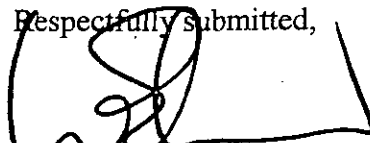
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Oakland for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. The City of Oakland has received a Certificate of Achievement for 18 of the last 19 years. The single missing year was due to the delay in the submission of the City's CAFR to GFOA as a result of conversion to a new financial management system. The City's Fiscal Year 2007-08 CAFR will be submitted to GFOA for consideration for the Certificate of Achievement for Excellence in Financial Reporting.

Acknowledgements

I would like to express my appreciation to the entire staff of the Finance and Management Agency, most particularly the Accounting Division, and other agency and departmental staff, for their professionalism, dedication, and efficiency in the preparation of this report. I also thank Macias, Gini & O'Connell LLP for their assistance and guidance. Finally, I would like to thank the Mayor, members of the City Council, and the City Administrator for their interest and continuing support in planning and conducting the City's financial operations in a responsible and progressive manner.

Respectfully submitted,



William E. Noland

Director, Finance and Management Agency



MACIAS GINI & O'CONNELL LLP

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

CITY OF OAKLAND
Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland (the City) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. Our opinions on the financial statements, insofar as they relate to the Oakland Municipal Employees' Retirement System (OMERS), Oakland Police and Fire Retirement System (PFRS), and Oakland Redevelopment Agency (ORA) are based solely on the report of other auditors. This report does not include communications related to the audits of OMERS, PFRS or the ORA. Additionally, although we performed the audit of the Port of Oakland (the Port), the City's discretely presented component unit, this report does not include the communications related to that audit because separate communication is made to the Port's Board of Port Commissioners. In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies listed as findings 2008-1 and 2008-2 to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies listed as findings 2008-1 and 2008-2 are material weaknesses.

The City's written response to the findings identified in our audit is described in the Schedule of Comments and Responses. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, we have already discussed our comments and recommendations with various City personnel, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Additionally, we have included in this letter a report on communications with the City Council as required by auditing standards generally accepted in the United States of America.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MACIAS GINI & O'CONNELL LLP

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

December 17, 2008

CITY OF OAKLAND

Required Communications and Recommendations Fiscal Year Ended June 30, 2008

REQUIRED COMMUNICATIONS

Professional standards require that we provide you with the following information related to our audit.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB A-133

As stated in our engagement letter dated July 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a *direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.*

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City's compliance with those requirements. Our reports required under OMB A-133 are in process and those reports will be provided to you when they have been issued.

II. Other Information in Documents Containing Audited Financial Statements

During the year, the City included audited financial statements for the year ended June 30, 2007 in various debt offering documents (e.g., Official Statements.) We do not have an obligation to perform any procedures to corroborate other information contained in such debt offering documents. We were not associated with and did not have any involvement with such documents. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the debt offering documents.

III. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 11, 2008.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

REQUIRED COMMUNICATIONS (Continued)

IV. Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 2 to the financial statements. As discussed in Notes 16 and 17 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*.

In addition, the City presents the Port of Oakland (Port) in a unique manner as compared to other local governmental entities with port operations. All local government entities we sampled reflect their ports as departments of the organization rather than as a discretely presented component unit. Some of these ports have similar management structures with a Board of Commissioners appointed by the sponsoring city's mayor/city council to oversee the operations of the port. Management's representation to us was that the Port operates with a separate legal standing (i.e. using its own corporate powers) under the Charter, which would allow for this presentation. In addition, the City Attorney's Office has represented that the Port operates very similar to a corporation with the Charter acting as its Articles of Incorporation and By-Laws. Ultimately, the City's presentation of the Port makes it less comparable to other cities that have port operations, thus, being a unique presentation.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

V. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the amount that the City could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices.
- *Estimated unbilled sewer service revenue.* The estimates for unbilled sewer service revenue are based on an evaluation of the EBMUD reports, cash flows, monthly billing cycles and historical billings.
- *Estimated allowance for losses on accounts receivable.* The allowance for losses on accounts receivable was based on management's estimate regarding the likelihood of collectibility.
- *Estimated allowance for losses on loans receivable.* The allowance for losses on loans receivable was based on the types of loan (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectibility based on loan provisions and collateral.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

REQUIRED COMMUNICATIONS (Continued)

V. Accounting Estimates (Continued)

- *Useful life estimates for capital assets.* The estimated useful lives of capital assets were based on management's estimate of the economic life of the assets.
- *Valuation of the net pension asset.* The net pension asset is the amount that exceeded the City's actuarially determined annual required contribution, which is based upon certain approved actuarial assumptions. This amount is then amortized over the amortization period used by the actuary to recognize the excess contribution as pension costs over time.
- *Estimated claims liabilities.* Reserves for estimated claims liabilities were based on actuarial evaluations using historical loss, other data and attorney judgment about the ultimate outcome of the claims.
- *Annual required contributions to pension and other postemployment benefit plans.* The City is required to contribute to its pension plans at an actuarially determined rate and to measure other postemployment benefit costs based upon certain approved actuarial assumptions.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting units that collectively comprise the City's basic financial statements.

VI. Difficulties Encountered in Performing the Audit

We identified sewer revenues as a significant transaction stream, which required us to document our understanding of internal controls. We met with East Bay Municipal Utility District (EBMUD) on June 20, 2008 to learn how it records the financial data that is provided to the City on a monthly basis. We also met with Public Works on June 27, 2008 to understand how the service charge rates were established. After these two meetings, we requested meetings with Community and Economic Development Agency to understand how the City uses the financial data provided by EBMUD and records it into the general ledger. We made numerous attempts to set up meetings starting in June 2008 and through the end of our audit in December 2008, however, were never granted access to speak with the individuals responsible for these functions. As a result of our final evaluation of the methodology, it was determined that the City was not properly accruing revenue and a restatement adjustment was necessary to properly record revenue under generally accepted accounting principles.

VII. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, two of the misstatements detected as a result of audit procedures corrected by management were material to the financial statements and required a restatement of beginning net assets as described in Note 2 to the basic financial statements.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

REQUIRED COMMUNICATIONS (Continued)

VIII. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

IX. Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2008.

X. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

XI. Other Audit Finding or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

SCHEDULE OF COMMENTS AND RESPONSES

Finding No. 2008-1 – Material Weakness

Accounting for the City's Sewer Service Revenues

During our risk assessment of the City's internal controls, we identified sewer service revenues as a significant transaction stream. In our planning phase, we began the process of documenting our understanding of the collection of sewer service revenues by interviewing City departments responsible for the Sewer Service Enterprise Fund, being the Public Works Department and the Community and Economic Development Agency (CEDA). We also met with staff of the East Bay Municipal Utility District (EBMUD), the agency responsible for measuring usage for metered rates, preparing invoices, and collecting cash receipts on behalf of the City.

We were unable to complete our documentation of internal controls over sewer service revenues, as we were unable to meet with CEDA staff. While we were able to document certain controls, such as the development of user rates and recording of receipts from EBMUD, we were not able to determine whether the City has adequate controls over the monitoring of EBMUD services. Due to a lack of cooperation by CEDA, we must assume that controls and control documentation do not exist. Therefore, internal controls over the collection of sewer service revenues is considered a material weakness, as we are unable to determine the adequacy of internal controls and whether or not they are operating effectively. We were able to mitigate this audit risk by conducting substantive procedures, which included confirming cash receipts with EBMUD and application of analytical procedures.

During our substantive procedures, we determined that the City did not have an adequate understanding of the EBMUD collection process and the timing of remittances to the City. Historically, the City accrues the July remittances from EBMUD. Upon further investigation, we discovered that the July remittances only included collections received through June 30. Therefore, billings through June 30 that were not yet received by EBMUD as of June 30 were not captured as accrued revenue in the City's financial statements. In addition, we discovered that EBMUD bills on a two-month cycle at the end of each billing period. Therefore, as of June 30, there existed sewer service revenues earned but not yet billed by EBMUD. As a result of our findings, the City was required to accrue \$4,430,000 as a receivable at June 30, 2008, of which \$576,000 was recorded as current year revenue and the difference of \$3,854,000 as a restatement of beginning net assets to account for the accrual as of June 30, 2007.

We recommend the City document its internal controls over sewer service revenues, which include (1) performing risk assessments; (2) establishing controls, such as monitoring the billing and collecting activities performed by EBMUD; (3) establishing proper communication within the City Departments; and (4) establishing accrual procedures at year-end that capture all billed receivables and a basis for estimating the unbilled receivables. Maintaining proper internal controls over sewer service revenues will reduce the risk of misstatements and ensure accuracy in financial reporting by the City.

Management Response:

Recent departmental reorganizations have blurred the delineation of oversight responsibilities for monitoring sewer system revenues. Management plans to convene an inter-agency meeting among the Public Works Agency, Community and Economic Development Agency, and Finance and Management Agency to identify the most appropriate agency, or combination thereof, to monitor the sewer system revenues collected by East Bay Municipal Utility District on behalf of the City of Oakland. The inter-agency meeting will result in a monitoring process that will be implemented during fiscal year 2008-09.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

SCHEDULE OF COMMENTS AND RESPONSES (Continued)

Finding No. 2008-2 – Material Weakness

Accounting for the City's Net Pension Asset

During our review of the Oakland Police and Fire Retirement System (PFRS) financial statements for the year ended June 30, 2008, we noticed a change in reporting of actuarial information. The FY2008 PFRS report disclosed a six-year trend of actuarial required contribution (ARC) requirements in its required supplementary information, which had previously been reported as zero in past PFRS reports.

Upon further investigation, it was determined that the past PFRS reports were incorrect and that there has been past ARC requirements for the City which were not communicated or considered in its calculation of the net pension asset on the statement of net assets of its governmental activities. The net pension asset is the result of City contribution to PFRS that exceeded the actuarially determined annual required contribution, which originated from the bond proceeds of the 1997 Pension Obligation Bonds. This amount should then be amortized along with impact of subsequent annual ARC requirements to recognize the effects of excess/deficient contributions as pension costs over time.

Upon recalculating the changes in the net pension asset as a result of incorporating past ARC requirements, we determined that the City overstated its net pension asset and an audit adjustment would be necessary to restate beginning net assets for the cumulative effect of the missing ARC amounts through June 30 2007 and to adjust the amount of pension cost for the year ended June 30, 2008. We submitted our recalculation supporting the audit adjustment to the PFRS actuary for confirmation. The restatement resulted in a reduction of beginning net assets (as of June 30, 2007) in the amount of \$69,192,000 and increased annual pension cost to \$31,551,000. It should be noted that the effect of the restatement and current year adjustment does not impact any City funds (i.e., fund balance) as it represents the cost of pension benefits over time using the economic resources measurement focus in the government-wide financial statements.

We recommend going forward that the City's Finance and Management Agency accounting and retirement staff work with the PFRS actuary to calculate the annual pension cost and changes to net pension assets.

Management Response:

Management concurs with the recommendation.

CITY OF OAKLAND

Required Communications and Recommendations
Fiscal Year Ended June 30, 2008

STATUS OF PRIOR YEAR'S RECOMMENDATIONS

2007-1 Comment: *Recording Perspective Differences Between the City and the Oakland Redevelopment Agency*

Condition/Effect/
Recommendation: We recommend the City include a reconciliation process as part of the year-end close for capturing any changes in the perspective differences to ensure that it is reported accurately in the financial statements.

Status: Implemented.

2007-2 Comment: *Internal Service Funds*

Condition/Effect/
Recommendation: The City reports five internal service funds, Equipment, Radio, Facilities, Reproduction and Central Stores. Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles permit the use of internal service funds to be used to report any activity that provides goods or services to the government on a cost reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Therefore, if the City does not intend to recover the full cost of providing goods or services, then the use of internal service funds would not be appropriate.

As discussed last year, we are becoming increasingly concerned with the growth in both the deficits of certain internal service funds and the interfund loans used to support those services. The City has attempted to cure the internal service fund deficits by increasing the charges to the departments; however, those increases have not kept up with the increases in actual costs. Therefore, we recommended the City review its current budget repayment plan and revise it to cure the deficit over a reasonable period of time, such as three to five years.

The City's response was to maintain the current rebalancing plan for internal service funds in its adopted the FY 2007-09 policy budget, which cures the deficits by FY 2014-15.

Status: The position of the City's internal service funds continued to worsen. Upon comparison of current year results to the rebalancing plan, the internal service fund charges (revenue) met the City's projections as budgeted, while the actual expenses of the internal service funds exceeded projections. The result is an unplanned increase of \$4.5 million owed to the General Fund. In addition, the City is charging the internal service funds interest on the borrowings (approximately \$1.5 million) that are compounding the amount owed back to the General Fund.

The City should re-evaluate whether the use of internal services funds for these activities are necessary for financial reporting and managing the City's service activities.

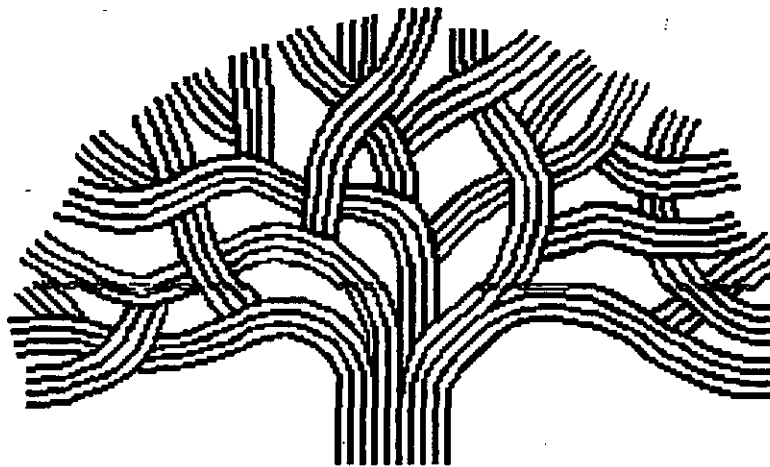
REDEVELOPMENT AGENCY

of the

CITY OF OAKLAND

CALIFORNIA

(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)



**Basic Financial Statements
and
Supplemental Information**

Fiscal Year Ended June 30, 2008

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

PROJECT TEAM

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Director
Finance and Management Agency

Ace A. Tago
Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Osborn Solitei, *Assistant Controller*

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Connie Chu

Leland Lee
Norma Torres
Andy Wang

CLERICAL SUPPORT

Ebony Thomas, *Administrative Assistant*

SPECIAL ASSISTANCE

Katano Kasaine

Donna Treglown

SPECIAL ASSISTANCE – DEPARTMENTS & OFFICES

City Administrator's Office

City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (the Agency), a component unit of the City of Oakland, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Agency as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants
Management Consultants

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

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

Williams, Adley & Company, LLP

Oakland, California
December 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to the basic financial statements

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

Other information

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

Government-wide Financial Statements Analysis

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

Analysis of Net Assets

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

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

Net Assets
Governmental Activities
(In thousands)

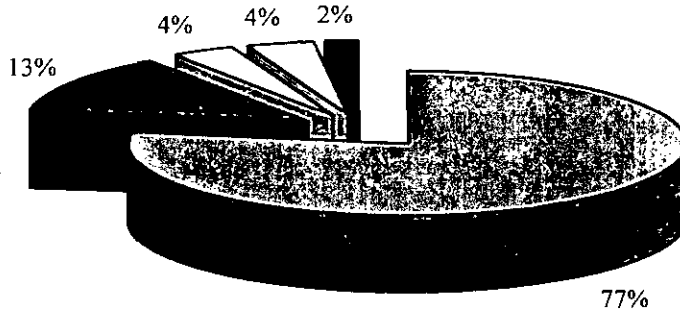
	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets:		
Current and other assets	\$ 655,922	\$ 631,113
Property held for resale	121,735	120,586
Fixed Assets	6,887	-
Total assets	<u>784,544</u>	<u>751,699</u>
Liabilities:		
Long-term liabilities	540,605	561,811
Other liabilities	43,563	37,628
Total liabilities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

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

Changes in Net Assets
Governmental Activities
(In thousands)

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

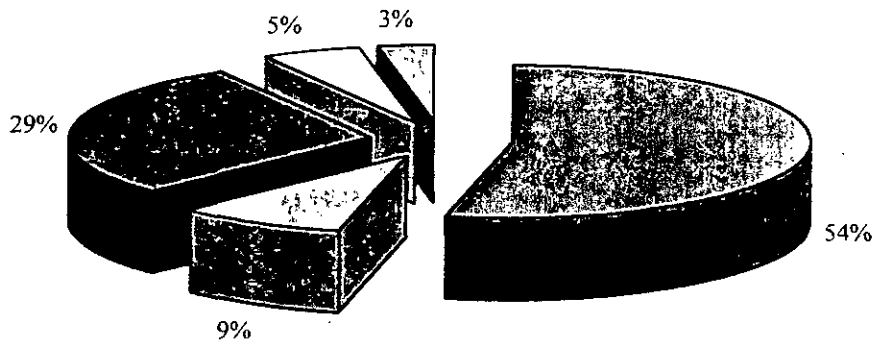
**Redevelopment Agency of the City of Oakland
Sources of Revenue
For FY 2007-08**



- Property tax increment
- Investment income
- Charges for services
- Operating grants
- Other

Total Revenues 157,383

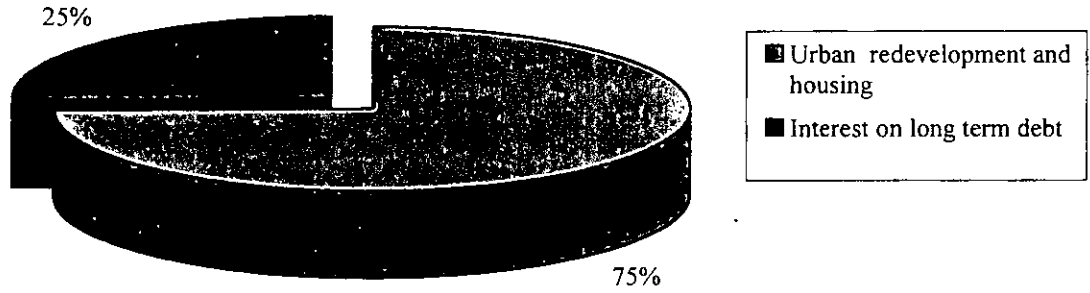
**Redevelopment Agency of the City of Oakland
Sources of Revenue
For FY 2006-07**



- Property tax increment
- Investment income
- Gain on sale of land
- Charges for services
- Other

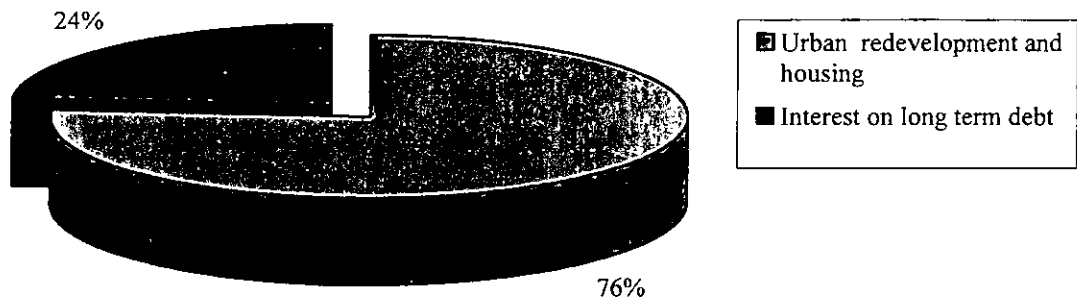
Total Revenues \$204,241

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



Total Expenditures \$109,267

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



Total Expenditures \$115,295

Analysis of Changes in Net Assets

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

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

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

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

Financial Analysis of the Agency's Funds

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

Budgetary Data

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

Capital Assets and Debt Administration

Capital assets

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

Long-term debt

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

Bond Ratings

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

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

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

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2008

(In Thousands)

ASSETS

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

TOTAL ASSETS 784,544

LIABILITIES

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

NET ASSETS (Deficit)

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

TOTAL NET ASSETS \$ 200,376

See accompanying notes to the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Activities

For the year ended June 30, 2008

(In Thousands)

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

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Balance Sheet

Governmental Funds

June 30, 2008

(In Thousands)

3

Capital Projects

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Governmental Funds

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

Governmental Activities

June 30, 2008

(In Thousands)

Fund balance - total governmental funds \$ 599,170

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

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

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

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

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

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

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

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 200,376

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The Agency reports the following major governmental funds:

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

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

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

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

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

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

Investments

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

Pooled Cash and Investments

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

Restricted Cash and Investments

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Agency, generate rental or operating income. This income is recognized as it is earned in the Agency's statement of activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting. The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development.

Capital Assets

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

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

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

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

Environmental Remediation Costs

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

Fund Equity

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

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

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

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

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

Restricted Net Assets and Revenues

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

Tax Increment Revenue

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

Budgetary Data

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

Deferred Revenue

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

Long-term Obligations

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

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

Estimates

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

(3) CASH AND INVESTMENTS

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

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

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

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

Custodial Credit Risk:

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

Credit Risk:

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

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

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

Pooled Cash and Investments

Ratings as of Fiscal Year Ended June 30, 2008

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

Restricted Cash and Investments

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

Concentration of Credit Risk:

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

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

Pooled Cash and Investments

Restricted Investments

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

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

Interest Rate Risk

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

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

Pooled Cash and Investments

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

Restricted Investments

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

Restricted Investments in the Debt Service Funds

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

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

by trustees as of June 30, 2008 were invested in a money market mutual funds, LAIF and investment agreements, and were in compliance with the bond indentures.

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

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

(4) NOTES RECEIVABLE

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

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

(5) PROPERTY HELD FOR RESALE

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

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2008

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

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

(6) CAPITAL ASSETS

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

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

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

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

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

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

(7) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due From/Due To:

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

DUE FROM/DUE TO OTHER FUNDS:

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

Interfund Transfers (in thousands):

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

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

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

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

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

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

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

General Long-Term Obligations consist of the following:

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

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

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

Advances from City to the Redevelopment Agency

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

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

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

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

Outstanding Defeased Bonds

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

Bond Indentures

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

Annual Future Payments

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

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

Conduit Debt

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

(9) TRANSACTIONS WITH THE CITY OF OAKLAND

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

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

(10) COMMITMENTS AND CONTINGENCIES

Oakland Redevelopment Agency

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

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

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

Uptown Project Environmental Remediation

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

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

Fox Court Environmental Remediation

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

Oakland Army Base Environmental Remediation

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

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

(11) RELATED PARTY TRANSACTIONS

The Fox Oakland Theater

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

(12) SUBSEQUENT EVENTS

Educational Revenue Augmentation Funds

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

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

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

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

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

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

**COMBINING FINANCIAL
STATEMENTS and
SUPPLEMENTAL
INFORMATION**

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

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

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

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



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

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

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

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

Internal Control over Financial Reporting

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

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

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



WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants
Management Consultants

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

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

Compliance and Other Matters

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

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

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

Williams, Adley & Company, LLP

Oakland, California
December 4, 2008

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

Significant Deficiencies

Finding 2008-01: Accounting for Capital Assets

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

Condition: Improper recording of capital asset transactions

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

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

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

Client response:

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

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

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

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

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

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

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

Significant Deficiencies

(Continued)

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

Client response:

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