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CITY OF OAKLAND

AGENDA REPORT

TO: Office of the City Administrator
ATTN: P. Lamont Ewell, Interim City Administrator
FROM: Finance and Management Agency
DATE: May 10, 2011
RE: Informational Report presenting the Fiscal Years 2007, 2008, 2009, 2010 and Close-Out Period of the Oakland Army Base (a Fund in the Oakland Redevelopment Agency).

SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached audited financial statements of the Oakland Army Base Fund for the fiscal years ended June 30, 2007, 2008, 2009, 2010 and the close-out period ending August 7, 2010. These audited financial statements are mandated by the United States Department of the Army under the Oakland Army Base Economic Development Conveyance (EDC) of the former Oakland Army Base. The audited financial statements are the primary mechanism used by the United States Department of the Army to ensure accountability for all EDC property proceeds received during the seven year period from the conveyance of the property.

The audited financial statements include the Oakland Army Base Fund's basic financial statements and the Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses.

The Auditor's unqualified opinion letters for the report mentioned above declared that the basic financial statements and the supplemental schedule accurately represent the financial condition of the Oakland Army Base Fund as of June 30, 2007, 2008, 2009, 2010 and the close-out period ending August 7, 2010.

FISCAL IMPACT

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

BACKGROUND

The requirements of preparing and submitting the audited annual financial statements are in accordance with the Economic Development Conveyance (EDC) legislation and the Memorandum of Agreement (MOA) between the U.S. Department of the Army and the Oakland Redevelopment Agency (ORA).

Item: _____
Finance and Management Committee
May 10, 2011

The audited financial statements and the Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses would detail the use and reinvestment of EDC proceeds under the twelve (12) allowable categories.

The financial statements must be audited and certified by an independent certified public accounting firm as required in the conveyance agreement.

KEY ISSUES AND IMPACTS

Macias, Gini & O'Connell LLP an independent accounting firm and contractor, performed the Oakland Army Base financial audit for the fiscal years ended June 30, 2007, 2008, 2009, 2010 and the close-out period ended August 7, 2010. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States. The audit contains no findings and disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Oakland Army Base Audit Report for the fiscal years ended June 30, 2007, 2008, 2009, 2010 and the close-out period ending August 7, 2010.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept the Oakland Army Base Audit Report for the fiscal years ended June 30, 2007, 2008, 2009, 2010 and the close-out period ending August 7, 2010.

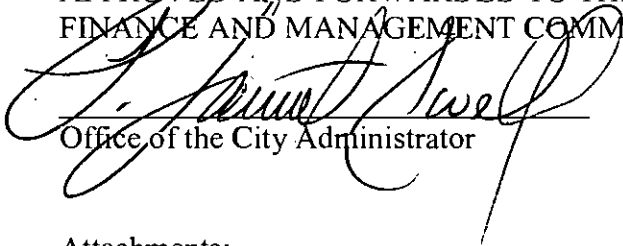
Respectfully submitted,



Joseph T. Yew, Jr.
Finance Director/City Treasurer

Prepared by:
Osborn Solitei, Controller
Finance and Management Agency

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:



Office of the City Administrator

Attachments:
The Oakland Army Base Audit Reports fiscal years ended:

- June 30, 2007
- June 30, 2008
- June 30, 2009
- June 30, 2010
- The close-out period ending August 7, 2010.

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

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

For the Year Ended June 30, 2007

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
For the Year Ended June 30, 2007

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

Independent Auditor's Report

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency's capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with the basis of presentation and accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Base's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Macias Gini & Connell LLP
Certified Public Accountants
Oakland, California

March 30, 2011

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2007

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (the Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the year ended June 30, 2007 as compared to the prior year ended June 30, 2006. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

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

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

Financial Highlights

- The Base's liquidity ratio of 5.2 to 1 (current assets to current liabilities) increased by 291% compared to the previous year's 1.3 to 1 ratio. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The increase is primarily attributable to increase in cash and investments from the proceeds of \$12.4 million from the transfer of the Knight Yard property to the Port. Current liabilities decreased due to the principal repayment of \$4.4 million of the note payable related to the acquisition of the Subaru lot and payment of liabilities of \$4.2 million due the City.
- The change in net assets was a negative of \$29.9 million for the year ended June 30, 2007 compared to a positive change of \$1.5 million for the previous fiscal year. The decline is attributed to the transfer of properties held for resale to the Port of \$44.7 million and the decrease of \$4.5 million in lease revenues and related utility sales. The decline in net assets was reduced by the proceeds of \$12.4 million Knight Yard property transfer.

Overview of the Financial Statements

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

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2007

redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

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

The statement of net assets presents information on all of the Base's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Base is improving or deteriorating.

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

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2007

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of June 30, 2007 and 2006:

Condensed Statements of Net Assets

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and other assets	\$ 17,067,380	\$ 12,687,628	\$ 4,379,752	35%
Property held for resale	<u>48,611,449</u>	<u>91,283,101</u>	<u>(42,671,652)</u>	-47%
Total assets	<u>65,678,829</u>	<u>103,970,729</u>	<u>(38,291,900)</u>	-37%
Liabilities:				
Current and other liabilities	3,271,082	9,505,761	(6,234,679)	-66%
Note payable	<u>967,133</u>	<u>3,114,651</u>	<u>(2,147,518)</u>	-69%
Total liabilities	<u>4,238,215</u>	<u>12,620,412</u>	<u>(8,382,197)</u>	-66%
Net assets:				
Restricted	54,755,081	85,033,125	(30,278,044)	-36%
Unrestricted	<u>6,685,533</u>	<u>6,317,192</u>	<u>368,341</u>	6%
Total net assets	<u>\$ 61,440,614</u>	<u>\$ 91,350,317</u>	<u>\$ (29,909,703)</u>	-33%

Net assets may serve over time as a useful indicator of financial position. In the case of the Base, assets exceeded liabilities by \$61,440,614 at the close of the most recent fiscal year compared to \$91,350,317 for the fiscal year that ended June 30, 2006, a decrease of 33%. The 33% decrease in net assets compared to the previous fiscal year was a result of the transfer of property held for resale to the Port of \$44.7 million and the decrease in lease revenues and utility sales by \$4.5 million. However, these decreases were partially compensated by the proceeds of \$12.4 million from the transfer of the Knight Yard property.

Current assets of \$17,067,380 exceeded current liabilities by \$13,796,298. The ratio of current assets against current liabilities is 5.2 to 1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

Significant current liabilities include \$2,147,518 related to the current portion of a long term note due within one year and \$428,359 payable to the Port for remediation expenses.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2007

The following is a summary of the statement of revenues, expenses and changes in fund net assets for the years ended June 30, 2007 and 2006:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues:				
Lease revenues	\$ 2,279,073	\$ 6,247,431	\$ (3,968,358)	-64%
Utility sales	297,842	839,117	(541,275)	-65%
Total operating revenues	<u>2,576,915</u>	<u>7,086,548</u>	<u>(4,509,633)</u>	-64%
Nonoperating revenues:				
Grants from federal agencies	4,452,974	2,003,789	2,449,185	122%
Interest income	687,242	381,103	306,139	80%
Miscellaneous income	-	63,791	(63,791)	-100%
Total nonoperating revenues	<u>5,140,216</u>	<u>2,448,683</u>	<u>2,691,533</u>	110%
Total revenues	<u>7,717,131</u>	<u>9,535,231</u>	<u>(1,818,100)</u>	-19%
Operating expenses:				
Cost of utility sales	765,858	1,025,925	(260,067)	-25%
Repairs and maintenance	174,393	198,552	(24,159)	-12%
Professional services and consultants	2,251,229	2,271,195	(19,966)	-1%
General and administrative	1,903,725	3,690,453	(1,786,728)	-48%
Depreciation	-	489,411	(489,411)	-100%
Total operating expenses	<u>5,095,205</u>	<u>7,675,536</u>	<u>(2,580,331)</u>	-34%
Nonoperating expenses:				
Donation	-	100,000	(100,000)	-100%
Interest expense	201,553	261,310	(59,757)	-23%
Loss on transfer of properties	32,330,076	-	32,330,076	n/a
Total nonoperating expenses	<u>32,531,629</u>	<u>361,310</u>	<u>32,170,319</u>	8904%
Total expenses	<u>37,626,834</u>	<u>8,036,846</u>	<u>29,589,988</u>	368%
Change in net assets	<u>(29,909,703)</u>	<u>1,498,385</u>	<u>(31,408,088)</u>	-2096%
Net assets, beginning of year	<u>91,350,317</u>	<u>89,851,932</u>	<u>1,498,385</u>	2%
Net assets, end of year	<u>\$ 61,440,614</u>	<u>\$ 91,350,317</u>	<u>\$ (29,909,703)</u>	-33%

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
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(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2007

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$2,279,073 or 88% of operating revenues while utility sales generated \$297,842 or 12% for the twelve months ended June 30, 2007. Revenues declined by 63% compared to the previous fiscal year due to the expiration of a substantial number of non-renewable leases as a result of the absorption of the Authority into the Agency as of August 7, 2006. Other non-operating revenue sources contributed \$5,140,216 through federal grants and interest income.

Operating expenses decreased by 33%, or \$2,580,331, and is attributed mainly to decreases in general and administrative expenses, cost of utility sales and depreciation.

The change in net assets for the year ended June 30, 2007, declined by \$31,408,088 compared to the previous fiscal year. The negative growth is primarily due to the loss on transfer to the Port of properties held for resale.

Debt Administration

The Base has a non-interest bearing \$8,200,000 note payable to DTC Engineers for the balance owed on the acquisition of 19.32 acres consummated on September 1, 2004. Immediately after purchasing this property, the Base transferred 2.5 acres to the Port of Oakland for total consideration of \$1,427,000. Payments on the note began on November 17, 2006 and the note will be paid in full on November 17, 2008. See Note 5 for further details.

Requests for Information

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

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Net Assets
 June 30, 2007

Assets:

Unrestricted current assets:

Cash and cash equivalents	\$ 6,607,500
Due from the City of Oakland	78,033

Restricted current assets:

Cash and cash equivalents	9,391,523
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Receivables:

Operating, net of allowance of \$194,145	33,278
Federal and state grants	957,046

Total current assets	17,067,380
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Restricted noncurrent assets:

Property held for resale	48,611,449
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Total assets	65,678,829
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Liabilities:

Current liabilities, payable from restricted assets:

Accounts payable	416,309
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Security deposits	278,440
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Payable to the Oakland Army Base

Workforce Development Collaborative	456
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Due to the Port of Oakland	428,359
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Note payable	2,147,518
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Total current liabilities	3,271,082
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Non-current liabilities:

Note payable	967,133
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Total liabilities	4,238,215
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Net assets:

Restricted	54,755,081
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Unrestricted	6,685,533
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Total net assets	\$ 61,440,614
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See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2007

Operating revenues:	
Lease revenues	\$ 2,279,073
Utility sales	297,842
	<u>2,576,915</u>
Operating expenses:	
Cost of utility sales	765,858
Repairs and maintenance	174,393
Professional services and consultants	2,251,229
General and administrative	1,903,725
	<u>5,095,205</u>
Operating income (loss)	<u>(2,518,290)</u>
Nonoperating revenues (expenses):	
Grants from federal agencies	4,452,974
Interest income	687,242
Interest expense	(201,553)
Loss on transfer of properties to the Port	<u>(32,330,076)</u>
Total nonoperating revenues (expenses)	<u>(27,391,413)</u>
Change in net assets	(29,909,703)
Net assets:	
Beginning of year	<u>91,350,317</u>
End of year	<u>\$ 61,440,614</u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Cash Flows
 For the Year Ended June 30, 2007

Cash flows from operating activities:	
Cash receipts from tenants for rents and deposits	\$ 2,708,967
Cash payments to the City of Oakland employee costs	(5,841,100)
Cash payments to vendors for goods and services	<u>(3,154,606)</u>
Net cash provided by (used in) operating activities	<u>(6,286,739)</u>
Cash flows from noncapital financing activities:	
Grants received from government agencies	5,427,263
Proceeds from transfer of properties to the Port	<u>12,419,000</u>
Net cash provided by noncapital financing activities	<u>17,846,263</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Remediation costs associated with property held for resale	(2,077,424)
Repayment of notes payable	<u>(4,582,137)</u>
Net cash provided by (used in) capital and related financing activities	<u>(6,659,561)</u>
Cash flows from investing activities:	
Interest received on investments	<u>687,242</u>
Change in cash and cash equivalents	5,587,205
Cash and cash equivalents, beginning of year	<u>10,411,818</u>
Cash and cash equivalents, end of year	<u>\$ 15,999,023</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,518,290)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	311,197
Due from/Payable to the City of Oakland	(4,317,461)
Accounts payable	407,252
Accrued liabilities	(418,651)
Security deposits	(179,145)
Due to the Port of Oakland	<u>428,359</u>
Net cash used in operating activities	<u>\$ (6,286,739)</u>

See accompanying notes to the basic financial statements

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – DESCRIPTION OF OPERATIONS

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

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report the Base as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2007 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

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

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

(b) Cash and Cash Equivalents

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

(d) Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in fund net assets.

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

(e) Operating Revenues and Expenses

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Net Assets

Net assets are classified in the following two components:

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

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

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

(g) Use of Estimates

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

NOTE 3 – CASH AND INVESTMENTS

The Base's cash and investments consist of the following at June 30, 2007:

Unrestricted:	
Money market funds	<u>\$ 6,607,500</u>
Restricted:	
Cash on hand	200
Money market funds	4,270,821
Deposits	414,135
LAIF	<u>4,706,367</u>
Total restricted	<u>9,391,523</u>
Total cash and investments	<u><u>\$ 15,999,023</u></u>

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2007

NOTE 3 – CASH AND INVESTMENTS (Continued)

As of June 30, 2007, the Base's investment in LAIF was \$4,706,367. The total amount invested by all public agencies in LAIF at that date is approximately \$19.7 billion. Of that amount, 96.534% is invested in non-derivative financial products and 3.466% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Base's position in the pool.

Custodial Credit Risk

At year-end, the net carrying amount of the Base's deposits was \$414,135. The amounts placed on deposit with the bank were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the City's name.

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 Base's investment policy has mitigated credit risk by limiting investments to the safest types of securities. At June 30, 2007, the Base's credit risk as rated by Standard & Poor's/Moody's was AAA/Aaa for \$10,878,321 in money market funds and not rated for LAIF.

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. At June 30, 2007, all of the Base's investments in money market funds and LAIF have a maturity of 12 months or less.

NOTE 4 – PROPERTY HELD FOR RESALE

The following is a summary of the changes in property held for resale for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Dispositions	Balance June 30, 2007
Property held for resale	<u>\$ 91,283,101</u>	<u>\$ 2,077,424</u>	<u>\$ (44,749,076)</u>	<u>\$ 48,611,449</u>

On August 7, 2006, OBRA was dissolved and all of its assets and obligations were transferred to and were accepted by the Agency. The dissolution of OBRA involved the execution and implementation of an Exchange Agreement of real property among OBRA, the City, the Agency, the Port of Oakland and the California State Lands Commission. This Exchange Agreement resulted in the conveyance of approximately 151.9 acres of OBRA property to the Port. Of the parcels conveyed, 21.0 acres related to the Knight Yard property which was sold to the Port for \$12,419,000.

For current year additions, the Base incurred remediation costs that were capitalized. See Note 6 for further details on the remediation project.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2007

NOTE 5 – NOTE PAYABLE

Upon the dissolution of OBRA, the Base received a non-interest bearing note payable with a face value of \$8,200,000. This note has been discounted at the rate of 3.37%. The Base accrued interest expense of \$201,553 for the year ended June 30, 2007 related to this liability.

The note payable is collateralized by 19.32 acres of property described in Note 1. Payments are applied first to any expenses in connection with the note before the principal is reduced. There are no prepayment penalties and the note is not assumable.

Notes payable activity for the year ended June 30, 2007 consisted of the following:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Note payable	\$ 7,495,235	\$ -	\$ (4,380,584)	\$ 3,114,651	\$ 2,147,518

The following summarizes the future principal and interest payments due on this note payable:

Date	Principal	Interest	Total
November 17, 2007	\$ 2,147,518	\$ 52,482	\$ 2,200,000
November 17, 2008	967,133	32,867	1,000,000
	<u>\$ 3,114,651</u>	<u>\$ 85,349</u>	<u>\$ 3,200,000</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$9.6 million has been spent, of which \$9.0 million has been reimbursed and received as of June 30, 2007.

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

The Base's management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

OAKLAND ARMY BASE
(An Activity of the **Oakland Redevelopment Agency**)
Notes to the **Basic Financial Statements**
For the **Year Ended June 30, 2007**

NOTE 7 – 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 services of employees and the use of City facilities. For the year ended June 30, 2007, the Agency reimbursed the City \$1,523,640 for current year expenditures and \$4,317,460 for prior year expenditures.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2007

	No-Cost EDC-Related	Other	Total
Operating revenues:			
Lease revenues	\$ 2,279,073	\$ -	\$ 2,279,073
Utility sales	297,842	-	297,842
Total operating revenues	<u>2,576,915</u>	<u>-</u>	<u>2,576,915</u>
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	239,390	-	239,390
Utility facilities	765,858	-	765,858
Maintenance of buildings	54,961	50,600	105,561
Maintenance of landscaping, grading and other improvements	54,251	-	54,251
Leasing operations	1,085,497	-	1,085,497
Disposal of hazardous materials generated by demolition	3,095	593,491	596,586
Planning/marketing of Base redevelopment and reuse	845,397	1,402,665	2,248,062
Total operating expenses	<u>3,048,449</u>	<u>2,046,756</u>	<u>5,095,205</u>
Operating income (loss)	(471,534)	(2,046,756)	(2,518,290)
Nonoperating revenues:			
Grants from federal agencies	-	4,452,974	4,452,974
Interest income	346,334	340,908	687,242
Interest expense	(201,553)	-	(201,553)
Loss on sale of properties	(32,330,076)	-	(32,330,076)
Total nonoperating revenues	<u>(32,185,295)</u>	<u>4,793,882</u>	<u>(27,391,413)</u>
Change in net assets	<u>\$ (32,656,829)</u>	<u>\$ 2,747,126</u>	<u>\$ (29,909,703)</u>

See accompanying note to the supplemental schedule.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2007

1. *Basis of Presentation*

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

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the year ended June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

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

Revenues classified as other than no-cost EDC revenues include federal awards, and interest income on unrestricted cash and investments. Expenditures classified as other than no-cost EDC include expenditures of federal awards and donations from unrestricted cash and investments.

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

**Independent Auditor’s Report On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based On An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2007, and have issued our report thereon dated March 30, 2011. 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 Base’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to the activities of the Base.

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

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

Compliance and Other Matters

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

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

Macias Gini & Connell LLP
Certified Public Accountants

Oakland, California
March 30, 2011

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

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

For the Year Ended June 30, 2008

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
For the Year Ended June 30, 2008

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

Independent Auditor’s Report

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency’s financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency’s capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with the basis of presentation and accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Base's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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


Certified Public Accountants
Oakland, California

March 30, 2011

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2008

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (the Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the year ended June 30, 2008 as compared to the prior year ended June 30, 2007. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

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

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

Financial Highlights

- The Base's liquidity ratio of 4.23 to 1 (current assets to current liabilities) decreased by 19% compared to the previous year's 5.22 to 1 ratio. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The decrease is primarily attributable to decreases in cash and investments and receivables from federal and state grants. Current liabilities increased due to the increase in the liabilities due to the City of \$1.6 million for administrative and municipal services provided in support of the Base. This was offset by the decrease of \$1.1 million in the principal repayment of the note payable related to the acquisition of the Subaru lot.
- The change in net assets was a negative of \$223,775 for the year ended June 30, 2008 compared to a negative change of \$29.9 million for the previous fiscal year. The improved change of net assets for the current fiscal year as compared to the previous year was due to the non-recurring transfer of properties to the Port in the previous year. There were also declines in nonoperating revenues due to the reduced amount of reimbursement claims submitted for federal grants for remediation expenses.

Overview of the Financial Statements

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

The Base is reported as an enterprise fund. Enterprise funds are a type of proprietary fund that is used to report information in a manner similar to a private-sector business. An enterprise fund is used to account for functions that are intended to recover all or a significant portion of their costs through user fees and

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2008

charges. The Base was established to account for the financial resources and the costs of the redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

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

The statement of net assets presents information on all of the Base's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Base is improving or deteriorating.

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

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2008

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of June 30, 2008 and 2007:

Condensed Statements of Net Assets

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and other assets	\$ 16,083,166	\$ 17,067,380	\$ (984,214)	-6%
Property held for resale	<u>48,939,425</u>	<u>48,611,449</u>	<u>327,976</u>	1%
Total assets	<u>65,022,591</u>	<u>65,678,829</u>	<u>(656,238)</u>	-1%
Liabilities:				
Current and other liabilities	3,805,752	3,271,082	534,670	16%
Long-term portion of note payable	<u>-</u>	<u>967,133</u>	<u>(967,133)</u>	-100%
Total liabilities	<u>3,805,752</u>	<u>4,238,215</u>	<u>(432,463)</u>	-10%
Net assets:				
Restricted	55,087,951	54,755,081	332,870	1%
Unrestricted	<u>6,128,888</u>	<u>6,685,533</u>	<u>(556,645)</u>	-8%
Total net assets	<u>\$ 61,216,839</u>	<u>\$ 61,440,614</u>	<u>\$ (223,775)</u>	0%

Net assets may serve over time as a useful indicator of financial position. The Base's assets exceeded liabilities by \$61,216,839 at the close of the most recent fiscal year compared to \$61,440,614 for the fiscal year that ended June 30, 2007, a decrease of 0.36%. The 0.36% decrease in net assets compared to the previous fiscal year was a result of the decrease in cash and investments of \$984,214 and the net decrease in liabilities of \$432,463 resulting from an increase of current liabilities but with a much larger decrease in the long term portion of the note payable.

Current assets of \$16,083,166 exceeded current liabilities of \$3,805,752 by \$12,277,414. The ratio of current assets against current liabilities is 4.23 to 1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

Significant current liabilities include \$967,133 related to the current portion of the note payable due within one year and \$1,628,965 payable to the City for administrative and municipal services provided in support of the Base.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2008

The following is a summary of the statement of revenues, expenses and changes in fund net assets for the years ended June 30, 2008 and 2007:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues:				
Lease revenues	\$ 1,984,404	\$ 2,279,073	\$ (294,669)	-13%
Utility sales	382,307	297,842	84,465	28%
Total operating revenues	<u>2,366,711</u>	<u>2,576,915</u>	<u>(210,204)</u>	-8%
Nonoperating revenues:				
Grants from federal agencies	1,369,380	4,452,974	(3,083,594)	-69%
Interest income	596,000	687,242	(91,242)	-13%
Total nonoperating revenues	<u>1,965,380</u>	<u>5,140,216</u>	<u>(3,174,836)</u>	-62%
Total revenues	<u>4,332,091</u>	<u>7,717,131</u>	<u>(3,385,040)</u>	-44%
Operating expenses:				
Cost of utility sales	507,680	765,858	(258,178)	-34%
Repairs and maintenance	37,665	174,393	(136,728)	-78%
Professional services and consultants	2,402,229	2,251,229	151,000	7%
General and administrative	1,555,810	1,903,725	(347,915)	-18%
Total operating expenses	<u>4,503,384</u>	<u>5,095,205</u>	<u>(591,821)</u>	-12%
Nonoperating expenses:				
Interest expense	52,482	201,553	(149,071)	-74%
Loss on transfer of properties	-	32,330,076	(32,330,076)	-100%
Total nonoperating expenses	<u>52,482</u>	<u>32,531,629</u>	<u>(32,479,147)</u>	-100%
Total expenses	<u>4,555,866</u>	<u>37,626,834</u>	<u>(33,070,968)</u>	-88%
Change in net assets	<u>(223,775)</u>	<u>(29,909,703)</u>	<u>29,685,928</u>	-99%
Net assets, beginning of year	<u>61,440,614</u>	<u>91,350,317</u>	<u>(29,909,703)</u>	-33%
Net assets, end of year	<u>\$ 61,216,839</u>	<u>\$ 61,440,614</u>	<u>\$ (223,775)</u>	0%

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudhed)
For the Year Ended June 30, 2008

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$1,984,404 or 84% in operating revenues while utility sales generated \$382,307 or 16% for the twelve months ended June 30, 2008. Revenues declined by 8% compared to the previous fiscal year. Other non-operating revenue sources contributed \$1,965,380 through federal grants and interest income.

Operating expenses decreased by 12% or \$591,821 and is attributed to an over-all decrease in operating expenses, except for professional services and consultants which increased by \$151,000.

The change in net assets for the year ended June 30, 2008, improved by \$29,685,928 compared to the previous fiscal year. The improved growth was primarily due to the non-recurring transaction regarding the transfer to the Port of properties held for resale in the previous fiscal year.

Debt Administration

The Base has a non-interest bearing note payable with a face value of \$8,200,000 to DTC Engineers for the balance owed on the acquisition of 19.32 acres consummated on September 1, 2004. Immediately after purchasing this property, the Base transferred 2.5 acres to the Port of Oakland for total consideration of \$1,427,000. Payments on the note began on November 17, 2006 and the note will be paid in full on November 17, 2008. See Note 5 for further details.

Requests for Information

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

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Net Assets
 June 30, 2008

Assets:

Unrestricted current assets:

Pooled cash and investments	\$ 6,128,888
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Restricted current assets:

Pooled cash and investments	9,116,507
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Receivables:

Operating, net of allowance of \$194,145	-
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Interest	88,041
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Federal and state grants	<u>749,730</u>
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Total current assets	<u>16,083,166</u>
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Restricted noncurrent assets:

Property held for resale	<u>48,939,425</u>
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Total assets	<u><u>65,022,591</u></u>
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Liabilities:

Current liabilities, payable from restricted assets:

Accounts payable and accrued liabilities	273,516
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Security deposits	396,438
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Payable to the Oakland Army Base

Workforce Development Collaborative	456
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Due to the Port of Oakland	539,244
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Due to the City of Oakland	1,628,965
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Note payable	<u>967,133</u>
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Total liabilities	<u>3,805,752</u>
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Net assets:

Restricted	55,087,951
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Unrestricted	<u>6,128,888</u>
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Total net assets	<u><u>\$ 61,216,839</u></u>
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See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2008

Operating revenues:	
Lease revenues	\$ 1,984,404
Utility sales	382,307
Total operating revenues	<u>2,366,711</u>
Operating expenses:	
Cost of utility sales	507,680
Repairs and maintenance	37,665
Professional services and consultants	2,402,229
General and administrative	1,555,810
Total operating expenses	<u>4,503,384</u>
Operating income (loss)	(2,136,673)
Nonoperating revenues (expenses):	
Grants from federal agencies	1,369,380
Interest income	596,000
Interest expense	(52,482)
Total nonoperating revenues (expenses)	<u>1,912,898</u>
Change in net assets	(223,775)
Net assets:	
Beginning of year	<u>61,440,614</u>
End of year	<u><u>\$ 61,216,839</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Cash Flows
 For the Year Ended June 30, 2008

Cash flows from operating activities:	
Cash receipts from tenants for rents and deposits	\$ 2,517,987
Cash payments to the City of Oakland employee costs	(1,355,435)
Cash payments to vendors for goods and services	<u>(1,472,859)</u>
Net cash provided by (used in) operating activities	<u>(310,307)</u>
Cash flows from noncapital financing activities:	
Grants received from government agencies	<u>1,576,696</u>
Cash flows from capital and related financing activities:	
Remediation costs associated with property held for resale	(327,976)
Repayment of notes payable	<u>(2,200,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,527,976)</u>
Cash flows from investing activities:	
Interest received on investments	<u>507,959</u>
Change in cash and cash equivalents	(753,628)
Cash and cash equivalents, beginning of year	<u>15,999,023</u>
Cash and cash equivalents, end of year	<u>\$ 15,245,395</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,136,673)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	33,278
Accounts payable	(142,793)
Security deposits	117,998
Due to the Port of Oakland	287,492
Due to the City of Oakland	<u>1,530,391</u>
Net cash used in operating activities	<u>\$ (310,307)</u>

See accompanying notes to the basic financial statements

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – DESCRIPTION OF OPERATIONS

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

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report h as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2008 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation and Accounting*

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

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

(b) *Cash and Cash Equivalents*

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

(c) *Operating Receivables*

The Base has an outstanding receivable of \$194,145 that is completely offset with an allowance for doubtful accounts.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

(e) Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in fund net assets.

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

(f) Operating Revenues and Expenses

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Net Assets

Net assets are classified in the following two components:

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

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

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

(h) Use of Estimates

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

NOTE 3 – CASH AND CASH EQUIVALENTS

The Base's cash and cash equivalents consists of the following at June 30, 2008:

Unrestricted:	
Pooled cash and investments	\$ 6,128,888
Restricted:	
Pooled cash and investments	<u>9,116,507</u>
	<u><u>\$ 15,245,395</u></u>

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2008

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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

The Base's cash held in the Agency's cash and investment pool on June 30, 2008 was \$15,245,395. At June 30, 2008, the Agency's cash and investments pool was unrated and had a weighted average maturity of less than one year.

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

NOTE 4 – PROPERTY HELD FOR RESALE

The following is a summary of the changes in property held for resale for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Transfers	Balance June 30, 2008
Property held for resale	\$ 48,611,449	\$ 327,976	\$ -	\$ 48,939,425

The additions to property held for resale represent the Base's portion of remediation costs that were capitalized during the year. See Note 6 for further details on the remediation project.

NOTE 5 – NOTE PAYABLE

Upon the dissolution of OBRA, the Base received a non-interest bearing note payable with a face value of \$8,200,000. This note has been discounted at the rate of 3.37%. The Base accrued interest expense of \$52,482 for the year ended June 30, 2008 related to this liability.

The note payable is collateralized by 19.32 acres of property described in Note 1. Payments are applied first to any expenses in connection with the note before the principal is reduced. There are no prepayment penalties and the note is not assumable.

Notes payable activity for the year ended June 30, 2008 consisted of the following:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Due Within One Year
Note payable	\$ 3,114,651	\$ -	\$ (2,147,518)	\$ 967,133	\$ 967,133

The following summarizes the future principal and interest payments due on this note payable:

Date	Principal	Interest	Total
November 17, 2008	\$ 967,133	\$ 32,867	\$ 1,000,000

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$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 Base and the Port.

The next \$11.5 million of environmental remediation costs are to be shared equally by the Base and the Port. As a result, the Base will have as its share in the remaining Oakland Army Base remediation costs a total of \$6.7 million. Subsequent costs will be paid from insurance proceeds from the environmental remediation policy. The environmental site liability policy will cover up to \$30 million in additional environmental remediation-related costs. The Base and Port have agreed to share equally in any environmental remediation-related costs that are not covered by insurance.

The Base's management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

NOTE 7 – 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 body for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2008, the Agency reimbursed the City \$1,355,435 for expenditures.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2008

	No-Cost EDC-Related	Other	Total
Operating revenues:			
Lease revenues	\$ 1,984,404	\$ -	\$ 1,984,404
Utility sales	382,307	-	382,307
Total operating revenues	<u>2,366,711</u>	<u>-</u>	<u>2,366,711</u>
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	617,400	-	617,400
Utility facilities	507,680	-	507,680
Maintenance of buildings	34,085	-	34,085
Maintenance of landscaping, grading and other improvements	1,779	-	1,779
Leasing operations	140,528	-	140,528
Disposal of hazardous materials generated by demolition	-	1,506,959	1,506,959
Planning/marketing of Base redevelopment and reuse	1,198,377	496,576	1,694,953
Total operating expenses	<u>2,499,849</u>	<u>2,003,535</u>	<u>4,503,384</u>
Operating income (loss)	(133,138)	(2,003,535)	(2,136,673)
Nonoperating revenues:			
Grants from federal agencies	-	1,369,380	1,369,380
Interest income	578,036	17,964	596,000
Interest expense	(52,482)	-	(52,482)
Change in net assets	<u>\$ 392,416</u>	<u>\$ (616,191)</u>	<u>\$ (223,775)</u>

See accompanying note to the supplemental schedule.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2008

1. *Basis of Presentation*

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

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

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

Revenues classified as other than no-cost EDC revenues include federal awards and interest income on unrestricted cash and investments. Expenditures classified as other than no-cost EDC include expenditures of federal awards and donations from unrestricted cash and investments. In addition to the above, capital outlay from the federal awards are classified as other than no-cost EDC expenditures.

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

**Independent Auditor’s Report On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based On An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 30, 2011. 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 Base’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Base’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & Connell LLP
Certified Public Accountants

Oakland, California
March 30, 2011

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

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

For the Year Ended June 30, 2009

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
For the Year Ended June 30, 2009

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

Independent Auditor’s Report

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency’s financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency’s capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of June 30, 2009, and the changes in its financial position and Its cash flows for the year then ended in conformity with the basis of presentation and accounting described in Note 1.

As discussed in Note 7 to the basic financial statements, the Base adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Base's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Macias Gini & Cunniff LLP
Certified Public Accountants
Oakland, California

March 30, 2011

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2009

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (the Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the year ended June 30, 2009 as compared to the prior year ended June 30, 2008. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

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

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

Financial Highlights

- The Base's liquidity ratio of 11.75 to 1 (current assets to current liabilities) increased by 178% compared to the previous year's 4.23 to 1 ratio. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The increase is primarily attributable to increases in cash and investments and receivables from federal and state grants. Current liabilities decreased due to the decreases in accounts payable, security deposits, liabilities due to the Port, and the pay-off of the balance on the note payable.
- The change in net asset of a positive \$10.8 million for the year ended June 30, 2009 compared to a negative change of \$223,775 for the previous fiscal year represents an increase of \$11.0 million. The improved change in net assets for the current fiscal year as compared to the previous year was primarily due to the collection of an additional settlement from the California Department of Transportation (Caltrans) for the use of the Pier 7 area as a staging site for the new Bay Bridge construction.

Overview of the Financial Statements

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

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2009

redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

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

The statement of net assets presents information on all of the Base's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Base is improving or deteriorating.

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

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2009

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of June 30, 2009 and 2008:

Condensed Statements of Net Assets

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and other assets	\$ 24,935,143	\$ 16,083,166	\$ 8,851,977	55%
Property held for resale	49,202,630	48,939,425	263,205	1%
Total assets	<u>74,137,773</u>	<u>65,022,591</u>	<u>9,115,182</u>	14%
Liabilities:				
Current and other liabilities	<u>2,121,262</u>	<u>3,805,752</u>	<u>(1,684,490)</u>	-44%
Net assets:				
Restricted	55,340,805	55,087,951	252,854	0%
Unrestricted	<u>16,675,706</u>	<u>6,128,888</u>	<u>10,546,818</u>	172%
Total net assets	<u>\$ 72,016,511</u>	<u>\$ 61,216,839</u>	<u>\$ 10,799,672</u>	18%

Net assets may serve over time as a useful indicator of financial position. Base assets exceeded liabilities by \$72,016,511 at the close of the most recent fiscal year compared to \$61,216,839 for the fiscal year that ended June 30, 2008, an increase of 18%. The 18% increase in net assets compared to the previous fiscal year was a result of the increase in cash and investments from the additional Caltrans settlement for the use of the Pier 7 area.

Current assets of \$24,935,142 exceeded current liabilities of \$2,121,262 by \$22,813,880. The ratio of current assets against current liabilities is 11.75 to 1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

Significant current liabilities include \$1,759,516 payable to the City for administrative and municipal services provided in support of Base

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2009

The following is a summary of the statement of revenues, expenses and changes in fund net assets for the years ended June 30, 2009 and 2008:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues:				
Lease revenues	\$ 2,099,230	\$ 1,984,404	\$ 114,826	6%
Utility sales	494,980	382,307	112,673	29%
Total operating revenues	<u>2,594,210</u>	<u>2,366,711</u>	<u>227,499</u>	10%
Nonoperating revenues:				
Grants from federal agencies	1,428,644	1,369,380	59,264	4%
Interest income	416,279	596,000	(179,721)	-30%
Settlement with Caltrans	10,835,284	-	10,835,284	n/a
Total nonoperating revenues	<u>12,680,207</u>	<u>1,965,380</u>	<u>10,714,827</u>	545%
Total revenues	<u>15,274,417</u>	<u>4,332,091</u>	<u>10,942,326</u>	253%
Operating expenses:				
Cost of utility sales	593,019	507,680	85,339	17%
Repairs and maintenance	-	37,665	(37,665)	-100%
Professional services and consultants	1,379,012	2,402,229	(1,023,217)	-43%
General and administrative	2,476,599	1,555,810	920,789	59%
Total operating expenses	<u>4,448,630</u>	<u>4,503,384</u>	<u>(54,754)</u>	-1%
Nonoperating expenses:				
Interest expense	26,115	52,482	(26,367)	-50%
Total expenses	<u>4,474,745</u>	<u>4,555,866</u>	<u>(81,121)</u>	-2%
Change in net assets	10,799,672	(223,775)	11,023,447	-4926%
Net assets, beginning of year	61,216,839	61,440,614	(223,775)	0%
Net assets, end of year	<u>\$ 72,016,511</u>	<u>\$ 61,216,839</u>	<u>\$ 10,799,672</u>	18%

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$2,099,230 or 81% in operating revenues while utility sales generated \$494,980 or 19% for the twelve months ended June 30,

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2009

2009. Revenues increased by 10% compared to the previous fiscal year. Other non-operating revenue sources contributed \$12,680,207 through miscellaneous income.

Operating expenses decreased by 1% or \$54,754 and is attributed to a decrease of \$1,023,217 in professional services and consultants due to the decrease in remediation activities while general and administrative expenses went up by \$920,789.

The change in net assets for the year ended June 30, 2009, improved by \$11,023,447 compared to the previous fiscal year. The improved growth was primarily due to the collection of the additional settlement from Caltrans.

Debt Administration

The Base has a non-interest bearing note payable with a face value of \$8,200,000 to DTC Engineers for the balance owed on the acquisition of 19.32 acres consummated on September 1, 2004. Immediately after purchasing this property, the Base transferred 2.5 acres to the Port of Oakland for total consideration of \$1,427,000. The note was paid in full on November 17, 2008. See Note 5 for further details.

Requests for Information

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

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Net Assets
 June 30, 2009

Assets:	
Unrestricted current assets:	
Pooled cash and investments	\$ 16,675,706
Restricted current assets:	
Pooled cash and investments	5,999,979
Receivables:	
Interest	81,084
Federal and state grants	<u>2,178,374</u>
Total current assets	24,935,143
Restricted noncurrent assets:	
Property held for resale	<u>49,202,630</u>
Total assets	<u>74,137,773</u>
Liabilities:	
Current liabilities, payable from restricted assets:	
Accounts payable and accrued liabilities	183,374
Security deposits	177,916
Payable to the Oakland Army Base	
Workforce Development Collaborative	456
Due to the City of Oakland	<u>1,759,516</u>
Total current liabilities	<u>2,121,262</u>
Net assets:	
Restricted	55,340,805
Unrestricted	<u>16,675,706</u>
Total net assets	<u><u>\$ 72,016,511</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2009

Operating revenues:	
Lease revenues	\$ 2,099,230
Utility sales	494,980
	<hr/>
Total operating revenues	2,594,210
Operating expenses:	
Cost of utility sales	593,019
Professional services and consultants	1,379,012
General and administrative	2,476,599
	<hr/>
Total operating expenses	4,448,630
	<hr/>
Operating income (loss)	(1,854,420)
Nonoperating revenues (expenses):	
Grants from federal agencies	1,428,644
Interest income	416,279
Interest expense	(26,115)
Settlement with Caltrans	10,835,284
	<hr/>
Total nonoperating revenues (expenses)	12,654,092
	<hr/>
Change in net assets	10,799,672
Net assets:	
Beginning of year	61,216,839
	<hr/>
End of year	\$ 72,016,511
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Cash Flows
 For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash receipts from tenants for rents and deposits	\$ 2,375,688
Cash payments to the City of Oakland employee costs	(2,157,837)
Cash payments to vendors for goods and services	<u>(2,789,628)</u>
Net cash provided by (used in) operating activities	<u>(2,571,777)</u>
Cash flows from noncapital financing activities:	
Proceeds from settlement with Caltrans	<u>10,835,284</u>
Cash flows from capital and related financing activities:	
Repayment of notes payable	<u>(993,248)</u>
Cash flows from investing activities:	
Interest received on investments	<u>423,236</u>
Change in cash and cash equivalents	7,430,290
Cash and cash equivalents, beginning of year	<u>15,245,395</u>
Cash and cash equivalents, end of year	<u>\$ 22,675,685</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,854,420)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts payable	(90,142)
Security deposits	(218,522)
Due to the Port of Oakland	(539,244)
Due to the City of Oakland	<u>130,551</u>
Net cash used in operating activities	<u>\$ (2,571,777)</u>

See accompanying notes to the basic financial statements

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 – DESCRIPTION OF OPERATIONS

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

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2009 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation and Accounting*

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

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

(b) *Cash and Cash Equivalents*

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

(c) *Operating Receivables*

The Base has an outstanding receivable of \$194,145 that is completely offset with an allowance for doubtful accounts.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

(e) Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in fund net assets.

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

(f) Operating Revenues and Expenses

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Net Assets

Net assets are classified in the following two components:

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

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

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

(h) Use of Estimates

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

NOTE 3 – CASH AND CASH EQUIVALENTS

The Base's cash and cash equivalents consists of the following at June 30, 2009:

Unrestricted:	
Pooled cash and investments	\$ 16,675,706
Restricted:	
Pooled cash and investments	<u>5,999,979</u>
	<u>\$ 22,675,685</u>

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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

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

The Base's cash held in the Agency's cash and investment pool on June 30, 2009 was \$22,675,685. At June 30, 2009, the Agency's cash and investments pool was unrated and had a weighted average maturity of less than one year.

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

NOTE 4 – PROPERTY HELD FOR RESALE

The following is a summary of the changes in property held for resale for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Transfers	Balance June 30, 2009
Property held for resale	<u>\$ 48,939,425</u>	<u>\$ 263,205</u>	<u>\$ -</u>	<u>\$ 49,202,630</u>

The additions to property held for resale represent the Base's portion of remediation costs that were capitalized during the year. See Note 6 for further details on the remediation project.

NOTE 5 – NOTE PAYABLE

Upon the dissolution of OBRA, the Base received a non-interest bearing note payable with a face value of \$8,200,000. This note has been discounted at the rate of 3.37%. As of June 2009, this note has been fully repaid.

The note payable is collateralized by 19.32 acres of property described in Note 1. Payments are applied first to any expenses in connection with the note before the principal is reduced. There are no prepayment penalties and the note is not assumable.

Notes payable activity for the year ended June 30, 2009 consisted of the following:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Note payable	<u>\$ 967,133</u>	<u>\$ -</u>	<u>\$ (967,133)</u>	<u>\$ -</u>

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$12.4 million has been spent, which has been reimbursed or invoiced to the grantor as of June 30, 2009.

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

The Base's management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

NOTE 7 – 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 body for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2009, the Agency reimbursed the City \$2,157,337 for expenditures.

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
 For the Year Ended June 30, 2009

	No-Cost EDC-Related	Other	Total
Operating revenues:			
Lease revenues	\$ 2,099,230	\$ -	\$ 2,099,230
Utility sales	494,980	-	494,980
Total operating revenues	<u>2,594,210</u>	<u>-</u>	<u>2,594,210</u>
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	604,916	-	604,916
Utility facilities	593,019	-	593,019
Maintenance of buildings	54,115	-	54,115
Maintenance of landscaping, grading and other improvements	6,844	-	6,844
Leasing operations	101,374	-	101,374
Disposal of hazardous materials	906	1,231,035	1,231,941
Planning/marketing of Base redevelopment and reuse	1,538,760	317,661	1,856,421
Total operating expenses	<u>2,899,934</u>	<u>1,548,696</u>	<u>4,448,630</u>
Operating income (loss)	(305,724)	(1,548,696)	(1,854,420)
Nonoperating revenues:			
Grants from federal agencies	-	1,428,644	1,428,644
Interest income	387,082	29,197	416,279
Interest expense	(26,115)	-	(26,115)
Miscellaneous income	-	10,835,284	10,835,284
Change in net assets	<u>\$ 55,243</u>	<u>\$ 10,744,429</u>	<u>\$ 10,799,672</u>

See accompanying note to the supplemental schedule.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2009

1. *Basis of Presentation*

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

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the year ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

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

Revenues classified as other than no-cost EDC revenues include federal awards and interest income on unrestricted cash and investments. Expenditures classified as other than no-cost EDC include expenditures of federal awards and donations from unrestricted cash and investments. In addition to the above, capital outlay from the federal awards are classified as other than no-cost EDC expenditures.

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

**Independent Auditor’s Report On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based On An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2009, and have issued our report thereon dated March 30, 2011. 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 Base’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Base’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & Counsel LLP
Certified Public Accountants

Oakland, California
March 30, 2011

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

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

For the Year Ended June 30, 2010

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
For the Year Ended June 30, 2010

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

Independent Auditor's Report

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency's capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with the basis of presentation and accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Base's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Macias Gini & Connell LLP

Certified Public Accountants
Oakland, California

March 30, 2011

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2010

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (the Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the year ended June 30, 2010 as compared to the prior year ended June 30, 2009. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

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

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

Financial Highlights

- The Base's liquidity ratio of 10.42 to 1 (current assets to current liabilities) decreased by 11% compared to the previous year's 11.75 to 1 ratio. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The decrease is primarily attributable to decreases in cash and investments and receivables as a result of payments of liabilities due the City for administrative and municipal services in support of the Base.
- The negative change in net asset of \$991,118 for the year ended June 30, 2010 compared to a positive change of \$10.8 million for the previous fiscal year represents a decrease of \$11.8 million. The change of net assets for the current fiscal year as compared to the previous year was primarily due to the one time collection from the settlement with Caltrans in the previous year.

Overview of the Financial Statements

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

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2010

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

The statement of net assets presents information on all of the Base's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Base is improving or deteriorating.

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

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Year Ended June 30, 2010

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of June 30, 2010 and 2009:

Condensed Statements of Net Assets

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and other assets	\$ 23,873,572	\$ 24,935,143	\$ (1,061,571)	-4%
Property held for resale	49,443,239	49,202,630	240,609	0%
Total assets	<u>73,316,811</u>	<u>74,137,773</u>	<u>(820,962)</u>	-1%
Liabilities:				
Current and other liabilities	<u>2,291,418</u>	<u>2,121,262</u>	<u>170,156</u>	8%
Net assets:				
Restricted	54,348,459	55,340,805	(992,346)	-2%
Unrestricted	<u>16,676,934</u>	<u>16,675,706</u>	<u>1,228</u>	0%
Total net assets	<u>\$ 71,025,393</u>	<u>\$ 72,016,511</u>	<u>\$ (991,118)</u>	-1%

Net assets may serve over time as a useful indicator of financial position. Base assets exceeded liabilities by \$71,025,393 at the close of the most recent fiscal year compared to \$72,016,511 for the fiscal year that ended June 30, 2009, a decrease of 1%. The decrease in net assets compared to the previous fiscal year was a result of the decrease in cash and investments due to the payment of liabilities to the City for administrative and municipal services in support of the Base.

Current assets of \$23,873,572 exceeded current liabilities of \$2,291,418 by \$21,582,154. The ratio of current assets against current liabilities is 10.42 to 1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

Significant current liabilities include \$1,475,611 payable to the City for administrative and municipal services provided in support of the Base.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2010

The following is a summary of the statement of revenues, expenses and changes in fund net assets for the years ended June 30, 2010 and 2009:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues:				
Lease revenues	\$ 1,402,264	\$ 2,099,230	\$ (696,966)	-33%
Utility sales	<u>573,999</u>	<u>494,980</u>	<u>79,019</u>	16%
Total operating revenues	<u>1,976,263</u>	<u>2,594,210</u>	<u>(617,947)</u>	-24%
Nonoperating revenues:				
Grants from federal agencies	-	1,428,644	(1,428,644)	-100%
Interest income	318,267	416,279	(98,012)	-24%
Settlement with Caltrans	<u>-</u>	<u>10,835,284</u>	<u>(10,835,284)</u>	-100%
Total nonoperating revenues	<u>318,267</u>	<u>12,680,207</u>	<u>(12,361,940)</u>	-97%
Total revenues	<u>2,294,530</u>	<u>15,274,417</u>	<u>(12,979,887)</u>	-85%
Operating expenses:				
Cost of utility sales	819,769	593,019	226,750	38%
Repairs and maintenance	57,123	-	57,123	n/a
Professional services and consultants	702,023	1,379,012	(676,989)	-49%
General and administrative	<u>1,706,733</u>	<u>2,476,599</u>	<u>(769,866)</u>	-31%
Total operating expenses	<u>3,285,648</u>	<u>4,448,630</u>	<u>(1,162,982)</u>	-26%
Nonoperating expenses:				
Interest expense	-	26,115	(26,115)	-100%
Total expenses	<u>3,285,648</u>	<u>4,474,745</u>	<u>(1,189,097)</u>	-27%
Change in net assets	(991,118)	10,799,672	(11,790,790)	-109%
Net assets, beginning of year	<u>72,016,511</u>	<u>61,216,839</u>	<u>10,799,672</u>	18%
Net assets, end of year	<u>\$ 71,025,393</u>	<u>\$ 72,016,511</u>	<u>\$ (991,118)</u>	-1%

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$1,402,264 or 71% in operating revenues while utility sales generated \$573,999 or 29% for the twelve months ended June 30, 2010. Revenues decrease by 24% compared to the previous fiscal year.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Year Ended June 30, 2010

Operating expenses decreased by 26% or \$1,162,982 and is attributed to a decrease of \$676,989 in professional services and consultants due to a decrease in remediation expenses and a decrease of \$769,866 in general and administrative expenses although cost of utility sales and professional services and consultants increased.

The change in net assets for the year ended June 30, 2010, decreased by \$11,790,790 compared to the previous fiscal year. The decrease was primarily due to the non-recurrence of collection of the additional settlement from Caltrans.

Requests for Information

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

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Net Assets
 June 30, 2010

Assets:

Unrestricted current assets:	
Pooled cash and investments	\$ 16,676,934
Restricted current assets:	
Pooled cash and investments	4,949,254
Receivables:	
Interest	69,010
Federal and state grants	2,178,374
Total current assets	23,873,572
Restricted noncurrent assets:	
Property held for resale	49,443,239
Total assets	73,316,811

Liabilities:

Current liabilities, payable from restricted assets:	
Accounts payable	182,953
Security deposits	194,816
Payable to the Oakland Army Base	
Workforce Development Collaborative	456
Due to the Port of Oakland	437,582
Due to the City of Oakland	1,475,611
Total current liabilities	2,291,418

Net assets:

Restricted	54,348,459
Unrestricted	16,676,934
Total net assets	\$ 71,025,393

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010

Operating revenues:	
Lease revenues	\$ 1,402,264
Utility sales	<u>573,999</u>
Total operating revenues	<u>1,976,263</u>
Operating expenses:	
Cost of utility sales	819,769
Repairs and maintenance	57,123
Professional services and consultants	702,023
General and administrative	<u>1,706,733</u>
Total operating expenses	<u>3,285,648</u>
Operating income (loss)	(1,309,385)
Nonoperating revenues:	
Interest income	<u>318,267</u>
Change in net assets	(991,118)
Net assets:	
Beginning of year	<u>72,016,511</u>
End of year	<u><u>\$ 71,025,393</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Statement of Cash Flows
For the Year Ended June 30, 2010

Cash flows from operating activities:	
Cash receipts from tenants for rents and deposits	\$ 1,993,163
Cash payments to vendors for goods and services	(1,453,279)
Cash payments to the City of Oakland employee costs	<u>(1,679,113)</u>
Net cash provided by operating activities	(1,139,229)
Cash flows from capital and related financing activities:	
Remediation costs associated with property held for resale	(240,609)
Cash flows from investing activities:	
Interest received on investments	<u>330,341</u>
Change in cash and cash equivalents	(1,049,497)
Cash and cash equivalents, beginning of year	<u>22,675,685</u>
Cash and cash equivalents, end of year	<u><u>\$ 21,626,188</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,309,385)
Changes in assets and liabilities:	
Accounts payable	(421)
Security deposits	16,900
Due to the Port of Oakland	437,582
Due to the City of Oakland	<u>(283,905)</u>
Net cash used in operating activities	<u><u>\$ (1,139,229)</u></u>

See accompanying notes to the basic financial statements

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 – DESCRIPTION OF OPERATIONS

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

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2010 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Operating Receivables

The Base has an outstanding receivable of \$194,145 that is completely offset with an allowance for doubtful accounts.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

(e) Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in fund net assets.

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

(f) Operating Revenues and Expenses

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Net Assets

Net assets are classified in the following two components:

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

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

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

(h) Use of Estimates

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

NOTE 3 – CASH AND CASH EQUIVALENTS

The Base's cash and cash equivalents consists of the following at June 30, 2010:

Unrestricted:		
Pooled cash and investments	\$	16,676,934
Restricted:		
Pooled cash and investments		<u>4,949,254</u>
	\$	<u><u>21,626,188</u></u>

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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

The Base's cash held in the Agency's cash and investment pool on June 30, 2010 was \$21,626,188. At June 30, 2010, the Agency's cash and investments pool was unrated and had a weighted average maturity of less than one year.

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

NOTE 4 – PROPERTY HELD FOR RESALE

The following is a summary of the changes in property held for resale for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Transfers	Balance June 30, 2010
Property held for resale	\$ 49,202,630	\$ 240,609	-	\$ 49,443,239

The additions to property held for resale represent the Base's portion of remediation costs that were capitalized during the year. See Note 5 for further details on the remediation project.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$13.0 million has been spent, of which \$10.9 million has been received.

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

The Base's management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 6 – 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 body for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2010, the Agency reimbursed the City \$1,453,279 for expenditures.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2010

	No-Cost EDC-Related	Other	Total
Operating revenues:			
Lease revenues	\$ 1,402,264	\$ -	\$ 1,402,264
Utility sales	573,999	-	573,999
Total operating revenues	<u>1,976,263</u>	<u>-</u>	<u>1,976,263</u>
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	649,815	-	649,815
Utility facilities	819,769	-	819,769
Maintenance of landscaping, grading and other improvements	2,594	-	2,594
Leasing operations	152,452	-	152,452
Disposal of hazardous material	91,497	253,254	344,751
Planning/marketing of Base redevelopment and reuse	1,316,267	-	1,316,267
Total operating expenses	<u>3,032,394</u>	<u>253,254</u>	<u>3,285,648</u>
Operating income (loss)	(1,056,131)	(253,254)	(1,309,385)
Nonoperating revenues:			
Interest income	318,267	-	318,267
Change in net assets	<u>\$ (737,864)</u>	<u>\$ (253,254)</u>	<u>\$ (991,118)</u>

See accompanying note to the supplemental schedule.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Year Ended June 30, 2009

1. *Basis of Presentation*

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

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

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

Revenues classified as other than no-cost EDC revenues include federal awards and interest income on unrestricted cash and investments. Expenditures classified as other than no-cost EDC include expenditures of federal awards and donations from unrestricted cash and investments. In addition to the above, capital outlay from the federal awards are classified as other than no-cost EDC expenditures.

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

Independent Auditor's Report On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based On An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the year ended June 30, 2010, and have issued our report thereon dated March 30, 2011. 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 Base's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting as it pertains to activities of the Base. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting as it pertains to activities of the Base.

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

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

Compliance and Other Matters

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

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

Macias Gini & Counsel LLP
Certified Public Accountants

Oakland, California
March 30, 2011

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

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

For the Period from July 1, 2010
through August 7, 2010

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
For the Period from July 1, 2010 through August 7, 2010

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

Independent Auditor's Report

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the period from July 1, 2010 through August 7, 2010, as listed in the table of contents. These financial statements are the responsibility of management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Base are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the transactions of the Base. The Base is reported within the Agency's capital projects funds; however, for purposes of this presentation management reports it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of August 7, 2010, and the changes in its financial position and its cash flows for the period from July 1, 2010 through August 7, 2010 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Base as of August 7, 2010, and the changes in its financial position and its cash flows for the period from July 1, 2010 through August 7, 2010 in conformity with the basis of presentation and accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Base's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Macias Gini & Counsel LLP

Certified Public Accountants
Oakland, California

March 30, 2011

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Period from July 1, 2010 through August 7, 2010

Although not required to be part of the basic financial statements, this section of the Oakland Army Base (the Base) annual financial report presents the management's discussion and analysis (MD&A) of the Base's financial performance for the period from July 1, 2010 through August 7, 2010 as compared to the prior year ended June 30, 2010. This MD&A should be read in conjunction with the Base's basic financial statements and the related notes to the basic financial statements.

Introduction

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

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

Financial Highlights

- The Base's liquidity ratio of 53.2 to 1 (current assets to current liabilities) increased by 411% compared to the previous year's 10.4 to 1 ratio. The liquidity ratio measures the Base's ability to meet its financial obligations as they become due. The increase is primarily attributable to decrease in current liabilities as a result of payments of liabilities due the City for administrative and municipal services in support of the Base.
- The negative change in net asset of \$5,044 for the period ended August 7, 2010 compared to a negative change of \$991,118 for the previous fiscal year represents an increase of \$986,074. The change of net assets for the current period as compared to the previous year was primarily due to the shorter reporting period to coincide with the end of reinvestment period of the no-Cost EDC agreement on August 7, 2010.

Overview of the Financial Statements

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

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Period from July 1, 2010 through August 7, 2010

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

The statement of net assets presents information on all of the Base's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Base is improving or deteriorating.

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

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

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Management's Discussion and Analysis
 (Required Supplementary Information – Unaudited)
 For the Period from July 1, 2010 through August 7, 2010

Financial Statement Analysis

The following is a comparison of the Base's assets, liabilities, and net assets as of August 7, 2010 and June 30, 2010:

Condensed Statements of Net Assets				
	Close-out Period	2010	Dollar Change	Percentage Change
Assets:				
Current and other assets	\$ 21,990,492	\$ 23,873,572	\$ (1,883,080)	-8%
Property held for resale	49,443,239	49,443,239	-	0%
Total assets	71,433,731	73,316,811	(1,883,080)	-3%
Liabilities:				
Current and other liabilities	413,382	2,291,418	(1,878,036)	-82%
Net assets:				
Restricted	54,343,415	54,348,459	(5,044)	0%
Unrestricted	16,676,934	16,676,934	-	0%
Total net assets	\$ 71,020,349	\$ 71,025,393	\$ (5,044)	0%

Net assets may serve over time as a useful indicator of financial position. Base assets exceeded liabilities by \$71,020,349 at the close of the most recent reporting period compared to \$71,025,393 for the fiscal year that ended June 30, 2010, which were essentially the same levels. Although cash and investments decreased during the period, liabilities likewise decreased by almost the same amount.

Current assets of \$21,990,492 exceeded current liabilities of \$413,382 by \$21,577,110. The ratio of current assets against current liabilities is 53.2 to 1 in favor of current assets, a positive indicator of the Base's ability to meet its financial obligations as they become due.

Significant current liabilities include \$137,548 in accounts payable to various vendors and \$194,816 of refundable security deposits.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Period from July 1, 2010 through August 7, 2010

The following is a summary of the statement of revenues, expenses and changes in fund net assets for the period from July 1, 2010 through August 7, 2010 (close-out period) and the year ended June 30, 2010:

Condensed Statements of Revenues, Expenses and Changes in Net Assets				
	<u>Close-out</u> <u>Period</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percentage</u> <u>Change</u>
Operating revenues:				
Lease revenues	\$ 252,387	\$ 1,402,264	\$ (1,149,877)	-82%
Utility sales	80,813	573,999	(493,186)	-86%
Total operating revenues	<u>333,200</u>	<u>1,976,263</u>	<u>(1,643,063)</u>	-83%
Nonoperating revenues:				
Grants from federal agencies	11,936	-	11,936	n/a
Interest income	12,426	318,267	(305,841)	-96%
Total nonoperating revenues	<u>24,362</u>	<u>318,267</u>	<u>(293,905)</u>	-92%
Total revenues	<u>357,562</u>	<u>2,294,530</u>	<u>(1,936,968)</u>	-84%
Operating expenses:				
Cost of utility sales	99,382	819,769	(720,387)	-88%
Repairs and maintenance	-	57,123	(57,123)	-100%
Professional services and consultants	2,986	702,023	(699,037)	-100%
General and administrative	111,706	1,706,733	(1,595,027)	-93%
Total operating expenses	<u>214,074</u>	<u>3,285,648</u>	<u>(3,071,574)</u>	-93%
Nonoperating expenses:				
Unrealized loss on pooled investments	148,532	-	148,532	n/a
Total nonoperating expenses	<u>148,532</u>	<u>-</u>	<u>148,532</u>	n/a
Total expenses	<u>362,606</u>	<u>3,285,648</u>	<u>(2,923,042)</u>	-89%
Change in net assets	(5,044)	(991,118)	986,074	-99%
Net assets, beginning of year	<u>71,025,393</u>	<u>72,016,511</u>	<u>(991,118)</u>	-1%
Net assets, end of year	<u>\$71,020,349</u>	<u>\$71,025,393</u>	<u>\$ (5,044)</u>	0%

The Base generated its operating revenues primarily through the properties that it leases to various local vendors and the sale of utilities to those same lessees. Lease revenues generated \$252,387 or 76% in operating revenues while utility sales generated \$80,813 or 24% for the close-out period ended August 7, 2010. Compared to the previous fiscal year ended June 30, 2010 revenues decreased by \$1,643,063 and this is attributable to a shortened reporting period.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Management's Discussion and Analysis
(Required Supplementary Information – Unaudited)
For the Period from July 1, 2010 through August 7, 2010

Operating expenses decreased by 93% or \$3,071,574 and is attributed to a shortened reporting period.

The change in net assets for the close-out period ended August 7, 2010, increased by \$986,074 compared to the previous fiscal year. The reduction was due to a larger decrease in operating expenses than operating revenues for the close-out period compared to the prior fiscal year.

Requests for Information

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

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Net Assets
 August 7, 2010

Assets:

Unrestricted current assets:	
Pooled cash and investments	\$ 16,676,934
Restricted current assets:	
Pooled cash and investments	3,037,300
Receivables:	
Operating, net of allowance of \$194,145	97,884
Federal and state grants	<u>2,178,374</u>
Total current assets	21,990,492
Restricted noncurrent assets:	
Property held for resale	<u>49,443,239</u>
Total assets	<u>71,433,731</u>

Liabilities:

Current liabilities, payable from restricted assets:	
Accounts payable	137,548
Security deposits	194,816
Payable to the Oakland Army Base	
Workforce Development Collaborative	456
Due to the City of Oakland	<u>80,562</u>
Total current liabilities	<u>413,382</u>

Net assets:

Restricted	54,343,415
Unrestricted	<u>16,676,934</u>
Total net assets	<u><u>\$ 71,020,349</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Period from July 1, 2010 through August 7, 2010

Operating revenues:	
Lease revenues	\$ 252,387
Utility sales	<u>80,813</u>
Total operating revenues	<u>333,200</u>
Operating expenses:	
Cost of utility sales	99,382
Professional services and consultants	2,986
General and administrative	<u>111,706</u>
Total operating expenses	<u>214,074</u>
Operating income (loss)	<u>119,126</u>
Nonoperating revenues (expenses):	
Grants from federal agencies	11,936
Unrealized loss on pooled investments	(148,532)
Interest income	<u>12,426</u>
Total nonoperating revenues (expenses)	<u>(124,170)</u>
Change in net assets	(5,044)
Net assets:	
Beginning of year	<u>71,025,393</u>
End of year	<u><u>\$ 71,020,349</u></u>

See accompanying notes to the basic financial statements.

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
Statement of Cash Flows
 For the Period from July 1, 2010 through August 7, 2010

Cash flows from operating activities:	
Cash receipts from customers	\$ 235,316
Cash payments to vendors for goods and services	(605,423)
Cash payments to employees for services	<u>(1,486,687)</u>
Net cash provided by (used in) operating activities	<u>(1,856,794)</u>
Cash flows from investing activities:	
Unrealized loss on pooled investments	(148,532)
Interest received on pooled investments	<u>81,436</u>
Net cash provided by (used in) investing activities	<u>(67,096)</u>
Change in cash and cash equivalents	(1,911,954)
Cash and cash equivalents, beginning of year	<u>21,626,188</u>
Cash and cash equivalents, end of year	<u>\$ 19,714,234</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ 119,126
Changes in assets and liabilities:	
Accounts receivable	(97,884)
Accounts payable	(45,405)
Due to the Port of Oakland	(437,582)
Due to the City of Oakland	<u>(1,395,049)</u>
Net cash used in operating activities	<u>\$ (1,856,794)</u>

See accompanying notes to the basic financial statements

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Period from July 1, 2010 through August 7, 2010

NOTE 1 – DESCRIPTION OF OPERATIONS

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

The Base's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the Agency's financial statements that is attributable to the Base's operating transactions. The Base's operating transactions are reported within the Agency's capital project funds; however, for purposes of this presentation management has elected to report it as an enterprise fund to comply with contractual requirements. The financial statements of the Base do not purport to, and do not, present fairly the financial position of the Agency as of August 7, 2010 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation and Accounting*

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

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

(b) *Cash and Cash Equivalents*

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Period from July 1, 2010 through August 7, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Capital Assets

Capital assets are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are stated at historical cost if purchased or constructed. Capital assets are recorded at fair market value at the date of transfer if donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

(d) Property Held for Resale

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

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

Property held for resale may, during the period it is held by the Base, generate rental or operating income. This income is recognized as it is earned in the Base's statement of revenues, expenses and changes in fund net assets.

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

(e) Operating Revenues and Expenses

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

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Period from July 1, 2010 through August 7, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Net Assets

Net assets are classified in the following two components:

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

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

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

(g) Use of Estimates

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

NOTE 3 – CASH AND CASH EQUIVALENTS

The Base's cash and cash equivalents consists of the following at August 7, 2010:

Unrestricted:		
Pooled cash and investments	\$	16,676,934
Restricted:		
Pooled cash and investments		<u>3,037,300</u>
	\$	<u><u>19,714,234</u></u>

OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Notes to the Basic Financial Statements
 For the Period from July 1, 2010 through August 7, 2010

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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

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

The Base’s cash held in the Agency’s cash and investment pool on August 7, 2010 was \$19,714,234. At August 7, 2010, the Agency’s cash and investments pool was unrated and had a weighted average maturity of less than one year.

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

NOTE 4 – PROPERTY HELD FOR RESALE

The following is a summary of the changes in property held for resale for the period ended August 7, 2010:

	Balance July 1, 2010	Additions	Transfers	Balance August 7, 2010
Property held for resale	\$ 49,443,239	\$ -	-	\$ 49,443,239

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Environmental Remediation

Land conveyed to the Base from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Base and the Port are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. The Base has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$13.0 million has been spent, of which \$10.2 million has been received.

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

The Base’s management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to the Basic Financial Statements
For the Period from July 1, 2010 through August 7, 2010

NOTE 6 – 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 body for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the period ended August 7, 2010, the Agency reimbursed the City \$1,486,687 for expenditures.

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OAKLAND ARMY BASE
 (An Activity of the Oakland Redevelopment Agency)
 Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
 For the Period from July 1, 2010 through August 7, 2010

	No-Cost		Total
	EDC-Related	Other	
Operating revenues:			
Lease revenues	\$ 252,387	\$ -	\$ 252,387
Utility sales	80,813	-	80,813
Total operating revenues	<u>333,200</u>	<u>-</u>	<u>333,200</u>
Operating expenses:			
Maintenance and operation:			
Police and fire protection facilities and other facilities	19,332	-	19,332
Utility facilities	99,382	-	99,382
Leasing operations	12,546	-	12,546
Planning/marketing of Base redevelopment and reuse	82,814	-	82,814
Total operating expenses	<u>214,074</u>	<u>-</u>	<u>214,074</u>
Operating income (loss)	119,126	-	119,126
Nonoperating revenues:			
Grants from federal agencies	11,936	-	11,936
Interest income	12,426	-	12,426
Unrealized loss on pooled investments	(148,532)	-	(148,532)
Change in net assets	<u>\$ (5,044)</u>	<u>\$ -</u>	<u>\$ (5,044)</u>

See accompanying note to the supplemental schedule.

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OAKLAND ARMY BASE
(An Activity of the Oakland Redevelopment Agency)
Notes to Supplemental Schedule of No-Cost EDC-Related and Other Revenues and Expenses
For the Period from July 1, 2010 through August 7, 2010

1. *Basis of Presentation*

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

The Schedule is intended to present the changes in financial position of only that portion of the Agency's Oakland Army Base Project Area financial statements that is attributable to the Oakland Army Base transactions. The Oakland Army Base is reported within the Agency's Oakland Army Base Project Area Capital Projects Fund. The Schedule does not purport to, and does not, present fairly the changes in financial position of the Agency for the period ended August 7, 2010 in conformity with accounting principles generally accepted in the United States of America.

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

Revenues classified as other than no-cost EDC revenues include federal awards and interest income on unrestricted cash and investments. Expenditures classified as other than no-cost EDC include expenditures of federal awards and donations from unrestricted cash and investments. In addition to the above, capital outlay from the federal awards are classified as other than no-cost EDC expenditures.

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

**Independent Auditor’s Report On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based On An Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the Oakland Army Base (the Base), an activity of the Oakland Army Base Fund, a fund of the Oakland Redevelopment Agency (the Agency), as of and for the period from July 1, 2010 through August 7, 2010, and have issued our report thereon dated March 30, 2011. 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 Base’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting as it pertains to activities of the Base.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Base’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & Connell LLP
Certified Public Accountants

Oakland, California
March 30, 2011