



AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Osborn K. Solitei

SUBJECT: Informational Report-Audited Financial
Statements for ORA and ORSA for
FY 2011-12

DATE: January 16, 2013

City Administrator
Approval

A handwritten signature in black ink, appearing to read 'Scott P. Johnson', written over a horizontal line.

Date

1/29/13

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council accept the Oakland Redevelopment Agency (ORA) Audited Financial Report for the period July 1, 2011 through January 31, 2012 and Oakland Redevelopment Successor Agency (ORSA) Audited Financial Report for the period from inception (February 1, 2012) through June 30, 2012.

OUTCOME

City Council acceptance of the ORA and ORSA reports will provide relevant financial information to the City Council, residents of Oakland, creditors, investors and other interested parties. Also, the City will be in compliance with Section 809 of the City Charter and California Government Code Sections 25250 and 25253.

BACKGROUND/LEGISLATIVE HISTORY

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

Item: _____
Finance and Management Committee
February 13, 2013

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

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

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

ANALYSIS

The Oakland Redevelopment Agency Financial Report

The ORA report provides information on the former Redevelopment Agency's financial activities for the period of July 1, 2011 through January 31, 2012, and is divided into the following sections:

- **Financial Section:** This section contains the former Redevelopment Agency's audited financial statements; the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A),

- **Compliance Section:** This section provides independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed on accordance with *Government Auditing Standards*.

The former Redevelopment Agency contracted with Macias Gini & O'Connell LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditor's opinion contained in the document's Financial Section represents their unqualified opinion that the former Agency's financials are presented fairly and in conformity with Generally Accepted Accounting Principles (GAAP). The auditors considered the former Agency's internal control over financial reporting as a basis for designing their auditing procedures. The auditors did not identify any deficiencies in internal control over financial reporting. In addition, the auditors performed tests of compliance with certain provision of laws, regulations and grant agreements, non-compliance with which could have a direct and material effect on the financial statement.

Financial Highlights

For the period July 1, 2011 through January 31, 2012, before the dissolution on February 1, 2012, the former Redevelopment Agency achieved the following key financial results:

- Total liabilities exceed total assets at January 31, 2012 by \$116.4 million – net assets (deficit).
- Governmental funds reported combined ending fund balances of \$244.9 million at January 31, 2012, a decrease of \$318.6 million from the prior fiscal year.
- Total long-term obligations at January 31, 2012 totaled \$511.0 million.

The Oakland Redevelopment Successor Agency Financial Report

The FY 2011-12 ORSA report provides information on the Successor Agency's financial activities for the period of inception (February 1, 2012) through June 30, 2012, and is divided into the following sections:

- **Financial Section:** This section contains the Successor Agency's audited financial statements; the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A),
- **Compliance Section:** This section provides independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed on accordance with *Government Auditing Standards*.

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

Financial Highlights

For the fiscal year ended June 30, 2012, the Successor Agency achieved the following key financial results:

- Total liabilities exceed total assets at June 30, 2012 by \$278.3 million – net assets (deficit) held in trust.
- Total extraordinary loss from Redevelopment Agency totaled \$273.0 million (See note 2, page 13 of Financial Report)
- Total long-term obligations at June 30, 2012 totaled \$504.5 million.

PUBLIC OUTREACH/INTEREST

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

COORDINATION

This report was prepared in coordination with the Budget Office, Office of Neighborhood Investment and City Attorney's Office.

COST SUMMARY/IMPLICATIONS

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

SUSTAINABLE OPPORTUNITIES

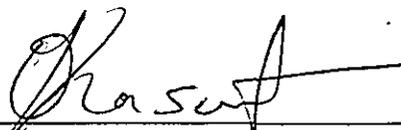
Economic: No direct economic opportunities have been identified

Environmental: No environmental opportunities have been identified

Social Equity: No social equity opportunities have been identified

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

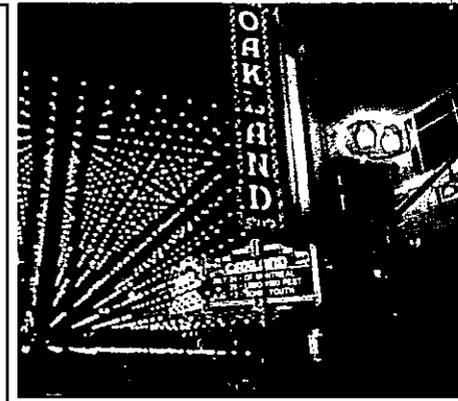
Respectfully submitted,



OSBORN K. SOLITEI
Controller, City Administrator Office
Office of the Controller

Attachments:

1. *Oakland Redevelopment Agency Audited Financial Report for the period July 1, 2011 through January 31, 2012*
2. *Oakland Redevelopment Successor Agency Audited Financial Report for the period February 1, 2012 through June 30, 2012*

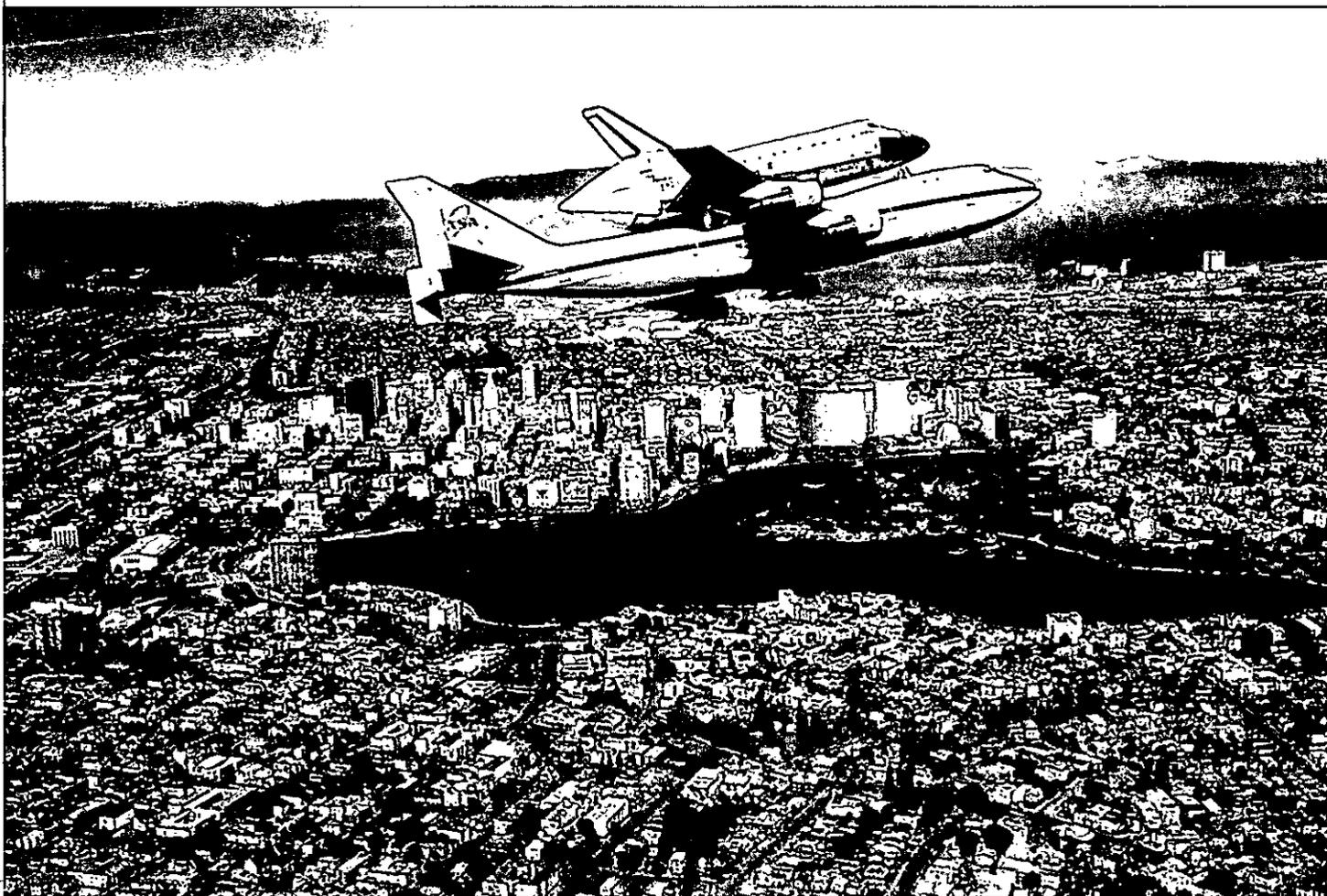


CITY OF OAKLAND, CALIFORNIA

REDEVELOPMENT AGENCY

A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND

FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012



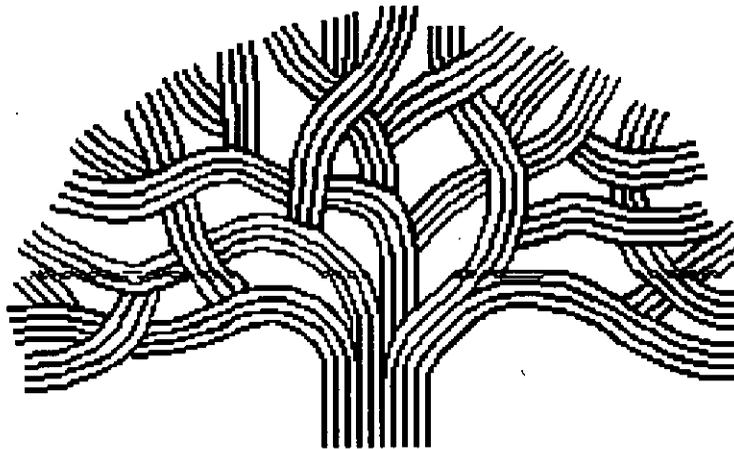
REDEVELOPMENT AGENCY

of the

CITY OF OAKLAND

CALIFORNIA

(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)



**Basic Financial Statements
and
Supplemental Information**

For the Period July 1, 2011 through January 31, 2012

Prepared by Administrative Service Department

Scott P. Johnson, Assistant City Administrator/Finance Director

Osborn K. Soljtei, Controller

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
FINANCIAL REPORT

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Osborn K. Solitei
Controller

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City Attorney's Office

CAO - Treasury Division

CAO – Office of Neighborhood Investment

Housing and Community Development (HCD)

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
For the Period July 1, 2011 through January 31, 2012

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets for Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Notes to Basic Financial Statements.....	17
Supplementary Financial Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	44
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 <i>Government Auditing Standards</i>	46



Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency), a component unit of the City of Oakland, California (City), as of January 31, 2012 and for the period from July 1, 2011 through January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency as of January 31, 2012, and the respective changes in financial position thereof for the period from July 1, 2011 through January 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the City, as the Successor Agency to the Redevelopment Agency of the City of Oakland, became responsible for overseeing the dissolution process and the wind down of redevelopment activity. These financial statements do not include any adjustments as a result of the dissolution of the Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Macias Gini & Connell LLP

Oakland, California
December 21, 2012

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis - Unaudited
January 31, 2012**

This section of the Redevelopment Agency of the City of Oakland ("Agency") Annual Financial Report presents a narrative overview and analysis of the financial activities of the Agency for the seven-month period ended January 31, 2012. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Agency's financial statements and related footnotes, which follow this section.

FINANCIAL HIGHLIGHTS

Pursuant to AB X1 26 and subsequent California Supreme Court decision in *California Redevelopment Association v. Matosantos* redevelopment agencies in California were dissolved effective February 1, 2012. On January 10, 2012, the City Council adopted Resolutions 83679 C.M.S. and 83680 C.M.S. declaring the City as the Successor Agency to the Redevelopment Agency of the City of Oakland and as the Housing Successor, respectively. The Successor Agency is a separate legal entity. As such, by operation of law, assets, properties, contracts, leases, books, records, buildings and equipment of the former Agency were transferred to the Successor Agency on February 1, 2012. Also, upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the former Agency.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

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

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

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

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012**

Fund Financial Statements

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

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Agency maintains eleven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Central District Fund, Coliseum Fund, Central City East Fund, Low and Moderate Housing Fund, Oakland Army Base, and Debt Service Fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation as non-major governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012**

Government-wide Financial Analysis

This Management's Discussion and Analysis is the last period the Agency will present its financial statements. The Agency has used its prior audited financial statements as of June 30, 2011 for comparative purposes.

Shown below is a summary schedule that summarizes the Agency's net assets (deficit):

Agency's Statement of Net Assets (Deficit)
Governmental Activities
January 31, 2012 and June 30, 2011
(In thousands)

	<u>January 31, 2012</u>	<u>June 30, 2011</u>
Assets:		
Current and other assets	\$ 384,182	\$ 616,782
Property held for resale	48,093	179,240
Capital assets	<u>6,359</u>	<u>6,448</u>
Total assets	<u>438,634</u>	<u>802,470</u>
Liabilities:		
Long-term liabilities	510,967	530,921
Other liabilities	<u>44,097</u>	<u>25,474</u>
Total liabilities	<u>555,064</u>	<u>556,395</u>
Net assets (deficit):		
Investments in capital assets, net of related debt	6,359	6,448
Restricted for:		
Debt service	15,594	77,339
Low and moderate housing	52,024	72,196
Urban redevelopment projects and housing	179,542	414,032
Unrestricted net deficit	<u>(369,949)</u>	<u>(323,940)</u>
Total net assets (deficit)	<u>\$ (116,430)</u>	<u>\$ 246,075</u>

Net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's liabilities exceeded assets by \$116.4 million at the close of period of January 31, 2012. This represents a decrease of \$362.5 million compared to the prior year. The decrease is primarily attributed to intergovernmental transfer of \$261.7 million of assets to fund City Public improvement and other redevelopment projects and programs and a decrease of \$76.3 million in tax increment revenue as a result of the wind down of redevelopment activities pursuant to the Redevelopment Dissolution Law.

As of the end of the period, the Agency had restricted net assets of \$247.2 million. The restricted net assets include \$15.6 million restricted for debt service, \$52.0 million restricted for low and moderate housing, and the remaining balance of \$179.5 million represents resources that are subject to external restrictions. The Agency's invested in capital assets is \$6.4 million and its deficit in unrestricted net assets of \$369.9 million is attributed to the issuance of bonds and other indebtedness to fund urban redevelopment and housing projects that are not capitalized.

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012

Long-term liabilities are mainly represented by tax allocation bonds and housing set-aside bonds issued to finance redevelopment and housing projects. The change from last year's long-term obligations is net decrease of \$20.0 million, which is the net result of the total debt service payments of \$11.5 million for tax allocation bonds and \$2.9 million for housing set-aside bonds and \$5.6 million for other long-term debt.

Analysis of Changes in Net Assets:

Agency's Changes in Net Assets (Deficit) Governmental Activities		
For the Seven-month Period Ended January 31, 2012 and Twelve-month Period Ended June 30, 2011		
(In thousands)		
	7 - Month Ended January 31, 2012	12 - Month Ended June 30, 2011
Revenues:		
Program revenues:		
Charges for services	\$ 5,501	\$ 14,741
Operating grants and reimbursements	3,611	75
General revenues:		
Property tax increment	33,345	109,673
Investment income	654	1,242
Other	1,207	14,952
Total program and general revenues	44,318	140,683
Expenses:		
Urban redevelopment	60,589	56,958
Housing development	59,354	5,871
Intergovernmental payments to City of Oakland	261,695	-
Supplemental Educational Revenue Augmentation Fund payments	-	8,465
AB 1290 statutory pass-through payments	7,566	14,143
Interest on long-term debt	17,619	28,178
Total expenses	406,823	113,615
Change in net assets	(362,505)	27,068
Net assets, beginning of year	246,075	219,007
Net assets (deficit), end of year	\$ (116,430)	\$ 246,075

The expenses in governmental activities for the Agency exceeded revenues by \$362.5 million for the seven month period ended January 31, 2012. This represents a decrease of 389.6 million compared to the prior year's change in net assets of \$27.1 million. The major decrease is mainly attributed to property tax revenue, other revenues, increase allowance in loans, and transfer of assets to the City for public improvements. The net decrease is offset by a decrease in long-term interest payment and with no Supplemental Educational Revenue Augmentation Funds ("SERAF") payment.

As of January 31, 2012, the Agency's revenues total to \$44.3 million compared to \$140.7 million in previous fiscal year. The decrease in total revenue is primarily due to a decrease of \$76.3 million in

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012**

property tax increment revenues and \$13.7 million in other income resulting mainly from the writing-off of the remaining balance of the 1966 Oak Center repayment contract.

Conversely, government-wide expenses total to \$406.8 million compared to \$113.6 million from previous fiscal year, a net increase of \$293.2 million. The increase is primarily attributable to the intergovernmental payments to the City in the amount of \$261.7 million; recorded \$47.2 million allowance on interest deferred housing activity loans; a decrease of \$10.6 million in interest payments on long-term debt from prior year is attributed to the different reporting periods, seven months versus twelve months. No SERAF payment for the seven months ended January 31, 2012.

Financial Analysis of the Agency's Fund Balances

As of January 31, 2012, the Agency's governmental funds reported combined ending fund balances of \$244.9 million, a decrease of \$318.7 million compared to \$563.6 million for the prior fiscal year. The decrease in fund balance is primarily attributable to the decrease of \$76.3 million in property tax revenues and an intergovernmental payment of \$266.7 million to the City for public improvement.

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012

Agency's
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
(In thousands)

	7 - Month Ended January 31, 2012	12 - Month Ended June 30, 2011
Revenues:		
Property tax increment	\$ 33,345	\$ 109,673
Investment income	654	1,242
Rents and reimbursements	5,506	12,517
Federal and state grants	5,789	-
Other	1,207	2,992
Total revenues	<u>46,501</u>	<u>126,424</u>
Expenditures:		
Urban redevelopment	38,841	66,974
Housing development	22,106	29,984
Intergovernmental payments to City of Oakland	266,695	-
Supplemental Educational Revenue Augmentation Fund payments	-	8,465
AB 1290 statutory pass-through payments	7,566	14,143
Payment on advances	149	79
Retirement of long-term debt	14,440	19,365
Interest on long-term debt	15,338	27,272
Bond issuance cost	-	828
Total expenses	<u>365,135</u>	<u>167,110</u>
Other Financing Sources (Uses)		
Tax Allocation and Housing Set Aside bonds issued	-	54,370
Discount on bonds issuance	-	(2,052)
Total other financing sources	<u>-</u>	<u>52,318</u>
Change in fund balances	(318,634)	11,632
Beginning fund balances	563,567	551,935
Fund Balances at End of the Year	<u>\$ 244,933</u>	<u>\$ 563,567</u>

Capital Assets and Debt Administration

Capital Assets

The Agency has capital assets of \$8.1 million, before depreciation, which includes the Henry J. Robinson Multi-Service Center facility that provides service to the disadvantaged persons living within or near the Central District Redevelopment Project Area as major transitional housing, emergency shelter, and drop-in programs for the homeless population in Oakland; and the Fox Theater property which is leased to Fox Oakland Theater, Inc. ("FOT") through a 60 year long-term lease. Fixed assets as of January 31, 2012 are reported as \$6.4 million, net of accumulated depreciation

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012**

Debt Administration

At January 31, 2012, the Agency had total outstanding long-term debt of \$511.0 million, a decrease of \$19.9 million compare to \$530.9 million from the prior fiscal year. The decrease represents a \$14.6 million principal repayment of debt and a transfer of \$5.0 million remediation obligation of the Oakland Army Base to the City. Upon dissolution of the Agency pursuant to AB XI 26, the long-term obligation was transferred to the Successor Agency on February 1, 2012.

Long-term liabilities as of January 31, 2012 and June 30, 2011 are comprised of the following (in thousands):

	January 31, 2012	June 30, 2011
Bonds Payable:		
Tax allocation bonds payable	\$ 383,590	\$ 395,110
Housing set-aside revenue bonds	125,875	128,735
General obligation bonds	-	60
Total Bonds Payable	509,465	523,905
Other Long-Term Liabilities:		
Deferred amounts, net	1,202	1,567
Remediation costs	300	5,300
Advances from City of Oakland	-	149
Total Other Long-Term Liabilities	1,502	7,016
Total Long-Term Obligations	\$ 510,967	\$ 530,921

Bond Ratings

On June 14, 2012, Moody's Investor Service ("Moody's") downgraded all California tax allocation bonds to Ba1 that are rated Baa3 or higher. All California tax allocation bonds ratings remain on review for possible withdrawal. This action reflects sharply increased uncertainty of continued, timely cash-flow for service payments under the new legislation. Also, Fitch Ratings ("Fitch") placed all California bonds secured by tax increment revenue on negative rating watch on January 24, 2012. Please note that these rating actions will not have any impact on the Agency's debt service payments because the bonds are all fixed rate bonds.

On September 12, 2012, Standard & Poor's ("S&P") removed the CreditWatch from the Redevelopment Agency's underlying ratings on investment grade tax allocation bonds and assigned Stable outlooks which were placed on CreditWatch with negative implications on July 5, 2012 after the passage of Assembly Bill 1484. The actions reflects the fact that the City reported sufficient cash to meet debt service and demonstrated sound cash flow management and prudence in addressing future cash flow issues.

**REDEVELOPMENT AGENCY OF
THE CITY OF OAKLAND**

**Management's Discussion and Analysis – Unaudited (Continued)
January 31, 2012**

The table below shows ORSA bond ratings for the outstanding bonds:

<u>Type of Bond</u>	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>
Tax Allocation Bonds:			
Central District Senior Tax Allocation Refunding Bonds, Series 1992	N/A	N/A	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2003	N/A	A-	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2005	N/A	N/A	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2006T	Bal	A-	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2009T	Not Rated	A-	N/A
Central City East Tax Allocation Refunding Bonds, Series 2006A-TE	Bal	A-	N/A
Central City East Tax Allocation Refunding Bonds, Series 2006A-T	Bal	A-	N/A
Coliseum Area Tax Allocation Refunding Bonds, Series 2006B-TE	Bal	A	N/A
Coliseum Area Tax Allocation Refunding Bonds, Series 2006B-T	Bal	A	N/A
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2006C-TE	Bal	A+	N/A
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2006C-T	Bal	A+	N/A
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2010-T	Not Rated	A-	N/A
Subordinated Housing Set-Aside Bonds:			
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A	Bal	A	A-
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A-T	Bal	A	A-
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2011-T	Bal	A	N/A

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

No information is provided on the Agency's economic factors and next year's budget since the Agency is dissolved effective February 1, 2012. All assets, properties, contracts, leases, books, records, buildings, and equipment of the Agency are transferred to the Successor to the Redevelopment Agency of the City of Oakland as of February 1, 2012 by operation of law and also, upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the former Agency.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the City's fiscal and economic affairs. Requests for additional financial information should be addressed to the Administrative Services Department, Controller's Office, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093. This report is also available online at <http://www.oaklandnct.com>

BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

January 31, 2012

(In thousands)

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 103,832
Accounts receivable (net of allowance for uncollectible of \$31)	136
Advances to the City of Oakland	8,894
Restricted cash and investments	124,450
Notes receivable (net of allowance for uncollectibles of \$100,418)	138,876
Property held for resale	48,093
Other assets	19
Deferred charges - bond issuance costs	7,975
Capital assets:	
Land	3,377
Facilities and improvements, net of depreciation	<u>2,982</u>
TOTAL ASSETS	<u>438,634</u>
 LIABILITIES	
Accounts payable and accrued liabilities	1,443
Accrued interest payable	12,614
Due to the City of Oakland	3,325
Due to other governments	26,320
Deposits and other liabilities	395
Non-current liabilities:	
Due within one year	6,185
Due in more than one year	<u>504,782</u>
TOTAL LIABILITIES	<u>555,064</u>
 NET ASSETS (Deficit)	
Invested in capital assets	6,359
Restricted for:	
Debt service	15,594
Low and moderate housing	52,024
Urban redevelopment projects	176,460
Unrestricted net assets (deficit)	<u>(366,867)</u>
 TOTAL NET ASSETS (DEFICIT)	 <u>\$ (116,430)</u>

See accompanying notes to the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Activities

For the period July 1, 2011 through January 31, 2012

(In thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Urban redevelopment	\$ 60,589	\$ 5,333	\$ 3,611	\$ (51,645)
Housing development	59,354	168	-	(59,186)
Intergovernmental payments to the City of Oakland	261,695	-	-	(261,695)
AB 1290 Statutory Pass-Through Payments	7,566	-	-	(7,566)
Interest on long-term debt	<u>17,619</u>	<u>-</u>	<u>-</u>	<u>(17,619)</u>
Total governmental activities	<u>\$ 406,823</u>	<u>\$ 5,501</u>	<u>\$ 3,611</u>	<u>(397,711)</u>
General Revenues:				
Property tax increment				33,345
investment income				654
Other				<u>1,207</u>
Total general revenues				<u>35,206</u>
Change in net assets				(362,505)
Net assets at beginning of year				<u>246,075</u>
Net assets (deficit) at end of year				<u>\$ (116,430)</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

**Balance Sheet
Governmental Funds
January 31, 2012
(In thousands)**

	Capital Projects						Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base			
ASSETS									
Cash and investments	\$ 14,990	\$ 14,059	\$ 11,928	\$ 43,831	\$ 5,269	\$ 1,208	\$ 87	\$ 12,460	\$ 103,832
Accounts receivable (net of allowance for uncollectibles of \$31)	-	-	-	-	-	-	-	136	136
Due from other funds	-	-	-	1,429	-	-	-	-	1,429
Advances to the City of Oakland	121	-	-	7,764	-	990	-	19	8,894
Restricted cash and investments	22,504	2,662	10,896	59,655	12,721	505	15,507	-	124,450
Notes receivable (net of allowance for uncollectibles of \$100,418)	4,893	649	50	132,217	6	365	-	696	138,876
Property held for resale	17,685	9,112	13,284	8,012	-	-	-	-	48,093
Other assets	-	19	-	-	-	-	-	-	19
TOTAL ASSETS	\$ 60,193	\$ 26,501	\$ 36,158	\$ 252,908	\$ 17,996	\$ 3,068	\$ 15,594	\$ 13,311	\$ 425,729
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,443	\$ 1,443
Due to other funds	-	-	1,429	-	-	-	-	-	1,429
Due to the City of Oakland	757	839	389	-	244	905	-	191	3,325
Due to other governments	9,269	7,373	1,803	-	1,918	3,470	-	2,487	26,320
Deposits and other liabilities	297	-	-	4	25	50	-	19	395
Deferred revenue	4,893	649	50	141,225	6	365	-	696	147,884
TOTAL LIABILITIES	15,216	8,861	3,671	141,229	2,193	4,790	-	4,836	180,796
FUND BALANCES									
Restricted	22,504	2,662	10,896	59,655	12,721	505	15,594	-	124,537
Assigned	22,473	14,978	21,591	52,024	-	-	-	8,475	119,541
Unassigned	-	-	-	-	3,082	(2,227)	-	-	855
TOTAL FUND BALANCES	44,977	17,640	32,487	111,679	15,803	(1,722)	15,594	8,475	244,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 60,193	\$ 26,501	\$ 36,158	\$ 252,908	\$ 17,996	\$ 3,068	\$ 15,594	\$ 13,311	\$ 425,729

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Governmental Funds

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

January 31, 2012

(In thousands)

Fund balance - total governmental funds	\$	244,933
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		6,359
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Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets.		7,975
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Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		(12,614)
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.		147,884
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Type	Amount	
Tax allocation bonds	\$ (383,590)	
Housing set-aside revenue bonds	(125,875)	
Issuance premiums	(7,104)	
issuance discounts	2,580	
Refunding loss	3,322	
Remediation cost	(300)	
Subtotal	(510,967)	

Net assets (deficit) of governmental activities	\$	(116,430)
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See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Period July 1, 2011 through January 31, 2012
(In thousands)

	Capital Projects						Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
	Central District	Coliseum	Central City Fast	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base			
REVENUES									
Tax increment	\$ 18,304	\$ 6,398	\$ 3,801	\$ -	\$ 2,105	\$ 1,922	\$ -	\$ 815	\$ 33,345
Interest on cash and investments	306	41	27	122	11	65	17	57	646
Interest on notes receivable	-	7	-	-	-	-	-	1	8
Rents and reimbursements	1,649	322	1	168	-	1,249	-	2,117	5,506
Federal and state grants and subventions	-	-	-	-	5,667	-	122	-	5,789
Other	204	264	-	322	82	335	-	-	1,207
TOTAL REVENUES	20,463	7,032	3,829	612	7,865	3,571	139	2,990	46,501
EXPENDITURES									
Current:									
Urban redevelopment	11,167	8,002	5,412	-	2,430	5,599	166	6,065	38,841
Housing development	-	-	-	22,106	-	-	-	-	22,106
Intergovernmental payments to the City of Oakland	68,146	65,415	38,915	-	1,756	82,816	-	9,647	266,695
AB 1290 Statutory Pass-Through Payment	1,914	2,504	936	-	800	923	-	489	7,566
Debt Service:									
Payment on advances	-	-	-	-	-	-	149	-	149
Retirement of long-term debt	-	-	-	-	-	-	14,440	-	14,440
Interest	-	-	-	-	-	-	15,338	-	15,338
TOTAL EXPENDITURES	81,227	75,921	45,263	22,106	4,986	89,338	30,093	16,201	365,135
Excess (deficiency) of revenues over expenditures	(60,764)	(68,889)	(41,434)	(21,494)	2,879	(85,767)	(29,954)	(13,211)	(318,634)
OTHER FINANCING SOURCES (USES)									
Transfers in	2,870	-	-	-	-	-	36,221	-	39,091
Transfers out	(20,593)	(4,859)	(4,130)	(7,035)	(1,200)	(200)	-	(1,074)	(39,091)
TOTAL OTHER FINANCING SOURCES (USES)	(17,723)	(4,859)	(4,130)	(7,035)	(1,200)	(200)	36,221	(1,074)	-
Change in fund balances	(78,487)	(73,748)	(45,564)	(28,529)	1,679	(85,967)	6,267	(14,285)	(318,634)
Fund balances at beginning of year	123,464	91,388	78,051	140,208	14,124	84,245	9,327	22,760	563,567
FUND BALANCES (DEFICIT) AT END OF PERIOD	\$ 44,977	\$ 17,640	\$ 32,487	\$ 111,679	\$ 15,803	\$ (1,722)	\$ 15,594	\$ 8,475	\$ 244,933

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Period July 1, 2011 through January 31, 2012 (In thousands)

Net change in fund balances - total governmental funds	\$ (318,634)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets cost is allocated over their estimated useful lives and reported as depreciation expenses in the current period.	(89)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period.	(57,425)
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Prepaid leases are expended in the governmental funds when paid and are capitalized and amortized over the life of the lease for governmental activities.	(3,665)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of bond issuance costs	\$ (341)	
Retirement of long-term debt	14,440	
Payment of advances	149	
Amortization of premiums and discounts	521	
Amortization of refunding loss	(156)	
Net changes in remediation cost	<u>5,000</u>	19,613

Changes in accrued interest on bonds payable	<u>(2,305)</u>
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Change in net assets of governmental activities	<u>\$ (362,505)</u>
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See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency of the City of Oakland (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Agency are described below:

A. Reporting Entity

The Agency was established on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. On June 28, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 83679 C.M.S, effective February 1, 2012.

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

Since the legislation was adopted, the City Council and Redevelopment Agency Board took several actions to comply with its requirements. One of its requirements was to develop an Enforceable Obligations Payment Schedule (EOPS) detailing the obligations of the Agency (and its 20% Low and Moderate Income Housing Fund, which was administered by the City’s Housing and Community Development). The EOPS lists the Agency’s obligations and the amount due on the obligations. Enforceable obligations include: bonds secured by both the 80% and 20% funds; loans due to third parties; payments required by law, judgments or settlements; contracts and agreements with third parties; administrative costs, and funds borrowed from the 20% Low and Moderate Income Housing Fund. Additionally, the EOPS includes a listing of Agency obligations to the City.

The financial statements as of January 31, 2012 and for the period July 1, 2011 through January 31, 2012, serve as the final financial statements for the Agency. Effective February 1, 2012, all the activities related to the winding down of the former Agency’s financial affairs will be reported in the financial statements for the Oakland Redevelopment Successor Agency and

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

included in the City of Oakland basic financial statements as a fiduciary fund (private-purpose trust fund). A separate financial report for the period February 1, 2012 through June 30, 2012, containing additional information and more detailed information regarding financial position and changes in financial position will be included in the Oakland Redevelopment Successor Agency basic financial statements.

Prior to the enactment of AB XI 26, the Agency generally financed redevelopment projects through the issuance of tax allocation bonds. These bonds were payable from the incremental portion of property taxes collected within a project area relating to the increase in assessed valuation resulting from redevelopment. The County of Alameda (County) collects these incremental tax revenues on behalf of the Agency.

Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is considered a component unit of the City since the Agency Board consists exclusively of the Mayor and City Council. Consequently, the Agency's financial statements are blended in the City's basic financial statements.

B. Measurement focus, basis of accounting, and financial statement presentation

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

incurred, as under accrual accounting. The Agency uses the *purchases method* to account for expenditures, and accordingly, no prepaid items are reported.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period, using the modified accrual basis of accounting as described above, are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. The Agency considers property tax revenues to be available for the year levied if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except for debt service expenditures, which are recorded only when payment is due.

The Agency reports the following major governmental funds:

Capital Project Funds:

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

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

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

Low and Moderate Housing Fund – The Low and Moderate Housing Fund accounts for 20% and 5% set-aside from all tax increments received, as mandated by State law and the Oakland Redevelopment Agency board, respectively. The fund also accounts for the proceeds from the Subordinated Housing Set-Aside Revenue Bonds, Series 2011-T and 2006A-T, and Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A. These funds are used to increase, improve and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low and moderate income.

Broadway/MacArthur/San Pablo Fund – The Broadway/MacArthur/San Pablo Fund accounts for the financial resources and the costs of acquisition, construction and improvement of commercial, industrial and residential within the Broadway /MacArthur/ San Pablo Project area.

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Debt Service Fund:

The Debt Service Fund – accounts for the accumulation of resources and the payment of Tax Allocation bonds, Subordinated Housing Set-Aside bonds, and General Obligation bonds' principal, interest and related costs.

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

C. Assets, Liabilities, Equity and Operations

1. Cash and Investments

The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of January 31, 2012, and reflects the values as if the Agency were to liquidate the securities on that date. Money market investments with maturities of one year or less have been stated at amortized cost.

The Agency follows the practice of pooling cash of all operating funds for investment. Income on pooled assets is allocated to the individual fund based on the fund's average daily balance in relation to total pooled assets.

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

2. Property Held for Resale

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

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

During the period it is held by the Agency, property held for resale may generate rental or operating income. This income is recognized as it is earned in the Agency's statement of activities and generally is recognized in the Agency's governmental funds in the same

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

period depending on when the income becomes available on a modified accrual basis of accounting. The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development.

3. Capital Assets

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

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

Depreciation of capital assets such as facilities and improvements is provided on the straight-line basis over useful life of 5 – 40 years.

4. Due to Other Governments

Due to other governments are mainly comprised of AB1290 Statutory Pass-Through payments mandated by state legislature to taxing agencies. The pass-through legislation requires redevelopment agencies to share or pass-through a portion of the property tax increment to affected local taxing entities, including schools.

5. Environmental Remediation Costs

Expenditures for environmental remediation of real properties acquired by purchase or donation are added to the recorded amounts of property held for resale when incurred. All estimated environmental remediation costs that would result in the recorded amount of property held for resale exceeding estimated net realizable values are accrued as expenses when such amounts become known.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

6. Fund Balances

Governmental funds report fund balances in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of January 31, 2012, fund balances for governmental funds are made up of the following:

- *Restricted Fund Balance*: includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. It also includes a legally enforceable requirement that the resources can only be used for specific purposes enumerated in the law.
- *Assigned Fund Balance*: comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the City's Council or (b) a body (for example: a Finance and Management Committee) or official to which the City's Council has delegated the authority to assign amounts to be used for specific purposes. For example, the City's encumbrances, project carry-forwards, and continuing appropriation are considered assigned fund balances.
- *Unassigned Fund Balance*: are amounts technically available for any purpose. It's the residual classification for the amounts not contained in the other classifications, the residual resources of the general fund, either positive or negative, as well as any negative fund balances from the governmental funds.

Under various agreements with the United States Department of the Army (Army), the use of substantially all assets of approximately 366 acres of the former Oakland Army Base and related lease income is restricted for the operation, maintenance, and economic development of real properties, facilities, and improvements from June 16, 1999 to August 7, 2010 with a two year extension. In January of 2012, the City adopted council resolution transferring Oakland Army Base project from the Agency to City totaling to \$48.6 million of net assets which includes the 366 acres land from the Army valued at \$48.2 million in property held for resale.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Fund balances for all the major and nonmajor governmental funds as of January 31, 2012, were distributed as follows:

	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:									
Capital projects	\$ 22,504	\$ 2,662	\$ 10,896	\$ -	\$ 12,721	\$ 505	\$ -	\$ -	\$ 49,288
Housing projects	-	-	-	59,655	-	-	-	-	59,655
Debt service	-	-	-	-	-	-	15,594	-	15,594
subtotal	22,504	2,662	10,896	59,655	12,721	505	15,594	-	124,537
Assigned for:									
Property held for resale	17,685	9,112	13,284	8,012	-	-	-	-	48,093
Capital projects	4,788	5,866	8,307	-	-	-	-	8,475	27,436
Housing projects	-	-	-	44,012	-	-	-	-	44,012
subtotal	22,473	14,978	21,591	52,024	-	-	-	8,475	119,541
Unassigned	-	-	-	-	3,082	(2,227)	-	-	855
Total	<u>\$ 44,977</u>	<u>\$ 17,640</u>	<u>\$ 32,487</u>	<u>\$ 111,679</u>	<u>\$ 15,803</u>	<u>\$ (1,722)</u>	<u>\$ 15,594</u>	<u>\$ 8,475</u>	<u>\$ 244,933</u>

7. Property Tax Revenues

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

8. Budgetary Data

The Agency operates on a project basis and each of the capital project funds is for individual redevelopment areas consisting of several individual projects. All of the Agency's budgets are approved by the Agency's governing board. Unexpended budget appropriations are carried forward to the next year.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

9. Deferred Revenue

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

10. Long-term Obligations

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

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

11. Estimates

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(2) CASH AND INVESTMENTS

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

The Agency's cash and investments consist of the following at January 31, 2012 (in thousands):

	<u>Fair Value</u>
Cash and investments (unrestricted)	\$ 103,832
Restricted cash and investments	<u>124,450</u>
Total cash and investments	<u>\$ 228,282</u>

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

The Agency maintains all of its unrestricted investments in a cash and investment pool. As of January 31, 2012, the Agency's cash and investment pool totaled \$103.8 million. Income earned or losses arising from investments in the Agency's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average daily cash balance of such funds.

Custodial Credit Risk:

At January 31, 2012, the carrying amount of the Agency's deposits was \$7.13 million. Deposits include checking accounts, interest earning savings accounts, and non-negotiable certificates of deposit. Of the bank balance, \$0.25 million was FDIC insured and \$6.88 million was collateralized with securities held by the pledging financial institution in the Agency's name, in accordance with Section 53652 of the California Government Code.

Credit Risk:

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

The following tables show the Agency's credit risk as rated by Moody's for the Pooled and Restricted portfolios as of January 31, 2012 (in thousands):

Pooled Cash and Investments

	Fair Value	Ratings as of January 31, 2012		
		AAA/Aaa	AA/Aaa	A-1/P1
U.S. Govt. Agency Securities	\$ 30,002	\$ -	\$ 30,002	\$ -
U.S. Govt Agency Securities (Disc.)	25,999	-	25,999	-
Money Market Funds	34,700	34,700	-	-
Negotiable CDs	6,000	-	-	6,000
Subtotal	96,701	\$ 34,700	\$ 56,001	\$ 6,000
Deposits	7,131			
Total Cash and Investments	\$ 103,832			

Restricted Cash and Investments

	Fair Value	Ratings as of January 31, 2012		
		AAA/Aaa	AA/Aaa	A-1/P1
U.S. Govt. Agency Securities (Disc.)	\$ 4,600	\$ -	\$ 4,600	\$ -
Money Market Funds	115,850	115,850	-	-
Negotiable CDs	4,000	-	-	4,000
Total Restricted	\$ 124,450	\$ 115,850	\$ 4,600	\$ 4,000

Concentration of Credit Risk:

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Agency. The Agency's investment policy mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in single issuers. However, there is no limitation for investments issued by federal agencies or LAIF. The Agency has U.S. Government Agency Securities with Federal National Mortgage Corporation (Fannie Mae) for \$32.9 million or 14.90% of the total Agency portfolio respectively.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

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

Pooled Cash and Investments	% of		Restricted Investments	% of	
	Fair Value	Portfolio		Fair Value	Portfolio
U.S. Govt Agency Securities	\$ 30,002	31.03%	U.S. Govt. Agency Securities	\$ 4,600	3.70%
U.S. Govt Agency Securities (Disc)	25,999	26.85%	Money Market Funds	115,850	93.09%
Money Market Funds	34,700	35.88%	Negotiable CDs	4,000	3.21%
Negotiable CDs	6,000	6.20%	Total	\$ 124,450	100%
Total	\$ 96,701	100%			

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. The average days to maturity of the Agency's pooled portfolio is 176 days. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification.

The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of January 31, 2012, the Agency had the following investments and original maturities (in thousands):

Pooled Cash and Investments	Fair Value	Interest Rates	Maturities	
			12 Months or Less	1-3 Years
U.S. Govt Agency Securities	\$ 30,002	0.58%- 2.53%	\$ 8,053	\$ 21,949
U.S. Govt Agency Securities (Disc)	25,999	0.03%- 0.083%	25,999	-
Money Market Funds	34,700	0.07%	34,700	-
Negotiable CDs	6,000	0.15%- 0.24%	6,000	-
Total	\$ 96,701		\$ 74,752	\$ 21,949

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Restricted Investments

	Fair Value	Interest Rates	Maturities
			12 Months or Less
U.S. Govt. Agency Securities (Disc.)	\$ 4,600	0.550%	\$ 4,600
Money Market Funds	115,850	0.01% - 0.07%	115,850
Negotiable CD's	4,000	0.55%	4,000
Total	<u>\$ 124,450</u>		<u>\$ 124,450</u>

Restricted Investments in Capital Project and Debt Service Funds:

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and amounts to be held for the withdrawal of qualified reimbursements. These accounts are reported in capital projects and debt service funds. As of January 31, 2012, the amounts held by the trustees aggregated to \$124.5 million of which \$108.9 million is available to be used for restricted projects and \$15.5 million for debt service payment. All restricted investments held by trustees as of January 31, 2012 were invested in U.S. government agency securities discount note, money market mutual funds, negotiable CD's, that were in compliance with the bond indentures.

Total Agency cash and investments as of January 31, 2012, are as follow (in thousands):

Fund	Equity in Pooled Cash and Investment	Restricted Cash and Investment With Fiscal Agent	Total Governmental Funds
Central District	\$ 14,990	\$ 22,504	\$ 37,494
Coliseum	14,059	2,662	16,721
Central City East	11,928	10,896	22,824
Low and moderate housing	43,831	59,655	103,486
Broadway/MacArthur/San Pablo	5,269	12,721	17,990
Oakland Army Base	1,208	505	1,713
Debt Service	87	15,507	15,594
Nonmajor governmental funds	12,460	-	12,460
TOTAL	<u>\$ 103,832</u>	<u>\$ 124,450</u>	<u>\$ 228,282</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(3) NOTES RECEIVABLE

Notes receivable consisted of advances to developers of various Agency housing and redevelopment projects. These advances are evidenced by promissory notes. A summary of notes receivable at January 31, 2012 is as follows (in thousands):

	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Nonmajor Governmental Funds	Total Governmental Funds
Housing development project	\$ -	\$ -	\$ -	\$ 219,338	\$ -	\$ -	\$ 1,463	\$ 220,801
Development loans	16,899	649	50	-	6	365	368	18,337
Small business loans	128	-	-	-	-	-	28	156
Gross notes receivable	17,027	649	50	219,338	6	365	1,859	239,294
Less: Allowance for uncollectible accounts	(12,134)	-	-	(87,121)	-	-	(1,163)	(100,418)
Total Notes receivable, net	<u>\$ 4,893</u>	<u>\$ 649</u>	<u>\$ 50</u>	<u>\$ 132,217</u>	<u>\$ 6</u>	<u>\$ 365</u>	<u>\$ 696</u>	<u>\$ 138,876</u>

As of January 31, 2012, the Agency has a total of \$138.9 million of net notes and loans receivable, which is not expected to be received in the next twelve months. All of the Agency's notes and loan receivables are offset with deferred revenue in the governmental funds as the collection of those notes and loans are not expected within the near future. The decrease of \$49.0 million for development loans from prior year is attributed to the loan assignment and assumption agreement entered between the Agency and the City to assign various commercial loans to the City.

(4) PROPERTY HELD FOR RESALE

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

	Balance July 1, 2011	Increases	Decreases	Balance January 31, 2012
Property held for resale	<u>\$ 179,240</u>	<u>\$ 32,483</u>	<u>\$ 163,630</u>	<u>\$ 48,093</u>

The decreases in Property Held for Resale represent of the transfer of public facilities and Oakland Army Base assets to the City totaling to \$163.6 million and the acquisition of \$32.5 million in properties including Kaiser Conversion Center and other properties for the development within the Central District, Coliseum Area and Central City East Project Area.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(5) CAPITAL ASSETS

Capital assets activity of the Agency for the period July 1, 2011 through January 31, 2012, is as follows (in thousands):

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>January 31, 2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,377	\$ -	\$ -	\$ 3,377
Capital assets, being depreciated:				
Facilities and improvements	4,740	-	-	4,740
Less accumulated depreciation	(1,669)	(89)	-	(1,758)
Total capital assets, being depreciated, net	<u>3,071</u>	<u>(89)</u>	<u>-</u>	<u>2,982</u>
Governmental activities capital assets, net	<u>\$ 6,448</u>	<u>\$ (89)</u>	<u>\$ -</u>	<u>\$ 6,359</u>

The Agency has \$6.36 million capital assets, net of depreciation, as of January 31, 2012. The decrease represents the seven month of depreciation for The Henry J. Robinson Multi-Service Center Facility.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(6) INTERGOVERNMENTAL RECEIVABLES, PAYABLES, AND INTERFUND TRANSFERS

“Due to” and “due from” other funds are interfund loans between the project area. “Advances to” the City of Oakland balances have primarily been recorded as it relates to pass through loans transactions made by the Agency primarily for projects such as first-time homebuyer programs and redevelopment programs. The loan repayments made from those programs will be repaid to the Agency’s funds which originally funded the program. “Due to” the City of Oakland balances are AB 1290 Statutory Pass-Through payments due to the City. The composition of interfund balance and “advance to” and “due to” the City as of January 31, 2012 is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable fund	Payable fund	Amount
Low and Moderate Housing	Central City East	\$ 1,429

Advance to The City of Oakland (in thousands):

Receivable Project Areas	Descriptions	Amount
Central District	Other advances	\$ 121
Oakland Army Base	Reimbursement from TIGER II grants	990
Low and Moderate Housing	Pass through loans to City	7,586
	Advance for project reimbursement	178
Nonmajor governmental funds	Other advances	19
Total Advance to City		<u>\$ 8,894</u>

Due to the City of Oakland (in thousands):

Payable Project Areas	Descriptions	Amount
Central District	AB 1290 Pass Through Payment	\$ 757
Coliseum	AB 1290 Pass Through Payment	839
Central City East	AB 1290 Pass Through Payment	389
Oakland Army Base	AB 1290 Pass Through Payment	333
	Due to City	572
Broadway/MacArthur/San Pablo	AB 1290 Pass Through Payment	244
Nonmajor governmental funds	AB 1290 Pass Through Payment	191
Total due the City		<u>\$ 3,325</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Interfund Transfers (in thousands):

	Transfers In		Total Governmental Fund
	Central District	Debt Service	
Transfers out:			
Central District	\$ -	\$ 20,593	\$ 20,593
Coliseum	520	4,339	4,859
Central City East	925	3,205	4,130
Low and Moderate Housing	-	7,035	7,035
Oakland Army Base	200	-	200
Broadway/MacArthur/San Pablo	325	875	1,200
Nonmajor Governmental Funds	900	174	1,074
TOTAL	\$ 2,870	\$ 36,221	\$ 39,091

The Central District, Coliseum, Central City East, Low and Moderate Housing, and Nonmajor Governmental Funds transferred \$36.2 million into the Debt Service Fund for payment of City advances, principal and interest on tax allocation and housing set-aside revenue bonds, and for set-aside required debt service reserve. The \$2.9 million transfer from Coliseum, Central City East, OBRA and Nonmajor Governmental Funds into Central District Project Area is for the purchase of the Kaiser Conversion Center.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

(7) LONG-TERM DEBT

Changes in Long-Term Obligations

The changes in long-term obligations for the period July 1, 2011 through January 31, 2012, are as follows (in thousands):

	July 1, 2011	Additions	Deductions	January 31, 2012	Due within One Year
Bonds Payable:					
Tax allocation bonds	\$ 395,110	\$ -	\$ (11,520)	\$ 383,590	\$ 5,925
Housing set-aside revenue bonds	128,735	-	(2,860)	125,875	-
General obligation bond	60	-	(60)	-	-
Less deferred amounts:					
Issuance premiums	7,704	-	(600)	7,104	429
Issuance discount	(2,659)	-	79	(2,580)	(57)
Refunding loss	(3,478)	-	156	(3,322)	(112)
Total bonds payable	525,472	-	(14,805)	510,667	6,185
Environmental Remediation costs ¹	5,300	-	(5,000)	300	-
Advances from City of Oakland	149	-	(149)	-	-
TOTAL	\$ 530,921	\$ -	\$ (19,954)	\$ 510,967	\$ 6,185

¹ As discussed in Note 8, the Agency and the City entered into a purchase and sale agreement and as part of the agreement the Oakland Army Base asset and environmental liability was transferred to the City.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

The following is a summary of long-term obligations as of January 31, 2012 (in thousands):

Type of Obligation	Final Maturity Year	Interest Rates	Amount
Tax Allocation Bonds:			
Central District Senior Tax Allocation Refunding Series 1992	2014	2.5% - 6.0%	\$ 18,900
Central District Subordinated Tax Allocation Refunding Series 2003	2020	3.0% - 5.50%	87,865
Central District Subordinated Tax Allocation Refunding Series 2005	2023	5.00%	31,970
Central District Subordinated Tax Allocation Refunding Series 2006T	2022	5.252 - 5.411%	20,610
Central District Subordinated Tax Allocation Refunding Series 2009T	2021	5.3% - 8.5%	37,370
Central City East Tax Allocation Refunding Series 2006A-TE	2037	5.00%	13,780
Central City East Tax Allocation Refunding Series 2006A-T	2034	5.263% - 5.537%	56,150
Coliseum Area Tax Allocation Refunding Series 2006B-TE	2037	4.00% - 5.00%	26,290
Coliseum Area Tax Allocation Refunding Series 2006B-T	2036	5.263% - 5.537%	67,430
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-TE	2037	5.00%	4,945
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-T	2032	5.283% - 5.587%	10,890
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2010-T	2041	7.200 - 7.400%	7,390
Total Tax Allocation Bonds			<u>383,590</u>
Subordinated Housing Set-Aside Bonds:			
Revenue Series 2006A	2019	5.00%	2,195
Revenue Series 2006A-T	2037	5.030% - 5.927%	76,700
Revenue Series 2011T	2042	3.25% - 9.25%	46,980
Total Subordinated Housing Set-Aside Bonds			<u>125,875</u>
SUB TOTAL			<u>509,465</u>
Deferred Amounts:			
Unamortized bond premium (discount), net			4,524
Unamortized bond refunding loss, net			<u>(3,322)</u>
TOTAL BONDS PAYABLE			<u>\$ 510,667</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Revenues Pledged for the Repayment of Debt Service

Tax Allocation Bonds

The Tax Allocation Bonds (TAB), which are comprised of Series 1992, Series 2003, Series 2005, Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, Series 2006C TE/T, and Series 2010T are issued primarily to finance redevelopment projects and are all secured by pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of taxes levied upon all taxable properties within each the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of January 31, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated tax increment revenue through the period of the bonds would be estimated at \$2,949,755,000. These revenues have been pledged until the year 2041, the final maturity date of the bonds. The total principal and interest remaining on these TABs as of January 31, 2012 is estimated at \$620,658,000, which is 21.0 percent of the total projected tax increment revenues. The pledged tax increment revenues recognized during the reporting period July 1, 2011 through January 31, 2012 was \$33,345,000 of which \$22,672,317 (principal and interest) was used to pay debt service.

Historically, upon receipt of property tax increment, the Agency calculated the 80 percent and 20 percent and the voluntary 5 percent amount of tax increment and would then transfer the 20 percent and 5 percent portion to the Low and Moderate Income Housing Fund, as required by the California Health and Safety Code and the Agency board resolution. The previous requirement to bifurcate the tax increment into 80 percent and 20 percent portions was eliminated in AB XI 26. However, in order to maintain compliance with bond indentures secured by the 80 percent and 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the Redevelopment Property Tax Trust Fund ("RPTTF") pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

Housing Set-Aside Bonds

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

As of January 31, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated tax increment revenue through the period of the bonds would be estimated at \$779,962,000. These revenues have been pledged until the year 2042, the final maturity date of the bonds. The total principal and interest remaining on these

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Housing Set-Aside Bonds as of January 31, 2012 is estimated at \$252,046,287, which is 32.3 percent of the total projected tax increment revenues. The pledged tax increment revenues recognized during the reporting period July 1, 2011 through January 31, 2012 was zero. The total debt service payment for the reporting period was \$7,035,172 (principal and interest). The Agency used restricted fund balance on the Low and Moderate Housing Fund to pay the debt service for the subject reporting period.

In the future, in order to maintain compliance with bond indentures secured by the 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the RPTTF pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. As of January 31, 2012 the Agency has paid off its advances from the City in the amount of \$149 thousand.

Outstanding Defeased Bonds

For financial reporting purposes, the Agency's advanced-refunded debt is considered defeased and therefore removed as a liability from the Agency's government-wide financial statements. Cumulatively, the defeased bonds had an outstanding debt balance of \$32.8 million at January 31, 2012.

Bond Indentures

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

Annual Future Payments

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of January 31, 2012 (in thousands).

Year ending June 30:	Governmental Activities		
	Principal	Interest	Total
2012 ¹	\$ 5,925	\$ 15,033	\$ 20,958
2013	22,545	29,313	51,858
2014	24,870	28,053	52,923
2015	19,865	26,651	46,516
2016	27,140	25,334	52,474
2017 - 2021	163,300	99,311	262,611
2022 - 2026	77,825	59,811	137,636
2027 - 2031	54,080	43,688	97,768
2032 - 2036	69,505	26,672	96,177
2037 - 2041	39,035	9,126	48,161
2042 - 2042	5,375	248	5,623
TOTAL	\$ 509,465	\$ 363,240	\$ 872,705

¹ Represents amount required for the remaining 5 months of fiscal year 2012.

Conduit Debt

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

The conduit debt issued and outstanding at January 31, 2012 (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at January 31, 2012</u>
City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A	\$ 16,295	04/01/12	\$ 3,895
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
TOTAL			<u>\$ 163,895</u>

(8) TRANSACTIONS WITH THE CITY OF OAKLAND

The Agency and the City are closely related but are separate legal entities. The City Council members serve as the governing board for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended January 31, 2012, the Agency reimbursed the City \$22.5 million for these expenditures.

March 3, 2011, Agency Agreements with the City

On March 3, 2011 the Agency and the City entered into the following agreements under the California Community Redevelopment Law.

a) *The Funding Agreement*

The Agency and the City entered into a funding agreement for the Agency to fund City public improvements and other redevelopment projects and programs within the City.

b) *The Purchase and Sale Agreement*

The Agency and the City entered into a purchase and sale agreement of various Agency properties to the City at a purchase price of a dollar.

c) *Loan Assignment and Assumption Agreement*

The Agency and the City entered into a loan assignment and assumption agreement, under the agreement the City was assigned various commercial loans from the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

The table below shows the intergovernmental transfers pursuant to the funding and purchase and sale agreement and the loan assignment and assumption agreement (in thousands):

Payable Project Area	Types of Assets					TOTAL
	Property Held for Resale	Restricted Cash and Investments	Pool Cash and Investments	Notes and Loan Receivables	Others	
Central District	\$ 61,845	\$ 5,037	\$ 1,264	\$ 47,330	\$ -	\$ 115,476
Coliseum	39,750	14,416	11,249	1,256	-	66,671
Central City East	8,683	28,021	2,211	-	-	38,915
Oakland Army Base	48,940	-	34,687	-	(811)	82,816
Broadway/MacArthur/San Pablo	-	-	1,756	-	-	1,756
Nonmajor Governmental funds	4,411	-	5,236	704	-	10,351
Sub-Total	163,629	47,474	56,403	49,290	(811)	315,985
Less obligations associated with assets transferred:						
Notes and Loans deferred collections	-	-	-	(49,290)	-	(49,290)
Total Intergovernmental Transfers by Governmental Funds	\$ 163,629	\$ 47,474	\$ 56,403	\$ -	\$ (811)	\$ 266,695

In addition to the assets transferred, the Successor Agency assumed the environmental remediation obligation in the Oakland Army Base project area in the amount of \$5 million.

(9) TRANSACTIONS WITH THE FOX OAKLAND THEATER, INC. ("FOT") DEVELOPMENT

FOT is an Internal Revenue Code section 501(C) (3) organization set up by and for the benefit of the Agency and the City to renovate the Fox Theater. The Agency transferred the Fox Theater property to FOT in August 2006 through a long-term lease and a Disposition and Development Agreement ("DDA") which included a \$25,500,000 loan. The Fox Theater property was held by the Agency as property held for resale. During 2008, the property was transferred to FOT as a long-term capital lease which was valued at \$6,500,000 in the lease and DDA. All FOT board members are City employees and FOT has no staff. FOT set up a for profit entity, Fox Theater Manager, Inc ("FT Manager"), and then two LLCs managed by FT Manager, Fox Theater Landlord LLC, and Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is secured by a pledge and assignment of borrowers ninety nine and nine-tenths percent (99.9%) interests in the Community Development Entities (CDEs) loans entered into between FOT and Fox Oakland Investment Fund (FOIF). In FY 2009-10 the Agency loaned an additional of \$2.0 million to Fox Oakland Theater Inc and \$1.4 million to Fox Theater Master Tenant LLC to complete the project. The \$1.4 million Fox Theater Master Tenant LLC loan has a 15 year term.

The outstanding principal balance of the FOT loan shall accrue interest at the rate of 2.5 percent, commencing on the date of disbursement and compounded annually, which will only be payable to the extent of borrower's net cash flow from operations.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

The loan terminates at the end of ten years unless the borrower defaults on the agreement in which case the lender declares an acceleration of the maturity.

On March 3, 2011, the Agency and the City entered into a loan assignment and assumption agreement and the City was assigned various commercial loans that included the FOX Theater.

(10) COMMITMENTS AND CONTINGENCIES

Redevelopment Agency of the City of Oakland

As of January 31, 2012, the Agency has entered into several contractual commitments for materials and services relating to various redevelopment projects and affordable housing projects within the City of Oakland. In the future years these commitments will be funded by future redevelopment property tax revenues (former tax increment). The Successor Agency assets can only be used to pay enforceable obligations as defined by the Redevelopment Dissolution Law revenue and other sources.

On March 1, 2006, the Agency entered into the Jack London Gateway, Enhanced Enterprise Community Section 108 loan and grant agreement with City of Oakland as a guarantor of the promissory note. Under this agreement, the Agency committed to pay a portion of the note equal to \$160 thousand per year for a ten year period. As of January 31, 2012, the remaining balance of \$1.2 million has been included as part of the Successor Agency Recognized Obligation Payments Schedule (ROPS) submitted to the State Department of Finance.

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

Wood Street Affordable Housing Project Environmental Remediation

The Wood Street Affordable Housing Project analytical results show concentrations of arsenic, lead, total petroleum hydrocarbons such as diesel and polycyclic aromatic hydrocarbons in site soils and or ground water sample. As of January 31, 2012, environmental remediation clean up activities have not been completed yet. The Agency has set-aside \$300 thousand in escrow to cover the remaining environmental obligations.

Oakland Army Base Environmental Remediation

Land originally conveyed to Oakland Base Reuse Authority (OBRA) from the Army, portions of which were subsequently conveyed to the Agency and the Port of Oakland, may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

then, and subsequently the Agency and the Port, are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. OBRA received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs including the \$3.5 million insurance premium. As of January 31, 2012, the Agency has spent approximately \$13 million on this project, of which \$10.9 million has been received from the US Department of the Army. The Agency is working with the US Department of Army on collecting the remaining balance of \$2.1 million.

The next \$11.0 million of environmental remediation costs are to be shared equally by the Agency and the Port. As a result, the Agency reports its share of \$5.0 million remediation obligation on Oakland Army Base project. The next \$9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to \$30 million in environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance. In January of 2012, The Agency transferred Oakland Army Base Operation to the City including the remediation liabilities.

(11) SUBSEQUENT EVENTS

Recent Changes in Legislation Affecting California Redevelopment Agencies:

a) Invalidation of Loans with the City

AB XI 26 specifically invalidates existing agreements between the former Agency and the City, except for 1) those entered into at the time of issuance of debt, for the purpose of securing repayment of such debt, and 2) loans or advances from the Low and Moderate Income Housing Fund. On February 1, 2012, the City did not have any long-term loans or receivables with the former Agency. Subsequent legislation adopted on June 28, 2012 provides that loans between the City and ORSA may be re-established when the Successor Agency receives a "finding of completion" from the State Department of Finance and approval of the Oversight Board.

b) Dissolution Legislation "True up" Process

The provisions of AB1484, which was a trailer bill to the FY 2012-13 State Budget, required that the County Auditor Controller determine if the tax revenues received by the Agency in January 2012 (before dissolution) were in excess of the amount spent by the former Agency and the Oakland Redevelopment Successor Agency ("ORSA") on enforceable obligations as defined by the Redevelopment Dissolution Law during the period from January 1 through June 30, 2012. If there was an excess, the ORSA must remit the residual amounts to the County by July 12, 2012, for allocation to the taxing entities. This is referred to as the "true up" process. Due to the manner in which some of the former Agency's bond obligations were categorized on the Recognized Obligation Payment Schedule (ROPS) during this period, the County Auditor-Controller's calculations indicated a \$21.5 million "overpayment" of tax revenues to the Successor Agency. On July 12, 2012, the Successor Agency issued a payment of \$21.5 million of residual amount to the

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
January 31, 2012

County-auditor controller to be deposited into the Redevelopment Property Tax Trust Fund ("Trust Fund") for distribution to the taxing entities.

**COMBINING FINANCIAL
STATEMENTS and
COMPLIANCE SECTION**

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
January 31, 2012
(In thousands)

	Acorn	West Oakland	Other Projects	Redevelopment Planning Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments	\$ 795	\$ 4,098	\$ 5,758	\$ 1,809	\$ 12,460
Accounts receivable, net	-	-	136	-	136
Advances to the City of Oakland	-	-	19	-	19
Notes receivable, net	533	100	28	35	696
TOTAL ASSETS	\$ 1,328	\$ 4,198	\$ 5,941	\$ 1,844	\$ 13,311
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ 1,443	\$ 1,443
Due to the City of Oakland	-	144	47	-	191
Due to other governments	-	1,932	555	-	2,487
Deposits and other liabilities	12	-	1	6	19
Deferred revenue	533	100	28	35	696
TOTAL LIABILITIES	545	2,176	631	1,484	4,836
FUND BALANCES					
Assigned	783	2,022	5,310	360	8,475
TOTAL FUND BALANCES	783	2,022	5,310	360	8,475
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,328	\$ 4,198	\$ 5,941	\$ 1,844	\$ 13,311

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Period July 1, 2011 through January 31, 2012
(In thousands)

	Acorn	West Oakland	Other Projects	Redevelopment Planning Fund	Total Nonmajor Governmental Funds
REVENUES					
Tax increment	\$ -	\$ 611	\$ 204	\$ -	\$ 815
Interest on cash and investments	3	14	16	24	57
Interest on notes receivable	-	-	1	-	1
Rents and reimbursements	-	-	2,117	-	2,117
TOTAL REVENUES	<u>3</u>	<u>625</u>	<u>2,338</u>	<u>24</u>	<u>2,990</u>
EXPENDITURES					
Current:					
Urban redevelopment	866	2,212	2,963	24	6,065
Intergovernmental payments to the City of Oakland	-	3,335	6,312	-	9,647
AB 1290 Statutory Pass-Through Payment	-	357	132	-	489
TOTAL EXPENDITURES	<u>866</u>	<u>5,904</u>	<u>9,407</u>	<u>24</u>	<u>16,201</u>
Excess (deficiency) of revenues over expenditures	(863)	(5,279)	(7,069)	-	(13,211)
OTHER FINANCING SOURCES (USES)					
Transfers out	(18)	(556)	(500)	-	(1,074)
Change in fund balances	(881)	(5,835)	(7,569)	-	(14,285)
Fund balances at beginning of year	1,664	7,857	12,879	360	22,760
FUND BALANCES AT END OF YEAR	<u>\$ 783</u>	<u>\$ 2,022</u>	<u>\$ 5,310</u>	<u>\$ 360</u>	<u>\$ 8,475</u>

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Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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

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

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Oakland (Agency), a component unit of the City of Oakland, California, as of January 31, 2012 and for the period from July 1, 2011 through January 31, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 21, 2012. Our report includes an explanatory paragraph referring to Note 1 to the financial statements relating to the recent legislation dissolving California redevelopment agencies as of February 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 a deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

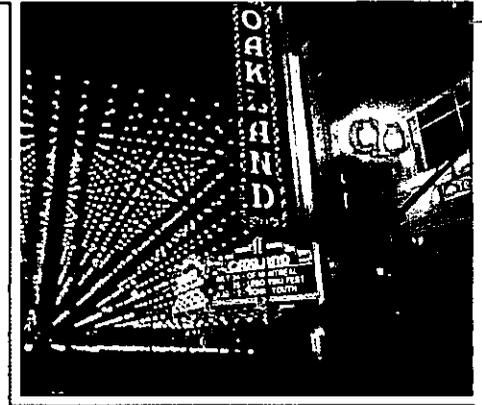
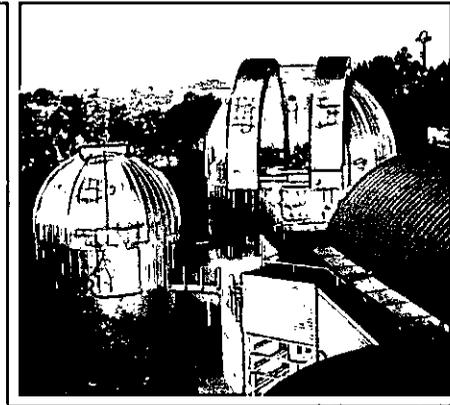
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 Board of Directors, management of the Agency and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

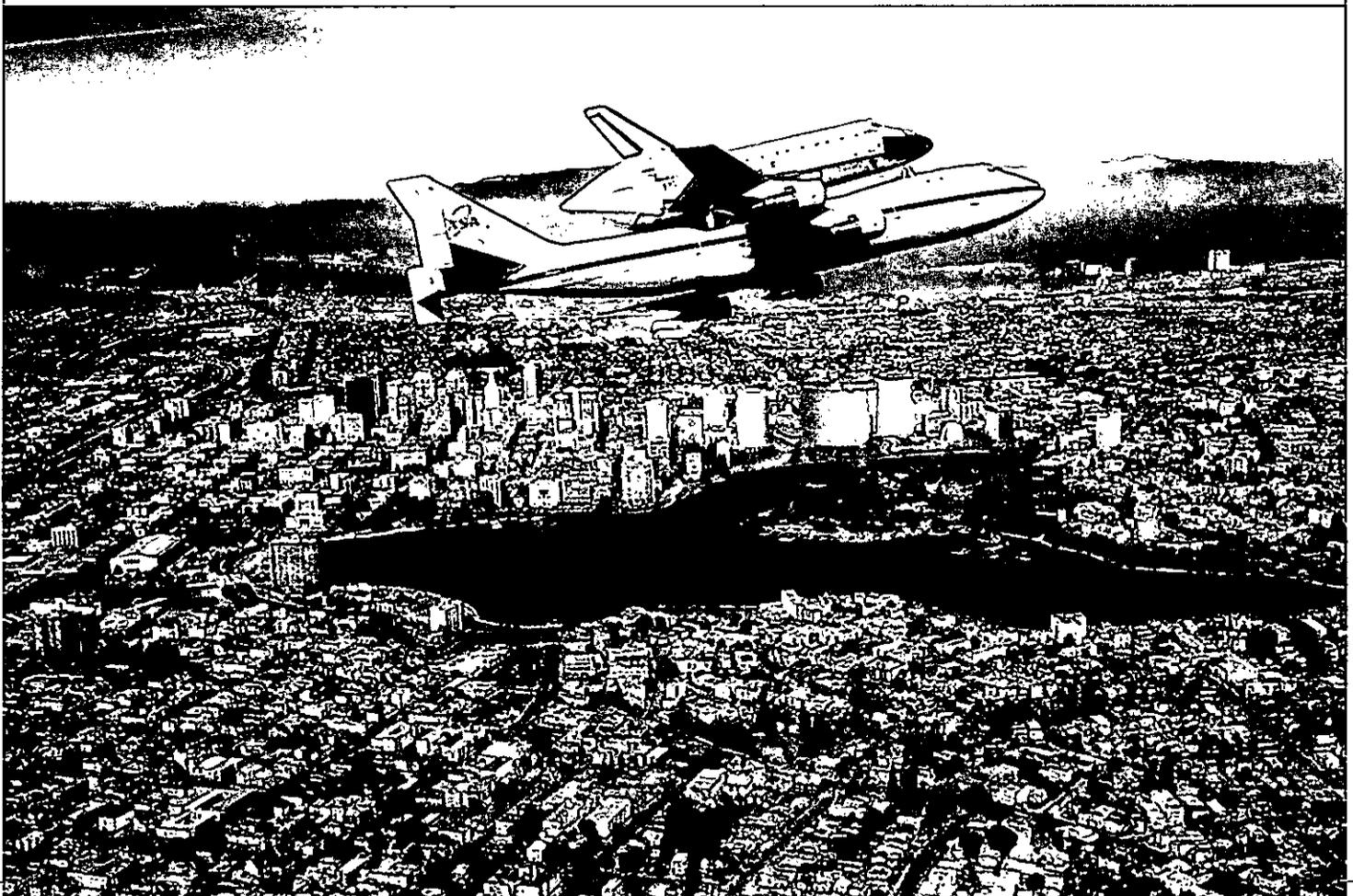
Oakland, California
December 21, 2012



CITY OF OAKLAND, CALIFORNIA

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
A COMPONENT UNIT OF THE CITY OF OAKLAND, CALIFORNIA**

FOR THE PERIOD FROM INCEPTION (FEBRUARY 1, 2012) THROUGH JUNE 30, 2012



**OAKLAND REDEVELOPMENT SUCCESSION AGENCY
FINANCIAL REPORT**

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Controller

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City Administrator's Office (CAO)

City Attorney's Office

CAO - Treasury Division

CAO – Office of Neighborhood Investment

Housing and Community Development (HCD)

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
(A Component Unit of the City of Oakland, California)
For the Period From Inception (February 1, 2012) through June 30, 2012

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information - Unaudited)	3
Basic Financial Statements:	
Statement of Fiduciary Net Assets	9
Statement of Changes in Fiduciary Net Assets	10
Notes to Basic Financial Statements	11
Other Supplementary Information:	
Combining Schedule of Fiduciary Net Assets.....	25
Combining Schedule of Changes in Fiduciary Net Assets.....	26
Combining Schedule of Fiduciary Net Assets for Capital Project Sub-Funds.....	27
Combining Schedule of Changes in Fiduciary Net Assets for Project Sub-Funds.....	28
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 <i>Government Auditing Standards</i>	29



Board of Directors
Oakland Redevelopment Successor Agency
Oakland, California

Independent Auditor’s Report

We have audited the accompanying basic financial statements of the Oakland Redevelopment Successor Agency (ORSA), a component unit of the City of Oakland (City), California, as of June 30, 2012 and for the period from inception (February 1, 2012) through June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the ORSA’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 ORSA’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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ORSA as of June 30, 2012, and the changes in its financial position for the period from inception (February 1, 2012) through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the basic financial statements, in connection with uncertainties with the Redevelopment Dissolution Law, it is reasonably possible that a determination may be made at a later date by an appropriate State or judicial authority that would resolve dissolution matters differently than currently reported. The ultimate outcome of these issues cannot presently be determined, accordingly, no provision for any adjustment that may result has been recorded in the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2013, on our consideration of the ORSA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis as listed in the table of contents be presented to supplement the basic financial

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

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

Macias Gini & Connell LLP

Walnut Creek, California
January 3, 2013

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis - Unaudited
June 30, 2012

As management of the Oakland Redevelopment Successor Agency of the City of Oakland ("ORSA"), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of ORSA for the period from its inception on February 1, 2012 through June 30, 2012. We encourage readers to consider the information presented here in conjunction with the ORSA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Pursuant to AB XI 26, redevelopment agencies in California were dissolved effective February 1, 2012. The legislation, which was upheld by the California Supreme Court in *California Redevelopment Association v. Matosantos*, and subsequently amended by AB 1484 (together, "The Redevelopment Dissolution Law") provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of the redevelopment activity. On January 10, 2012, the City Council affirmed its decision as part of the resolution number 83679 C.M.S to serve as the Successor Agency to the Redevelopment Agency of the City of Oakland overseeing all assets, properties, contracts, leases, books, records, buildings, equipment and liabilities transferred to ORSA on February 1, 2012. ORSA would be responsible for overseeing the dissolution process and the wind down of the former Redevelopment Agency of the City of Oakland's activities.

At February 1, 2012, ORSA recorded the receipt of the former Oakland Redevelopment Agency's assets \$179.7 million and liabilities \$556.2 million; the receipt of unencumbered cash of the City's Housing Successor Agency Fund funded with the former redevelopment agency's low and moderate income tax increment revenues (\$103.5 million) as an extraordinary event (See Note 2 to the Basic Financial Statements).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

This year is the first period ORSA reported financial activity. In future years, when prior year information is available, a comparative analysis of the ORSA's financial data will be presented.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. At the close of June 30, 2012, ORSA has a net assets deficit of \$269.8 million. Under the former California Redevelopment Law the former agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues. (See Note 2 to the basic financial statements).

The former Agency used debt proceeds to finance its redevelopment projects, including public projects such as public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers. Once redevelopment projects that were public facilities were completed by the former Agency, the responsibilities for their continued maintenance and operations were transferred to the appropriate public entity such as City of Oakland (City) including the capitalized redevelopment project costs. In addition, completed projects with private developers were also transferred to the developers in accordance with the **Disposition and Development Agreements**. Although completed public facilities and Joint Agency-

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis – Unaudited (Continued)
June 30, 2012

Private Partnership projects were transferred to the City or private entities, the related debt remained with the former redevelopment agency and was transferred to ORSA.

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

Statement of Fiduciary Net Assets
June 30, 2012
(In thousands)

	<u>June 30, 2012</u>
Assets	
Current and other assets	\$ 271,802
Total Assets	<u>271,802</u>
 Liabilities	
Other liabilities	45,580
Long-term liabilities	<u>504,481</u>
Total Liabilities	<u>550,061</u>
Total net assets held in trust	<u>\$ (278,259)</u>

The ORSA has \$108.6 million in restricted cash and investments held in interest and principal reserves for repayment of debt, amounts required to be held in cash reserves per bond indenture, and temporary investments for unexpended bond proceeds. Other funds are held in escrow accounts pursuant to contracts and agreements made by the former Agency, their use restricted for a particular purpose.

The ORSA's Property held for resale reflects a total net book value of \$38.9 million which majority of the properties are funded by bond proceeds. The property held for resale would be included in the Successor ORSA's Long-Range Management Plan, which will be forwarded to the Oversight Board and DOF for approval upon the receipt of a Finding of Completion from the DOF.

Long-term liabilities total \$504.5 million. Long-term liabilities are mainly represented by tax allocation bonds totaling \$377.7 million and housing set-aside bonds of \$125.9 million issued to finance redevelopment projects.

Operating activities. Over the five-month period ended June 30, 2012, ORSA had deductions over additions in the amount of \$5.2 million and an extraordinary item of (\$273.0 million) as previously described.

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis – Unaudited (Continued)
June 30, 2012

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

ORSA's Changes in Fiduciary Net Assets
For the Five-month Period Ended June 30, 2012
(In thousands)

	5-month Ended June 30, 2012
Additions	
Redevelopment property tax revenues	\$ 36,597
Other revenues	2,424
Total additions	39,021
Deductions	
General and administrative	2,099
Project expenses	29,787
Interest on debt	12,374
Total deductions	44,260
Extraordinary item from	
Redevelopment Agency Dissolution	(273,020)
Change in net assets	(278,259)
Net assets held in trust, beginning of period	-
Net assets held in trust, end of year	\$ (278,259)

On June 1, 2012, the County Auditor-Controller provided a property tax distribution of \$36.6 million. In addition, ORSA recognized \$1.6 million of federal and state grants revenue, \$0.7 million investment incomes and \$0.2 million other revenue for the period ended June 30, 2012. Interest expense including accrued interest on ORSA's outstanding debt for the period totaled \$12.4 million, \$8.5 million payment to the County-Auditor Controller for distribution to the taxing entities.

Debt Administration

At June 30, 2012, ORSA had long-term bonds and notes outstanding aggregating to \$504.5 million, a decrease of \$5.9 million from February 1, 2012, resulting from debt service payments on the Tax Allocation Bonds. All outstanding long-term debts (Tax Allocation Bonds and Housing Set-Aside Bonds) are backed by redevelopment property tax revenues.

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

	June 30, 2012
Long-Term Debt	
Tax allocation bonds	\$ 377,665
Housing set-aside bonds	125.875
Subtotal - Bonds outstanding	503.540
Deferred amounts:	
Premiums and discount	4.152
Refunding loss	(3.211)
Subtotal - deferred amounts	941
Total long-term debt	\$ 504,481

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis – Unaudited (Continued)
June 30, 2012

Bond Ratings

On June 14, 2012, Moody's Investor Service ("Moody's") downgraded all California tax allocation bonds to Ba1 that are rated Baa3 or higher. All California tax allocation bonds ratings remain on review for possible withdrawal. This action reflects sharply increased uncertainty of continued, timely cash-flow for service payments under the new legislation. Also, Fitch Ratings ("Fitch") placed all California bonds secured by tax increment revenue on negative rating watch on January 24, 2012. Please note that these rating actions will not have any impact on the Agency's debt service payments because the bonds area all fixed rate bonds.

On September 12, 2012, Standard & Poor's ("S&P") removed the CreditWatch from the Oakland Redevelopment Successor Agency's underlying ratings on investment –grade tax allocation bonds and assigned Stable outlooks which were placed on CreditWatch with negative implications on July 5, 2012 after the passage of Assembly Bill 1484. The actions reflects the fact that the City reported sufficient cash to meet debt service and demonstrated sound cash flow management and prudence in addressing future cash flow issues.

The table below shows ORSA bond ratings for the outstanding bonds:

<u>Type of Bond</u>	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>
Tax Allocation Bonds:			
Central District Senior Tax Allocation Refunding Bonds, Series 1992	N/A	N/A	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2003	N/A	A-	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2005	N/A	N/A	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2006T	Ba1	A-	N/A
Central District Subordinated Tax Allocation Refunding Bonds, Series 2009T	Not Rated	A-	N/A
Central City East Tax Allocation Refunding Bonds, Series 2006A-TE, A-T	Ba1	A-	N/A
Coliseum Area Tax Allocation Refunding Bonds, Series 2006B-TE, B-T	Ba1	A	N/A
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2006C-TE, C-T	Ba1	A+	N/A
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2010-T	Not Rated	A-	N/A
Subordinated Housing Set-Aside Bonds:			
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A, A-T	Ba1	A	A-
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2011-T	Ba1	A	N/A

REVENUES AND RECOGNIZED OBLIGATIONS PAYMENT SCHEDULE

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

The semi-annual Administrative Budget for ORSA is presented and approved by the Successor Agency governing Board and ORSA's Oversight Board, and subsequently approved as part of the ROPS by the California State Department of Finance.

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis – Unaudited (Continued)
June 30, 2012

OUTSTANDING AUDITS AND REPORTING REQUIREMENTS

ORSA staff continues to work closely with the California State Controller's Office (SCO), California State Department of Finance (DOF) and the County Auditor-Controller (CAC) to complete the outstanding audits and reporting requirements for compliance with AB XI 26 and AB 1484.

Reporting requirements include (1) DOF - Review of Housing Assets, (2) CAC – Review of Former Redevelopment Agency's Assets, Liabilities and Other Indebtedness, (3) SCO – Asset Transfers Review, (4) DOF – Due Diligence Review – Housing, and (5) DOF – Due Diligence Review – Non Housing. Upon completion and approval/certification of these reports/reviews, ORSA will receive a Finding of Completion and be allowed to submit a Property Management Plan for the disposition and sale of its assets. In addition, the Finding of Completion allows ORSA to request approval of the Oversight Board along with DOF confirmation to reinstate loans between ORSA and the City.

REQUEST FOR INFORMATION

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

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
Management's Discussion and Analysis - Unaudited
June 30, 2012

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BASIC FINANCIAL STATEMENTS

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
(A Component Unit of the City of Oakland, California)
Statement of Fiduciary Net Assets
June 30, 2012
(In Thousands)

Assets	
Cash and investments	\$ 108,068
Receivables:	
Accrued interest	218
Other, net	135
Due from City of Oakland	1,690
Prepaid expenses	19
Restricted cash and investments	108,608
Notes and loans receivable (net of allowance for uncollectable of \$13,170)	6,375
Property held for resale	38,957
Unamortized bond issuance costs	7,732
Total assets	<u>271,802</u>
Liabilities	
Accounts payable	2,725
Accrued interest payable	9,973
Due to the City of Oakland	2,800
Payable to the County of Alameda	29,985
Deposits and other payables	97
Long-term liabilities:	
Due within one year	23,132
Due in more than one year	481,349
Total liabilities	<u>550,061</u>
Net assets (deficit) held in trust	<u><u>\$ (278,259)</u></u>

See accompanying notes to the financial statements

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
(A Component Unit of the City of Oakland, California)
Statement of Changes in Fiduciary Net Assets
For the Period from Inception (February 1, 2012) through June 30, 2012
(In Thousands)

Additions:	
Redevelopment property tax revenues	\$ 36,597
Investment income:	
Investment income	614
Net appreciation in fair value of investments	84
Federal and state grants	1,575
Rent	45
Other	106
	<hr/>
Total additions	39,021
	<hr/>
Deductions:	
General and administrative:	
Salaries, wages and benefits	1,141
Materials, supplies and other services	958
Project expenses	29,787
Interest on debt	12,374
	<hr/>
Total deductions	44,260
	<hr/>
Extraordinary loss item from Redevelopment Agency Dissolution	(273,020)
	<hr/>
Change in net assets	(278,259)
Net assets, beginning of period	-
	<hr/>
Net assets (deficit), ending	<u>\$ (278,259)</u>

See accompanying notes to the financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

NOTE 1 – REPORTING ENTITY

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Investments

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

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

Proceeds from debt and other funds which are restricted for the payment of debt or for Recognized Obligation Payment Schedule and held by fiscal agents by agreement are classified as restricted assets.

Redevelopment Property Tax Revenues

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

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

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

The amounts distributed for Recognized Obligation Payment Schedules (ROPS) are forward looking to the next six month period.

Restricted Assets

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

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Property Held for Resale

For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimated of net realizable value of each property parcel based on its current use. The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development. The properties received from the former Agency will be held by ORSA as property held for resale until the State Department of Finance approves a Long-Range Property Management Plan or when the conversion of property for cash is necessary to pay ORSA's enforceable obligations when due.

Long-term Obligations

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

Issuance costs are reported as deferred charges and are amortized into the appropriate expense categories. Long-term debt is reported net of the applicable premiums, discounts, and deferred amounts on refunding. The premiums, discounts, and deferred amounts on refunding are amortized as a component of the interest expense in a systematic and rational matter over the remaining life of the debt instrument.

Extraordinary Item

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the transfer of the assets and liabilities of the former Agency, and the transfer of the City's Low and Moderate Housing Fund's unencumbered assets, as of February 1, 2012 were recorded as an extraordinary loss in ORSA's financial statements.

The components of the extraordinary loss recognized are as follows:

Transfers in of the former Agency's assets as of January 31, 2012	\$ 179,671
Transfers in of the former Agency's liabilities as of January 31, 2012	(556,177)
Transfers in of cash from the Low and Moderate Housing Fund to pay enforceable obligations	103,486
Extraordinary loss from Redevelopment Agency Dissolution	\$ <u><u>(273,020)</u></u>

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Pursuant to AB XI 26, ORSA is required to adopt a Recognized Obligation Payments Schedule ("ROPS"). A ROPS, listing all enforceable obligations due and payable in the six month coverage period, is prepared semi-annually and is the basis for the distribution of property tax revenues from the Redevelopment Property Tax Trust Fund (Trust Fund).

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS

The ORSA's cash and investments consist of the following at June 30, 2012:

<u>Cash and Investments</u>	<u>Amount</u>
Cash and investments (unrestricted)	\$ 108,068
Restricted cash and investments	<u>108,608</u>
Total cash and investments	<u>\$ 216,676</u>

Investments

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

As of June 30, 2012, ORSA invested a total amount of \$91.4 million with U.S. Government Agency Securities, which is comprised of \$86.8 million from its unrestricted accounts, and \$4.6 from the Tax Allocation Bonds and the Housing Set-Aside Bonds reserve and capitalized interest. The remaining balance is invested in Money Market Funds for \$118 million and Negotiable CD's for \$3 million.

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of ORSA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the ORSA's name.

As of June 30, 2012, the carrying amount of the ORSA's deposits was \$4.2 million. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250, and the bank balance of \$4.0 million are collateralized with securities held by the pledging financial institutions as required by Section 53652 of the California Government Code.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. ORSA investment policy has mitigated interest rate risk by establishing policies over liquidity. As of June 30, 2012, ORSA had the following investments and original maturities (in thousands):

Pooled Cash and Investments

Type of Investment	Fair Value	Interest Rates (%)	Maturities	
			12 Months of Less	1 - 3 Years
U.S. Government Agency Securities	\$ 18,832	0.28 - 0.37	\$ 3,085	\$ 15,747
U.S. Govt. Agency Securities (Discount)	67,990	0.02 - 0.10	67,990	-
Money Market Mutual Funds	14,000	0.15 - 0.16	14,000	-
Negotiable CD's	3,000	0.50	3,000	-
Total	103,822		\$ 88,075	\$ 15,747
Deposits	4,246			
	\$ 108,068			

Restricted Cash and Investments

Type of Investment	Fair Value	Interest Rates (%)	Maturities	
			12 Months of Less	1 - 3 Years
U.S. Govt. Agency Securities (Discount)	\$ 4,600	0.55	\$ 4,600	\$ -
Money Market Mutual Funds	104,008	0.06 - 0.10	104,008	-
Total	\$ 108,608		\$ 108,608	\$ -

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. ORSA's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures. The following tables show the Agency's credit risk as rated by Standard & Poor's and Moody's for the Pooled and Restricted portfolios as of June 30, 2012 (in thousands):

Pooled Cash and Investments

Type of Investment	Fair Value	Ratings as of June 30, 2012		
		Aaa/AAA	Aaa/AA	A1/P1
U.S. Govt. Agency Securities	\$ 18,832	-	\$ 18,832	\$ -
U.S. Govt. Agency Securities (Discount)	67,990	-	67,990	-
Money Market Mutual Funds	14,000	14,000	-	-
Negotiable CD's	3,000	-	-	3,000
Total Cash and Investments	\$ 103,822	\$ 14,000	\$ 86,822	\$ 3,000

Restricted Cash and Investments

Type of Investment	Fair Value	Ratings as of June 30, 2012	
		Aaa/AAA	Aaa/AA
U.S. Govt. Agency Securities (Discount)	\$ 4,600	\$ -	\$ 4,600
Money Market Mutual Funds	104,008	104,008	-
Total Cash and Investments	\$ 108,608	\$ 104,008	\$ 4,600

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on ORSA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The following table shows the diversification of ORSA's portfolio as of June 30, 2012 (in thousands):

Pooled Cash and Investments			Restricted Cash and Investments		
Type of Investment	Fair Value	% of Portfolio	Type of Investment	Fair Value	% of Portfolio
U.S. Govt. Agency Securities	\$ 18,832	18.14%	U.S. Govt. Agency Securities (Discount)	\$ 4,600	4.24%
U.S. Govt. Agency Securities (Discount)	67,990	65.49%	Money Market Mutual Funds	104,008	95.76%
Money Market Mutual Funds	14,000	13.48%	Total	\$ 108,608	100%
Negotiable CD's	3,000	2.89%			
Total	\$ 103,822	100%			

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

The following table show's ORSA's investments in one issuer that exceed 5% of ORSA's investment portfolio at June 30, 2012 (in thousands):

<u>Investment Type / Issuer</u>	<u>Amount</u>	<u>Percent of ORSA's Investment Portfolio</u>
U.S. Government Agency Securities:		
Federal National Mortgage Association (Fannie Mae)	\$ 29,831	14.04%
Federal Home Loan Bank	29,998	14.12%
Federal Home Loan Mortgage Corporation (Freddie Mac)	26,994	12.71%

Restricted Cash and Investments with Fiscal Agents

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds. As of June 30, 2012, the amounts held by the trustees aggregated \$108.6 million. All restricted investments held by trustees as of June 30, 2012 were invested in U.S. Government Agency Securities, and money market mutual funds, and were in compliance with the bond indentures.

NOTE 4 – LOANS RECEIVABLE

Composition of loans receivable as of June 30, 2012 is as follows:

	<u>Housing Development project Loans</u>	<u>Economic Development loans</u>	<u>Gross notes and Loans receivable</u>	<u>Allowance for uncollectible</u>	<u>Total Notes and Loans receivable, net</u>
Notes and Loans Receivable	\$ 1,463	\$ 18,082	\$ 19,545	\$ (13,170)	\$ 6,375

As of June 30, 2012, ORSA has a total of \$6.4 million net notes and loans receivable, which is not expected to be received in the next twelve months.

NOTE 5 – PROPERTY HELD FOR RESALE

As of June 30, 2012, ORSA has a total of \$38.9 million for property held for resale transferred from the former redevelopment agency and booked at the lower of cost or net realizable value. This represents a transfer out of housing related assets into the Housing Successor Agency and Oakland Army Base assets to the City.

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

NOTE 6 – DEBT

Long-term Debt

The following is a summary of bonds payable of ORSA as of June 30, 2012 (in thousands):

Type of Obligation	Original Issued Amount	Issued Year	Final Maturity Year	Interest Rate Range	June 30, 2012 Principal Balance
<u>Tax Allocation Bonds</u>					
Central District Redevelopment Project Senior Tax Allocation Refunding Bonds, Series 1992	\$ 97,655	1992	2014	2.5% - 6.0%	\$ 12,975
Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003	120,605	2003	2019	3.0% - 5.50%	87,865
Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005	44,360	2005	2022	5.00%	31,970
Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2006T	33,135	2006	2021	5.252% - 5.411%	20,610
Subordinated Tax Allocation Bond Series 2009T	38,755	2009	2021	5.3% - 8.5%	37,370
Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE	28,770	2006	2036	4.00% - 5.00%	26,290
Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-T	73,820	2006	2035	5.263% - 5.537%	67,430
Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE	13,780	2006	2036	5.00%	13,780
Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-T	62,520	2006	2034	5.263% - 5.537%	56,150
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE	4,945	2006	2036	5.00%	4,945
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-T	12,325	2006	2032	5.283% - 5.587%	10,890
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2010T	7,390	2010	2041	7.200% - 7.400%	7,390
Sub-total	<u>538,060</u>				<u>377,665</u>
<u>Subordinated Housing Set-Aside Bonds</u>					
Subordinated Housing Set Aside Revenue Refunding Bonds Series 2006A	2,195	2006	2018	5.00%	2,195
Subordinated Housing Set Aside Revenue Bonds Series 2006A-T	82,645	2006	2037	5.030% - 5.927%	76,700
Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T	46,980	2011	2042	3.25% - 9.25%	46,980
Sub-total	<u>131,820</u>				<u>125,875</u>
Total Long-term Debt	<u>\$ 669,880</u>				<u>\$ 503,540</u>

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

A summary of the changes in long-term debt during the period from inception (February 1, 2012) through June 30, 2012 follows (in thousands):

	February 1, 2012	Additions	Deductions	June 30, 2012	Due within One Year
Bonds Payable:					
Tax allocation bonds	\$ 383,590	\$ -	\$ (5,925)	\$ 377,665	18,685
Housing set-aside bonds	125,875	-	-	125,875	3,860
Less deferred amounts:					
Issuance premiums	7,104	-	(429)	6,675	980
Issuance discount	(2,580)	-	57	(2,523)	(136)
Refunding loss	(3,322)	-	111	(3,211)	(257)
TOTAL	\$ 510,667	\$ -	\$ (6,186)	\$ 504,481	23,132

Tax Allocation Bonds

The Tax Allocation Bonds (TAB), which are comprised of Series 1992, Series 2003, Series 2005, Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, Series 2006C TE/T, and Series 2010T are issued primarily to finance redevelopment projects and are all secured by pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of taxes levied upon all taxable properties within each the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated redevelopment property tax revenue through the period of the bonds would be estimated at \$2,949,756,000. These revenues have been pledged until the year 2041, the final maturity date of the bonds. The total principal and interest remaining on these TABs as of June 30, 2012 is estimated at 599,700,000, which is 20.3 percent of the total projected redevelopment property tax revenues. The pledge redevelopment property tax revenues recognized during the reporting period February 1, 2012 through June 30, 2012 was \$36,597,000 of which \$16,782,730 (principal and interest) was used to pay debt service.

Historically, upon receipt of property tax increment, the Agency calculated the 80 percent and 20 percent and the voluntary 5 percent amount of tax increment and would then transfer the 20 percent and 5 percent portion to the Low and Moderate Income Housing Fund, as required by the California Health and Safety Code and the Agency board resolution. The previous requirement to bifurcate the tax increment into 80 percent and 20 percent portions was eliminated in AB XI 26. However, in order to maintain compliance with bond indentures secured by the 80 percent and 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the Redevelopment Property Tax Trust Fund ("RPTTF") pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Housing Set-Aside Bonds

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

As of June, 30, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated redevelopment property tax revenue through the period of the bonds would be estimated at \$779,962,000. These revenues have been pledged until the year 2037, the final maturity date of the bonds. The total principal and interest remaining on these Housing Set-Aside Bonds as of June 30, 2012 is estimated at \$252,046,000, which is 32.3 percent of the total projected tax increment revenues. The pledge redevelopment property tax revenues recognized during the reporting period February 1, 2012 through June 30, 2012 was zero. The total interest debt service payment for the reporting period was \$4,174,793. The Agency used restricted fund balance on the Low and Moderate Housing Fund to pay the debt service for the subject reporting period.

In the future, in order to maintain compliance with bond indentures secured by the 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the RPTTF pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest. The annual requirements to amortize outstanding tax allocation bonds and housing set-aside bonds outstanding as of June 30, 2012, including mandatory sinking fund payments, are as follows (in thousands):

Year ending June 30:	Principal	Interest	Total
2013	\$ 22,545	\$ 29,313	\$ 51,858
2014	24,870	28,053	52,923
2015	19,865	26,651	46,516
2016	27,140	25,334	52,474
2017	29,760	23,670	53,430
2018 - 2022	165,425	89,791	255,216
2023 - 2027	56,270	55,591	111,861
2028 - 2032	56,195	40,591	96,786
2033 - 2037	73,315	22,767	96,082
2038 - 2042	28,155	6,446	34,601
TOTAL	<u>\$ 503,540</u>	<u>\$ 348,207</u>	<u>\$ 851,747</u>

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Conduit Debt

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

The conduit debt issued and outstanding at June 30, 2012 (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2012</u>
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	\$ 160,000	10/01/50	\$ 160,000

Outstanding Defeased Bonds

For financial reporting purposes, the former redevelopment agency's advanced-refunded debt is considered defeased and therefore removed as a liability from ORSA's statement of fiduciary net assets. Cumulatively, the defeased bonds had an outstanding debt balance of \$32.8 million at June 30, 2012.

NOTE 7 – REDEVELOPMENT PROPERTY TAX TRUST FUND

On June 1, 2012, the County Auditor-Controller made the first distribution of funds from the Redevelopment Property Tax Trust Fund to ORSA, in the amount of \$36.6 million and deposited to the Redevelopment Obligation Retirement Fund as required by AB XI 26.

NOTE 8 – TRANSACTIONS WITH THE CITY OF OAKLAND

City Expenses

ORSA incurred \$2.1 million of general and administrative costs and \$3.8 million for project related overhead and operational cost for support services of designated City employees allocated to ORSA administrative activities.

Due from the City

As of June 30, 2012, ORSA has a total due from the City in the amount of \$1.7 million which included \$990 thousand grants receivable for the Tiger II Grant from the former Agency's Oakland Army Base Project Fund to the City in January 2012. ORSA will be repaid when grant is collected.

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Due to the City

At June 30, 2012, ORSA has a payable to the City in the amount of \$2.8 million which included the former Agency's Low and Moderate Housing Fund loan of \$1.4 million to the Central City East Project Funds where the Low and Moderate Housing Funds Assets were transferred to the Housing Successor Agency of the City and payable of \$1.2 million to the City for support services.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Redevelopment Dissolution Law

Under ABx1 26, adopted on June 28, 2011, as amended by AB 1484 adopted on June 27, 2012, all new redevelopment activities were suspended, with limited exceptions, and redevelopment agencies were dissolved on February 1, 2012. Under this legislation, the California Department of Finance and the California State Controller's Office have varying degrees of responsibility and oversight. The ultimate outcome of issues raised by State authorities, such as the rejection of using ORSA assets to pay obligations or the return of asset transfers to the ORSA, cannot presently be determined and, accordingly, no provision for any liability that may result has been recorded in the financial statements.

Environmental Land Remediation Obligation

A review of ORSA's property during the five-month period ended June 30, 2012 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses). If in the future when a land remediation obligation occurs to a property due to a change in the purpose (i.e. convert to housing or retail project), ORSA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Ambac Bankruptcy

On November 9, 2010, Ambac Financial Group Inc. (the "Ambac Financial") filed for bankruptcy protection under Chapter 11 Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers. Ambac Assurance Corporation (the "Ambac"), a subsidiary of Ambac Financial, has issued a financial guaranty insurance policy for payment of principal and interest when due and a reserve fund surety bond for the former Agency's tax allocation bonds.

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Ambac continues to provide policy coverage for the Agency's bonds listed in the table below. Also, Ambac's obligation to honor claims in accordance with the terms of the policies has not been affected by the bankruptcy of Ambac Financial Group, Inc.

Type of Bond	Original Par Amount
Tax Allocation Bonds:	
Central District Senior Tax Allocation Refunding Bonds, Series 1992	\$ 97,655
Central District Subordinated Tax Allocation Refunding Bonds, Series 2005	44,360
Central City East Tax Allocation Refunding Bonds, Series 2006A-TE, A-T	76,300
Coliseum Area Tax Allocation Refunding Bonds, Series 2006B-TE, B-T	102,590
Broadway/MacArthur/San Pablo Tax Allocation Refunding Bonds, Series 2006C-TE, C-T	17,270
Subordinated Housing Set-Aside Bonds:	
Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A, A-T	84,840

Encumbrances

At June 30, 2012, ORSA had encumbered \$1.4 billion for contracted obligations, per the Required Obligation Payment Schedule (ROPS) covering the July 1, 2012 through December 31, 2012 period, which was approved by the California Department of Finance on May 24, 2012.

NOTE 10 – LITIGATION

Litigation/Unpaid Claims

ORSA is subject to various other claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with certainty, it is reasonably possible that some of these legal actions could be decided unfavorably against ORSA.

NOTE 11 – SUBSEQUENT EVENTS

Dissolution Legislation “True up” Process

The provisions of AB1484, which was a trailer bill to the FY 2012-13 State Budget, required that the County Auditor Controller determine if the tax revenues received by the Agency in January 2012 (before dissolution) were in excess of the amount spent by the former Agency and the Oakland Redevelopment Successor Agency (“ORSA”) on enforceable obligations as defined by the Redevelopment Dissolution Law during the period from January 1 through June 30, 2012. If there was an excess, the ORSA must remit the residual amounts to the County by July 12, 2012, for allocation to the taxing entities. This is referred to as the “true up” process. Due to the manner in which some of the former Agency's bond obligations were categorized on the Recognized Obligation Payment Schedule (ROPS) during this period, the County Auditor-Controller's calculations indicated a \$21.5 million "overpayment" of tax revenues to the Successor Agency. On July 12, 2012, the Successor Agency issued a payment of \$21.5 million of residual amount to the County-Auditor Controller to be deposited into the Redevelopment Property Tax Trust Fund (“Trust Fund”) for distribution to the taxing entities.

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

Notes to the Basic Financial Statements
For the Period From Inception (February 1, 2012) through June 30, 2012
(Amounts in Thousands)

Findings of the Agreed-Upon Procedures Report

Pursuant to the California Health and Safety Code section 34182, the County Auditor-Controller was responsible to cause the performance of procedures to establish the former Agency's assets and liabilities, to document pass-through obligations, and to document the amount and terms of indebtedness incurred by the former Agency. The County issued its Agreed-Upon Procedures Report (AUP) on October 5, 2012 and submitted it to the California State Controller's Office (SCO) and the California State Department of Finance (DOF). Other than as a reference for the DOF and the SCO, the AUP has no consequence in the dissolution process.

Low and Moderate Income Housing Fund Due Diligence Review

The provisions of AB1484, which was a trailer bill to the FY 2012-13 State Budget, required that the Successor Agency must provide Department of Finance an Oversight Board approved Due Diligence Review (DDR) that has been prepared by a licensed accountant. The DDR will list all encumbered and unencumbered low and moderate income housing fund (LMIHF) assets, and will state whether or not those assets are encumbered by Enforceable Obligations. On November 5, 2012, ORSA submitted DOF an approved Oversight Board DDR with no cash and cash equivalents available for distribution to the affected taxing entities. In a letter dated November 30, 2012, DOF completed its review of ORSA DDR and adjusted \$4.3 million in non-cash and cash equivalents assets and \$8.5 million in cash and cash equivalents. Therefore, the balance of LMIHF available for distribution to the affected taxing entities is \$8.5 million. ORSA has issued a payment of \$8.5 million to the County-Auditor Controller to be deposited into the trust fund for distribution to the taxing entities.

OTHER SUPPLEMENTARY INFORMATION

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY

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

Combining Schedule of Fiduciary Net Assets

June 30, 2012

(In Thousands)

	Redevelopment Obligation Retirement Fund	Planning Fund	Capitol Project Funds	Federal & State Grant	Debt Service	Elimination	TOTAL
Assets							
Cash and investments	\$ 36,563	\$ 433	\$ 71,070	\$ -	\$ 2	\$ -	\$ 108,068
Accrued interest receivable	74	1	143	-	-	-	218
Accounts receivable (net of allowance for uncollectable of \$31)	-	-	135	-	-	-	135
Due from other funds	-	557	-	-	-	(557)	-
Due from City of Oakland	-	-	1,474	216	-	-	1,690
Prepaid expenses	-	-	19	-	-	-	19
Restricted cash and investments	-	-	99,532	-	9,076	-	108,608
Notes and loans receivable, net	-	35	6,340	-	-	-	6,375
Property held for resale	-	-	38,957	-	-	-	38,957
Unamortized bond issuance costs	-	-	-	-	7,732	-	7,732
Total assets	<u>36,637</u>	<u>1,026</u>	<u>217,670</u>	<u>216</u>	<u>16,810</u>	<u>(557)</u>	<u>271,802</u>
Liabilities							
Accounts Payable	-	544	2,181	-	-	-	2,725
Accrued interest payable	-	-	-	-	9,973	-	9,973
Due to other funds	-	-	-	557	-	(557)	-
Due to the City	-	-	2,800	-	-	-	2,800
Due to other governments	-	-	29,985	-	-	-	29,985
Deposits and other liabilities	-	6	91	-	-	-	97
Long-term Liabilities:							
Due within one year	-	-	-	-	23,132	-	23,132
Due in more than one year	-	-	-	-	481,349	-	481,349
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>504,481</u>	<u>(557)</u>	<u>504,481</u>
Total liabilities	<u>-</u>	<u>550</u>	<u>35,057</u>	<u>557</u>	<u>514,454</u>	<u>(557)</u>	<u>550,061</u>
Fund balance /Net assets (deficit) held in trust	<u>\$ 36,637</u>	<u>\$ 476</u>	<u>\$ 182,613</u>	<u>\$ (341)</u>	<u>\$ (497,644)</u>	<u>\$ -</u>	<u>\$ (278,259)</u>

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
(A Component Unit of the City of Oakland, California)
Combining Schedule of Changes in Fiduciary Net Assets
For the Period from Inception (February 1, 2012) through June 30, 2012
(In Thousands)

	Redevelopment Obligation Retirement Fund	Planning Fund	Capital Project Funds	Federal and State Grants	Debt Service	TOTAL
Additions:						
Tax increment	\$ 36,597	\$ -	\$ -	\$ -	\$ -	\$ 36,597
Investment income:						
Interest on investments	12	78	496	-	28	614
Net appreciation in fair value of investments	28	1	55	-	-	84
Federal Grants	-	-	-	-	122	122
State Grants	-	-	-	1,453	-	1,453
Rents and reimbursements	-	-	45	-	-	45
Other	-	4	102	-	-	106
Total additions	<u>36,637</u>	<u>83</u>	<u>698</u>	<u>1,453</u>	<u>150</u>	<u>39,021</u>
Deductions:						
General and administrative:						
Salaries, wages and benefits	-	-	1,141	-	-	1,141
Materials, supplies and other services	-	-	958	-	-	958
Project expenses	-	3,170	25,163	1,454	-	29,787
Debt Service:						
Interest on long-term debt	-	-	-	-	12,374	12,374
Total deductions	<u>-</u>	<u>3,170</u>	<u>27,262</u>	<u>1,454</u>	<u>12,374</u>	<u>44,260</u>
Net increase (decrease) before transfers	36,637	(3,087)	(26,564)	(1)	(12,224)	(5,239)
Transfers in	-	3,169	4,856	-	14,377	22,402
Transfers out	-	-	(22,402)	-	-	(22,402)
Total transfers	<u>-</u>	<u>3,169</u>	<u>(17,546)</u>	<u>-</u>	<u>14,377</u>	<u>-</u>
Extraordinary item from Redevelopment Agency Dissolution		394	226,723	(340)	(499,797)	(273,020)
Change in net assets	36,637	476	182,613	(341)	(497,644)	(278,259)
Net assets at beginning of period	-	-	-	-	-	-
Net assets (deficit), ending	<u>\$ 36,637</u>	<u>\$ 476</u>	<u>\$ 182,613</u>	<u>\$ (341)</u>	<u>\$ (497,644)</u>	<u>\$ (278,259)</u>

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY
(A Component Unit of the City of Oakland, California)
Combining Schedule of Fiduciary Net Assets for Capital Project Sub-Funds
June 30, 2012
(In Thousands)

	Capital Projects							Total Project Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Other Projects	
Assets								
Cash and investments	\$ 2,445	\$ 11,936	\$ 7,788	\$ 37,762	\$ 7,416	\$ -	\$ 3,723	\$ 71,070
Accrued interest receivable	5	24	16	76	15	-	7	143
Accounts receivable	135	-	-	-	-	-	-	135
Due from other funds	-	-	-	-	-	-	489	489
Advances to the City	420	5	-	-	-	1,049	-	1,474
Prepaid Expenses	-	19	-	-	-	-	-	19
Restricted cash and investments	19,901	2,662	10,896	58,722	7,351	-	-	99,532
Notes receivable, net	5,010	641	50	-	6	-	633	6,340
Property held for resale	17,685	8,228	13,044	-	-	-	-	38,957
Total assets	<u>45,601</u>	<u>23,515</u>	<u>31,794</u>	<u>96,560</u>	<u>14,788</u>	<u>1,049</u>	<u>4,852</u>	<u>218,159</u>
Liabilities								
Accounts payable and accrued liabilities	368	-	11	1,695	89	17	1	2,181
Due to other funds	-	-	-	-	-	489	-	489
Due to the City	377	227	1,551	365	67	174	39	2,800
Due to other governments	8,112	5,707	1,255	8,480	1,362	2,880	2,189	29,985
Deposits and other liabilities	3	-	-	-	25	50	13	91
Total liabilities	<u>8,860</u>	<u>5,934</u>	<u>2,817</u>	<u>10,540</u>	<u>1,543</u>	<u>3,610</u>	<u>2,242</u>	<u>35,546</u>
Fund balance /Net assets (deficit) held in trust	<u>\$ 36,741</u>	<u>\$ 17,581</u>	<u>\$ 28,977</u>	<u>\$ 86,020</u>	<u>\$ 13,245</u>	<u>\$ (2,561)</u>	<u>\$ 2,610</u>	<u>\$ 182,613</u>

OAKLAND REDEVELOPMENT SUCCKSSOR AGENCY
(A Component Unit of the City of Oakland, California)
Combining Schedule of Changes in Fiduciary Net Assets for Capital Project Sub-Funds
For the Period from Inception (February 1, 2012) through June 30, 2012
(In Thousands)

	Capital Projects							Total Project Funds
	Central District	Culiseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Other Projects	
Additions:								
Investment income:								
Interest on investments	\$ 274	\$ 34	\$ 21	\$ 137	\$ 20	\$ -	\$ 10	\$ 496
Net appreciation in fair value of investments	2	9	6	29	6	-	3	55
Rents and reimbursements	40	5	-	-	-	-	-	45
Other	102	-	-	-	-	-	-	102
Total additions	<u>418</u>	<u>48</u>	<u>27</u>	<u>166</u>	<u>26</u>	<u>-</u>	<u>13</u>	<u>698</u>
Deductions:								
General and administrative:								
Salaries, wages and benefits	370	191	119	319	66	47	29	1,141
Materials, supplies and other services	311	160	100	268	55	40	24	958
Project expenses	4,453	820	472	17,052	1,744	199	423	25,163
Total deductions	<u>5,134</u>	<u>1,171</u>	<u>691</u>	<u>17,639</u>	<u>1,865</u>	<u>286</u>	<u>476</u>	<u>27,262</u>
Net decrease before transfers	(4,716)	(1,123)	(664)	(17,473)	(1,839)	(286)	(463)	(26,564)
Transfers in	-	-	-	4,856	-	-	-	4,856
Transfers out	(8,630)	(4,086)	(2,658)	(5,060)	(1,065)	(557)	(346)	(22,402)
Total transfers	<u>(8,630)</u>	<u>(4,086)</u>	<u>(2,658)</u>	<u>(204)</u>	<u>(1,065)</u>	<u>(557)</u>	<u>(346)</u>	<u>(17,546)</u>
Extraordinary item from Redevelopment Agency Dissolution	<u>50,087</u>	<u>22,790</u>	<u>32,299</u>	<u>103,697</u>	<u>16,149</u>	<u>(1,718)</u>	<u>3,419</u>	<u>226,723</u>
Change in net assets	36,741	17,581	28,977	86,020	13,245	(2,561)	2,610	182,613
Net assets at beginning of period	-	-	-	-	-	-	-	-
Net assets (deficit), ending	<u>\$ 36,741</u>	<u>\$ 17,581</u>	<u>\$ 28,977</u>	<u>\$ 86,020</u>	<u>\$ 13,245</u>	<u>\$ (2,561)</u>	<u>\$ 2,610</u>	<u>\$ 182,613</u>

Board of Directors
Oakland Redevelopment Successor Agency
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 basic financial statements of the Oakland Redevelopment Successor Agency (ORSA), a component unit of the City of Oakland (City), California, as of June 30, 2012 and for the period from inception (February 1, 2012) through June 30, 2012, and have issued our report thereon dated January 3, 2013. Our report includes an emphasis of a matter paragraph referring to Note 9 of the basic financial statements relating to uncertainties with the Redevelopment Dissolution Law. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the ORSA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the ORSA'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 ORSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ORSA's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ORSA'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 ORSA's Board of Directors, Oversight Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Walnut Creek, California
January 3, 2013