

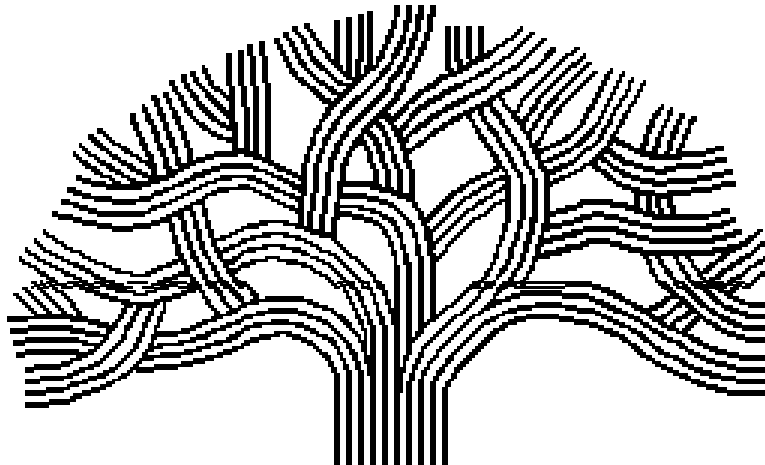
REDEVELOPMENT AGENCY

of the

CITY OF OAKLAND

CALIFORNIA

(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)



**Basic Financial Statements
and
Supplemental Information**

Fiscal Year Ended June 30, 2005

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
FINANCIAL REPORT

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City Attorney's Office
Community & Economic Development Agency

FMA-Treasury Division

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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As described in Note 2 to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, 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.

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

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

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 2, 2005

Williams, Atley & Company, LLP
Certified Public Accountants

Oakland, California
December 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

This section of the Redevelopment Agency of the City of Oakland ("Agency") Annual Financial Report presents a narrative overview and analysis of the financial activities of the Agency for the year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Agency's financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The Agency's total assets exceeded its total liabilities by \$33,018,806 compared to net assets of \$16,448,558 for the previous fiscal year. Assets increased by 19% while liabilities grew by 15% for a net growth in net assets of 101%. The increase was mainly caused by growth in property tax revenues. Note that the beginning net assets for the year ended June 30, 2005 have been restated to reflect an increase of \$12.0 million. See Note (13) in the basic financial statements for more details.
- For the year ended June 30, 2005, the Agency's revenues for governmental activities were \$85,150,695 compared to \$73,046,146 for the prior fiscal year, an increase of \$12,104,549 or 17%. The increase is primarily attributable to the increase in property taxes of \$16.7 million or 31% in the ORA project areas driven by double digit increases in assessed property valuation and investment income of \$3.1 million, offset by a reduction in other revenues of \$6.5 million.
- The Agency's total expenses for the year ended June 30, 2005 were \$68,580,447 compared to \$44,723,496 for the prior year. The increase of \$23,856,951 or 53% is attributed to the increase of \$22.6 million in urban redevelopment and housing project activities in the various ORA project areas, and an increase of \$1.2 million in long term debt interest expense.
- Reported for the first time by the Agency is the Central City East Project Area approved by City Council through Ordinance No. 12528 C.M.S. It is reported as a major fund under the Capital Projects category in the fund financial statements. See Note (1) in the basic financial statements for more details.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

The Agency maintains 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, Low and Moderate Housing Fund, Tax Allocation Debt Fund, and the recently created

Central City East Fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

Discretely Presented Component Unit – Oakland Base Reuse Authority

The Oakland Redevelopment Agency basic financial statements incorporate the Oakland Base Reuse Authority as a discretely presented component unit. As such, its activities for the fiscal year are reported in a separate column in the Agency’s government-wide financial statements. See Note (1) in the basic financial statements for more details.

Notes to the basic financial statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19-45 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the combining statements referred to earlier in connection with other nonmajor governmental funds are presented immediately following the footnotes.

Government-wide Financial Analysis

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

**Net Assets
Governmental Activities**

	June 30	
	2005	2004*
Current and other assets	\$ 312,189,470	\$ 238,997,956
Property held for resale	<u>57,737,856</u>	<u>71,500,558</u>
Total assets	<u>369,927,326</u>	<u>310,498,514</u>
Long-term liabilities	319,308,146	279,546,593
Other liabilities	<u>17,600,374</u>	<u>14,503,363</u>
Total liabilities	<u>336,908,520</u>	<u>294,049,956</u>
Net assets/(deficit)		
Restricted for:		
Low and Moderate Housing	38,122,381	-
Urban redevelopment and housing	233,916,862	224,453,079
Unrestricted (deficit)	<u>(239,020,437)</u>	<u>(208,004,521)</u>
Total net assets/(deficit)	<u>\$ 33,018,806</u>	<u>\$ 16,448,558</u>

* Restated

Analysis of Net Assets

Net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's assets exceeded liabilities by \$33,018,806 at the close of the fiscal year ended June 30, 2005.

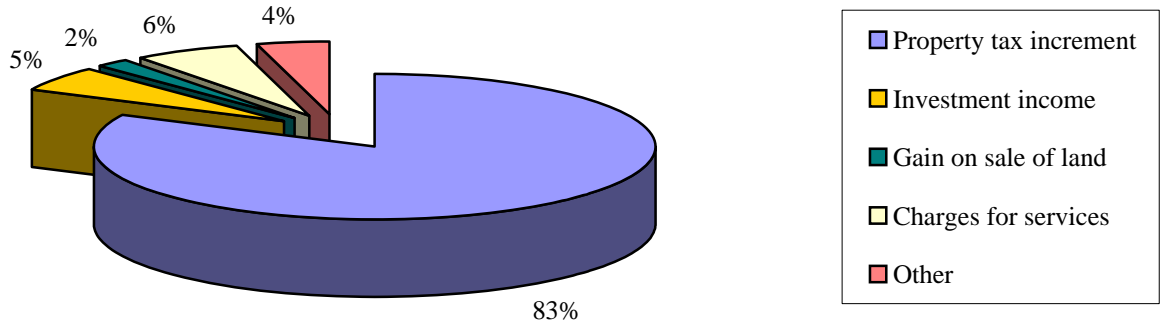
As of the end of the fiscal year, the Agency had restricted net assets of \$272,039,243. These restricted net assets include an investment of \$57,737,856 in Community Development (Property held for resale). The Agency uses Property Held for Resale to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of the Agency's restricted net assets of \$214,301,387 represents resources that are subject to external restrictions on how they may be used. The Agency's deficit in unrestricted net assets of (\$239,020,437) is attributed to the issuance of bonds and other indebtedness to fund urban development and housing projects that are not capitalized.

Governmental activities. Governmental activities increased the Agency's net assets by 101% (\$16,570,248). Key elements of this increase are as follows:

	Changes in Net Assets Governmental Activities	
	June 30	
	2005	2004*
Revenues:		
Program revenues:		
Charges for services	\$ 5,172,980	\$ 5,749,532
General revenues:		
Property tax increment	70,076,503	53,415,706
Investment income	4,580,555	1,469,536
Gain on sale of land	1,664,076	2,284,417
Other	<u>3,656,581</u>	<u>10,126,955</u>
Total revenues	<u>85,150,695</u>	<u>73,046,146</u>
Expenses:		
Urban redevelopment and housing	52,811,520	30,178,725
Interest on long-term debt	<u>15,768,927</u>	<u>14,544,771</u>
Total expenses	<u>68,580,447</u>	<u>44,723,496</u>
Increase in net assets	16,570,248	28,322,650
Net assets/(deficit) beginning of year	<u>16,448,558</u>	<u>(11,874,092)</u>
Net assets end of year	<u>\$33,018,806</u>	<u>\$ 16,448,558</u>

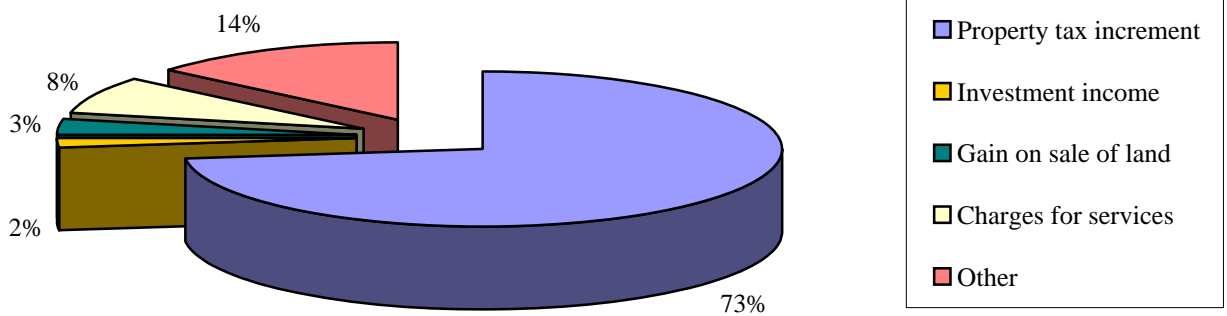
* Restated

**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2004-05**

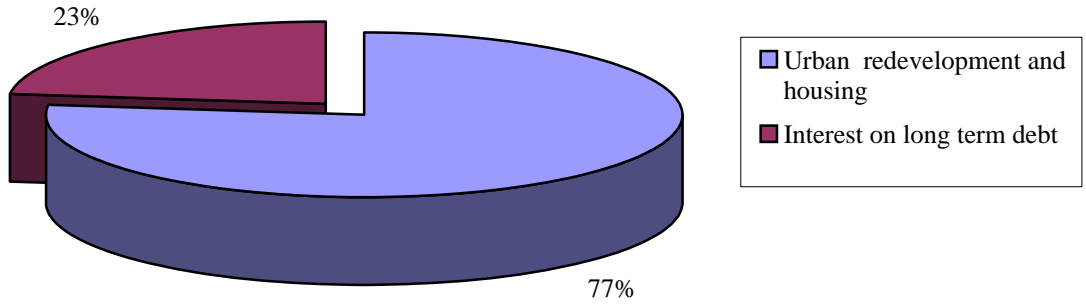


Total Revenues \$85,150,695

**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2003-04**

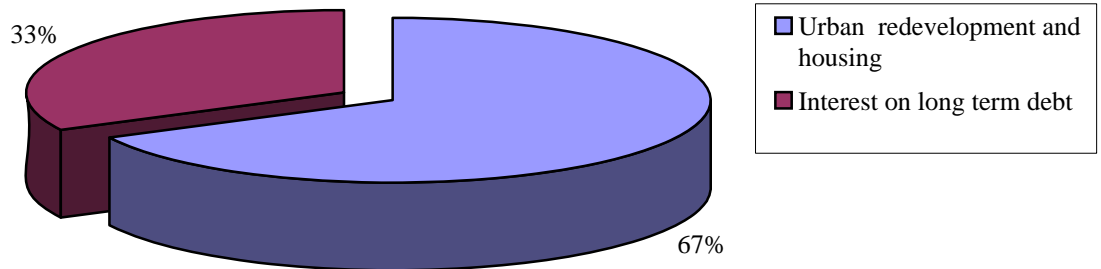


**Redevelopment Agency of Oakland
Functional Expenses
For FY 2004-05**



Total Expenditures \$68,580,447

**Redevelopment Agency of Oakland
Functional Expenses
For FY 2003-04**



Analysis of Changes in Net Assets. The revenues in governmental activities for the Agency exceeded expenses by \$16,570,248 for the year ended June 30, 2005. This represents a decrease in net assets of 41% compared to the prior year's increase in net assets of \$28,322,650.

The charts in the preceding pages illustrate the proportional distribution of revenues by source and expenses by function compared to the previous year. Revenues totaled \$85,150,695 while expenses totaled \$68,580,447 for the year ended June 30, 2005 compared to \$73,046,146 and \$44,723,496, respectively, for the year ended June 30, 2004.

Revenues increased compared to the previous fiscal year by \$12,104,549 or 17%. The growth is attributable to property tax increment revenues which increased by \$16,660,797 (31%) due to a strong real estate market driven by double digit enhancement in property values. Increased investment income of \$3,111,019 (212%) is attributed to higher balances in pooled cash and investments and restricted cash with fiscal agents. Significant decreases in revenues are comprised of: (a) \$576,552 (10%) reduction in charges for services due to the sale of the Preservation Park; (b) \$620,341 (27%) reduction in the gain from sale of property held for resale due to a one-time sale of Oakport parcels and a portion of the Preservation Park property offset by the sale of the T-10 site for the year ended June 30, 2004; and (c) the \$6,470,374 (64%) is due to a reduction in other revenues as a result of the inclusion in the prior year of proceeds from the restructuring of 2003 Central District Tax Allocation Refunding Bonds.

Government wide expenses increased by \$23,856,951 or 53% is primarily attributable to the increase of \$22,632,795 in urban redevelopment and housing activities in the various ORA redevelopment project areas and \$1,224,156 in long-term debt interest expenses.

Financial Analysis of the Agency's Funds

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus on the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Agency include Capital Projects and Debt Service.

As of June 30, 2005, the Agency's governmental funds reported combined ending fund balances of \$271,314,406, a net increase of 27% or (\$57,396,371) compared to the prior year's restated ending fund balance. The net increase is represented by: (1) a 31% (\$16,466,141) increase in property tax increment collections attributed to improved property valuations in the redevelopment project areas; (2) unspent proceeds from the issuance of the Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 2005 in the amount of \$44,360,000 for development projects; and (3) increase in investment income of 212% or (\$3,111,019) due to the maintenance of higher cash balances in pooled cash and investments and restricted cash with fiscal agents for future redevelopment and housing activities. The combined fund balances of \$271,314,406 are distributed as follows: 63% for the Central District Project

area; 14% for the Low Moderate Housing Project area; 12% for the Coliseum Project area; 2% for the Central City East Project area; and 10% for other Redevelopment Project areas.

Budgetary Data

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

Capital Assets and Debt Administration

Capital assets. The Agency does not have any Capital Assets. However, OBRA, its discretely presented component unit shows depreciable capital assets of \$490,211 as of June 30, 2005.

Long-term debt. At June 30, 2005, the Agency had total long-term debt outstanding of \$319,308,146, an increase of 14% over the previous fiscal year. The increase was primarily due to the issuance of Tax Allocation Series 2005 Bonds to finance redevelopment and housing activities in the Central District Project area through fiscal year 2007.

Bond Ratings

The Agency’s bond ratings at June 30, 2005 are as follows:

	Insured By	Rating	Balance Outstanding
Tax allocation	FGIC/MBIA/AMBAC	AAA/Aaa/A-*	\$ 233,090,000
Housing set-aside revenue bonds	MBIA	AAA/AAA/Aaa	36,645,000
General obligation bonds	N/A	Not rated	<u>350,000</u>
Total			<u>\$ 270,085,000</u>

*Coliseum Area Redevelopment Tax Allocation Bonds Series 2003 totaling \$22,700,000 are not insured and have an A rating. All ratings were done by Fitch, Standard & Poor’s and Moody’s Investors Service.

Long-term liabilities at June 30, 2005, are comprised of the following:

	FY 2005	FY 2004
Tax allocation bonds payable	\$ 233,090,000	\$ 197,095,000
Housing set-aside revenue bonds	36,645,000	38,070,000
General obligation bonds	<u>350,000</u>	<u>390,000</u>

SUBTOTAL	270,085,000	235,555,000
Deferred amounts, net	10,506,607	7,975,006
Uptown remediation costs	4,085,600	
Advances from City of Oakland	<u>34,630,939</u>	<u>36,016,587</u>
TOTAL	<u>\$319,308,146</u>	<u>\$279,546,593</u>

Requests for Information

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2005

	<u>Oakland Redevelopment Agency</u>	<u>Component Unit Oakland Base Reuse Authority</u>
ASSETS		
Cash	\$ 19,000	\$ -
Pooled cash and investments	129,123,448	6,059,996
Tax increment receivable	1,186,540	-
Accrued interest receivable	411,089	-
Receivables, (net of allowance for uncollectibles of \$579,025 for the component unit)		
Accounts receivable	373,234	713,949
Grants receivable	-	168,165
Due from City	31,125,433	-
Due from other government	4,898,268	-
Notes receivable, (net of allowance for uncollectible accounts of \$1,077,492)	51,350,979	-
Property held for resale	57,737,856	89,408,216
Restricted cash and investments with fiscal agent	89,528,181	-
Restricted cash in bank and investments	272,813	8,931,685
Capital assets		
Facilities and equipment, net of depreciation	-	490,211
Deferred charge - bond issuance costs	<u>3,900,485</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 369,927,326</u>	<u>\$ 105,772,222</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2005

	<u>Oakland Redevelopment Agency</u>	<u>Component Unit Oakland Base Reuse Authority</u>
(Continued)		
LIABILITIES		
Accounts payable	\$ -	\$ 853,278
Accrued interest payable	5,350,473	-
Accrued liabilities	8,182,861	157,341
Due to City	3,473,115	2,934,540
Due to other government	213,280	76,713
Deferred revenue and credits	-	89,635
Deposits	348,364	713,548
Other liabilities	32,281	-
Workforce Development Collaborative	-	3,600,000
Noncurrent liabilities (net of unamortized refunding losses and premiums):		
Due within one year	16,329,005	-
Due in more than one year	302,979,141	7,495,235
TOTAL LIABILITIES	<u>336,908,520</u>	<u>15,920,290</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	-	490,211
Restricted for:		
Low and Moderate Housing	38,122,381	-
Urban redevelopment projects and housing	233,916,862	83,301,725
Unrestricted (deficit)	<u>(239,020,437)</u>	<u>6,059,996</u>
TOTAL NET ASSETS	<u>\$ 33,018,806</u>	<u>\$ 89,851,932</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Activities
For the year ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Component Unit Oakland Base Reuse Authority</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>		
Governmental Activities:					
Urban redevelopment and housing	\$ 52,811,520	\$ 5,172,980	\$ -	\$ (47,638,540)	\$ -
Interest on long-term debt	<u>15,768,927</u>	<u>-</u>	<u>-</u>	<u>(15,768,927)</u>	<u>-</u>
Total governmental activities	<u>\$ 68,580,447</u>	<u>\$ 5,172,980</u>	<u>\$ -</u>	<u>(63,407,467)</u>	<u>-</u>
Component Unit					
Oakland Base Reuse Authority	<u>\$ 7,880,740</u>	<u>\$ 7,956,838</u>	<u>\$ 1,061,687</u>		<u>1,137,785</u>
General Revenues:					
Property tax increment				70,076,503	-
Investment income				4,580,555	248,697
Gain on the sale of land				1,664,076	-
Other				<u>3,656,581</u>	<u>202,606</u>
Total general revenues				<u>79,977,715</u>	<u>451,303</u>
Change in net assets				16,570,248	1,589,088
Net assets at beginning of year (as restated)				<u>16,448,558</u>	<u>88,262,844</u>
Net assets at end of year				<u>\$ 33,018,806</u>	<u>\$ 89,851,932</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2005

	Capital Projects				Debt Service	Total Governmental Funds	
	Central District	Coliseum	Central City East	Low and Moderate Housing	Nonmajor Governmental Funds		Tax Allocation Debt
ASSETS							
Cash	\$ -	\$ 18,900	\$ -	\$ -	\$ 100	\$ -	\$ 19,000
Equity in pooled cash and investments	51,772,591	23,689,145	5,987,484	27,612,533	19,352,780	708,915	129,123,448
Tax increment receivable	604,807	290,801	143,797	-	147,135	-	1,186,540
Accrued interest receivable	35,590	-	-	233	375,266	-	411,089
Accounts receivable	328,886	-	-	-	44,348	-	373,234
Due from City	29,082,587	-	-	1,688,542	354,304	-	31,125,433
Due from other government	4,892,095	6,173	-	-	-	-	4,898,268
Notes receivable, net	8,033,935	-	-	40,481,885	2,835,159	-	51,350,979
Property held for resale	49,700,879	-	-	-	8,036,977	-	57,737,856
Restricted cash and investments							
with fiscal agent	64,748,219	13,127,716	-	11,108,078	-	544,168	89,528,181
Restricted cash in bank	39,390	-	-	-	233,423	-	272,813
TOTAL ASSETS	<u>\$209,238,979</u>	<u>\$37,132,735</u>	<u>\$6,131,281</u>	<u>\$80,891,271</u>	<u>\$ 31,379,492</u>	<u>\$ 1,253,083</u>	<u>\$366,026,841</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2005

	Capital Projects				Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing		Tax Allocation Debt	
(Continued)							
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accrued interest payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,272,829	\$ 1,272,829
Accrued liabilities	398,686	4,436,374	1,692,821	133,146	1,521,834	-	8,182,861
Due to City	1,658,305	823,064	58,471	461,034	404,619	67,622	3,473,115
Due to other government	213,280	-	-	-	-	-	213,280
Deposits	306,300	-	-	4,284	37,780	-	348,364
Deferred revenue	36,819,876	290,801	143,797	42,170,426	1,764,805	-	81,189,705
Other liabilities	1,000	-	-	-	31,281	-	32,281
TOTAL LIABILITIES	<u>39,397,447</u>	<u>5,550,239</u>	<u>1,895,089</u>	<u>42,768,890</u>	<u>3,760,319</u>	<u>1,340,451</u>	<u>94,712,435</u>
FUND BALANCES							
Reserved for property held for resale	49,700,879	-	-	-	8,036,977	-	57,737,856
Reserved for approved capital projects/activities	120,140,653	31,582,496	4,236,192	38,122,381	18,030,553	-	212,112,275
Unreserved	-	-	-	-	1,551,643	(87,368)	1,464,275
TOTAL FUND BALANCES	<u>169,841,532</u>	<u>31,582,496</u>	<u>4,236,192</u>	<u>38,122,381</u>	<u>27,619,173</u>	<u>(87,368)</u>	<u>271,314,406</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$209,238,979</u>	<u>\$37,132,735</u>	<u>\$6,131,281</u>	<u>\$80,891,271</u>	<u>\$ 31,379,492</u>	<u>\$ 1,253,083</u>	

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

Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,900,485
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	81,189,705
Long-term liabilities, including bonds payable, accrued interest and unamortized bond premiums, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(323,385,790)</u>
Net assets of governmental activities	<u>\$ 33,018,806</u>

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 year ended June 30, 2005

	Capital Projects					Debt Service	Total Governmental Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing	Nonmajor Governmental Funds	Tax Allocation Debt	
REVENUES							
Tax increment	\$ 35,576,875	\$ 17,105,953	\$8,458,667	\$ -	\$ 8,655,084	\$ -	\$ 69,796,579
Interest on restricted cash and investments	610,816	290,275	-	220,831	-	12,466	1,134,388
Interest on pooled cash and investments	1,231,940	547,493	47,851	630,750	481,031	29,292	2,968,357
Interest on notes receivable	101,304	-	-	369,478	7,028	-	477,810
Rents and reimbursements	3,196,944	-	-	-	1,976,036	-	5,172,980
Gain from sale of property held for resale	1,664,076	-	-	-	-	-	1,664,076
Other	273,416	-	-	2,146,437	123,680	-	2,543,533
TOTAL REVENUES	<u>42,655,371</u>	<u>17,943,721</u>	<u>8,506,518</u>	<u>3,367,496</u>	<u>11,242,859</u>	<u>41,758</u>	<u>83,757,723</u>
EXPENDITURES							
Current:							
Urban redevelopment and housing	14,642,244	10,210,921	2,155,659	12,078,086	6,709,814	-	45,796,724
Debt Service:							
Payment on advances	-	-	-	-	-	2,554,132	2,554,132
Retirement of long-term debt	-	-	-	-	-	9,830,000	9,830,000
Interest	-	-	-	-	-	14,885,996	14,885,996
Bond issuance costs	1,241,071	-	-	-	-	-	1,241,071
TOTAL EXPENDITURES	<u>15,883,315</u>	<u>10,210,921</u>	<u>2,155,659</u>	<u>12,078,086</u>	<u>6,709,814</u>	<u>27,270,128</u>	<u>74,307,923</u>
Excess (deficiency) of revenues over expenditures	26,772,056	7,732,800	6,350,859	(8,710,590)	4,533,045	(27,228,370)	9,449,800
OTHER FINANCING SOURCES (USES)							
Tax allocation bonds issued	44,360,000	-	-	-	-	-	44,360,000
Proceeds from advances	-	-	-	-	200,000	-	200,000
Premium on bonds issued	3,386,571	-	-	-	-	-	3,386,571
Transfers in	350,000	-	-	17,449,145	943,539	26,899,582	45,642,266
Transfers out	(27,374,172)	(7,534,198)	(2,114,667)	(4,732,746)	(3,886,483)	-	(45,642,266)
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,722,399</u>	<u>(7,534,198)</u>	<u>(2,114,667)</u>	<u>12,716,399</u>	<u>(2,742,944)</u>	<u>26,899,582</u>	<u>47,946,571</u>
Change in fund balances	47,494,455	198,602	4,236,192	4,005,809	1,790,101	(328,788)	57,396,371
Fund balances at beginning of year	122,347,077	31,383,894	-	34,116,572	25,829,072	241,420	213,918,035
FUND BALANCES AT END OF YEAR	<u>\$ 169,841,532</u>	<u>\$ 31,582,496</u>	<u>\$ 4,236,192</u>	<u>\$ 38,122,381</u>	<u>\$ 27,619,173</u>	<u>\$ (87,368)</u>	<u>\$ 271,314,406</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Governmental Funds
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances
to the Statement of Activities
For the year ended June 30, 2005

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

Net change in fund balances - total governmental funds	\$ 57,396,371
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	279,925
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.	(38,822,217)
Changes in accrued interest on bonds payable	(667,682)
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed, thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	<u>(1,616,149)</u>
Change in net assets of governmental activities	<u><u>\$ 16,570,248</u></u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

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

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

In addition, the Agency finances numerous low and moderate-income housing projects throughout the City.

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

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

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

The Agency currently has the following projects: Central District (which is segmented into several action areas including Chinatown, City Center, Uptown and City Hall Plaza); Coliseum; Central City East; Acorn; Broadway/MacArthur/San Pablo; Oakland Army Base; West Oakland; and Other Projects (Oak Center; Stanford/Adeline; and Oak Knoll). Oak Center completed planning for infrastructure improvements that will be completed in FY2005-06. Stanford/Adeline purchased a duplex to improve a blighted site and encourage homeownership. On December 21, 2004, the Agency board adopted Ordinance numbers 12642 C.M.S. and 12645 C.M.S., which extended the time limit on the effectiveness of the Redevelopment Plans for Oak Center and Stanford/Adeline to 2012 and 2016; respectively.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

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

Central City East Project Area

The Oakland City Council adopted Ordinance No. 12528 C.M.S. on July 29, 2003, adopting the Redevelopment Plan for the Central City East Redevelopment Project which conforms to the General Plan of the City of Oakland and in accordance with the California Community Redevelopment Law. The purpose and intent of the Council with respect to the Central City East Redevelopment Project is to accomplish the following:

- Stimulate in-fill development and land assembly opportunities on obsolete, underutilized and vacant properties in the Project area.
- Stimulate opportunities for adaptive re-use and preservation of existing building stock in the Project Area.
- Attract new businesses and retain existing businesses in the Project Area, providing job training and employment opportunities for Project Area residents.
- Improve transportation, open space, parking, and other public facilities and infrastructure throughout the Project Area.
- Stimulate home ownership opportunities in the Project Area.
- Improve the quality of the residential environment by assisting in new construction, rehabilitation and conservation of living units in the Project Area, including units affordable to low and moderate income households.
- Revitalize neighborhood commercial areas and strengthen retail in the Project Area.

Except as specifically exempted herein, the Agency may acquire, but is not required to acquire, any real property located in the Project Area by any means authorized by law, including eminent domain. The Agency is authorized to acquire structures without acquiring the land upon which those structures are located. The Agency is authorized to acquire either the entire fee or any other interest in real property less than a fee. In addition, the Agency is authorized to sell, lease, exchange, subdivide, transfer, assign, pledge, encumber by mortgage or deed of trust or otherwise dispose of any interest in real property as permitted by law.

The Agency is authorized to finance this Project with financial assistance from the City, State of California, federal government, tax increment funds, interest income, Agency bonds, donations, loans from private financial institutions, the lease or sale of Agency-owned property or any other available source, public or private.

The amount of the total bonded indebtedness for the Project supported in whole or in part with tax increment revenues that may be outstanding at any one time shall not exceed \$2,300,000,000.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

While City Council approved the establishment of the Central City East Project Area in July 29, 2003, there were no financial activities to be reported prior to the fiscal year that ended June 30, 2005.

Discretely Presented Component Unit

The Oakland Base Reuse Authority (OBRA) was established in 1995 as a Joint Powers Authority (JPA) by the City; Agency, and the County of Alameda (County). OBRA was established to assure the effective transition of military facilities in Oakland that have been or may be selected for closure. OBRA currently is assuming the effective transition of the Oakland Army Base (OARB) to the Agency and the Port of Oakland (Port), a discretely presented component unit of the City.

OBRA was governed until June 30, 2003 by a nine-member Governing Body, which consisted of the Mayor of Oakland, four other members of the Oakland City Council, the Mayor of the City of Alameda, the member of the County Board of Supervisors representing the Third District, the member of the United States House of Representatives representing California's Ninth Congressional District, and the Executive Director of the Association of Bay Area Governments. Effective July 1, 2003, the governing body amended the JPA agreement, which among other things, reduced the members to the Mayor of Oakland/Board Chairman and four other members of the Oakland City Council/Board of Directors. In the event the JPA agreement is terminated for any reason, any and all remaining rights, powers and authority together with any property funds or assets of OBRA under the agreement shall be assigned by OBRA to the Agency.

The votes of a majority of the governing body are required to take action on most matters. In addition, prior to July 1, 2003, the majority vote of the governing body required three votes from the members from the City to take action on certain specific issues, including the adoption of a Reuse Plan; adoption of any recommended plan or land use proposal in contradiction to Oakland's land use plan, redevelopment or zoning plan; delegation of any authority to another body by OBRA; adoption of any amendments to OBRA's Bylaws; termination of the JPA Agreement; and selection of the governing body's Chairperson. The revised Joint Powers Agreement requires OBRA to deposit its revenues in the City treasury. The City is responsible for investing and managing such funds. The OBRA is presented in a separate column in the government-wide financial statements as a discretely-presented component unit of the Agency. Copies of OBRA's complete financial statements may be obtained from the Accounting Division, Finance & Management Agency, City of Oakland, 150 Frank Ogawa Plaza, Suite 6353, Oakland, CA 94612.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

OBRA, the Agency's discretely presented component unit, is accounted for using proprietary fund accounting, and its financial statements are prepared on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred. Grants are recognized as revenue when all eligibility requirements have been met.

The Agency reports the following major governmental funds:

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

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 Agency board respectively. The fund also accounts for the proceeds from the Subordinated Housing Set Aside Revenue Bonds. 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.

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

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

Revenues for Discretely Presented Component Unit

Rental revenue, in general, is recognized when due from tenants. Direct costs of negotiating and consummating a lease are deferred and amortized over the initial term of the related lease. Rental revenue is not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy.

Utilities revenues are recorded when the services are provided to leases.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2005

Investments

Adoption of GASB Statement No. 40, Deposit and Investment Risk Disclosures

The Agency and OBRA have adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, effective July 1, 2004. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental, proprietary and fiduciary funds. These resources are necessary for the delivery of governmental services and programs, or to carry out fiduciary responsibilities. Some key changes with GASB 40 include disclosure of:

- Common deposit and investment risks related to credit risk;
- Concentration of credit risk;
- Interest rate risk;
- Investments that have fair values that are highly sensitive to changes in interest rates; and
- Deposit and investment policies related to those risks.

The Agency's and OBRA's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2005, and reflects the values as if the entities were to liquidate the securities on that date.

Money market investments with maturities of one year or less have been stated at amortized cost.

Pooled Cash and Investments

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

Restricted Cash and Investments with Fiscal Agents

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.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Restricted Cash in Bank and Investments

Rental revenues received from the University of California Office of the President (UCOP), Ice Rink, Preservation Park facilities, Rotunda parking lot and City Center Garage West, which are restricted for the operation of each of the facilities, are classified as restricted.

Property Held for Resale

Property held for resale is acquired as part of the Agency's and OBRA's redevelopment program. These properties are both residential and commercial. Costs of administering Agency projects are charged to capital outlay expenditures as incurred.

A primary function of the redevelopment process is to prepare land for specific private development.

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

Property held for resale may, during the period it is held by the Agency and OBRA, generate rental or operating income. This income is recognized as it is earned in the Agency's and OBRA's statement of activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting.

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

Capital Assets

Capital assets are stated at historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of transfer. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

Facilities and structures	3 to 40 years
Furniture and fixtures	3 to 10 years
Infrastructure	3 to 5 years

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Environmental Remediation Costs

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

Fund Equity

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

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

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

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

Restricted Net Assets and Revenues

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

Tax Increment Revenue

Incremental property tax revenues represent taxes collected on the redevelopment areas from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the year of project inception) property tax assessment.

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

June 30, 2005

Deferred Revenue

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

Long-term Obligations

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

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

Estimates

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the (\$323,385,790) reconciling item are as follows:

Long-term debt	\$ (319,308,146)
Accrued interest payable	<u>(4,077,644)</u>
Net adjustment to decrease fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$ (323,385,790)</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that the issuance of long-term debt (e.g., bonds, advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of the (\$38,822,217) reconciling item are as follows:

Debt issued or incurred:	
Principal issuance	\$(44,360,000)
Proceeds from advances	(200,000)
Other payments due to City	(200,000)
Premium on bonds issuance	(3,386,571)
Bond issuance costs	1,241,070
Uptown Remediation Costs	(4,085,600)
Accrued interest on advances	(768,484)
Payments:	
Retirement of long-term debt	9,830,000
Payment on advances	2,554,132
Amortization of premium on bond issuance	1,063,478
Amortization of bond issuance costs	(301,734)
Amortization of deferred amount of refunding loss	<u>(208,508)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$(38,822,217)</u>

Another element of that reconciliation states that Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities. The details of this (\$1,616,149) reconciling item is as follows:

Net decrease in notes receivable	\$ (6,500,117)
Net increase in long-term pass through loans	<u>4,883,968</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,616,149)</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(4) 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 classified in the governmental funds balance sheet as equity in pooled cash and investments.

The Agency's cash and investments consist of the following at June 30, 2005:

	<u>Fair Value</u>
Cash and investments (unrestricted)	\$129,142,448
Restricted cash and investments	<u>89,800,994</u>
Total cash and investments	<u>\$218,943,442</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 City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Agency maintains all of its unrestricted investments in a cash and investment pool. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2005 basic financial statements. A copy of that report may be obtained by contacting the City's Finance & Management Agency, 150 Frank H. Ogawa Plaza, 6th Floor, Oakland, CA 94612 or can be found at the City's Finance & Management Agency Web Site at <http://www.oaklandnet.com/>. As of June 30, 2005, the Agency's cash and investment pool totaled \$129,142,448.

Income earned or losses arising from investments in the Agency's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average daily cash balance of such funds.

As of June 30, 2005 the Agency's investment in LAIF is \$42,084,633 (\$17.8 million in pooled cash and investments and \$24.3 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$18.6 billion. Of that amount, over 97.6% is invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

The City adopted the Government Accounting Standards Board (GASB) Statement No. 40 effective June 30, 2005 for its annual financial statements. The objective of this Statement is to update custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks that GASB 40 requires to be disclosed, including custodial credit risk, concentration of credit risk, financial credit risk, and interest rate risk. Listed below is a brief description of each risk and how to mitigate each type of risk.

Custodial Credit Risk:

The Agency's investment policy states that uninsured deposits shall be collateralized in the manner prescribed by State law. The amounts placed on deposit with banks were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the Agency's name.

Credit Risk:

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

The following tables show the Agency's credit risk as rated by Moody's for the Pool and Restricted portfolios as of June 30, 2005.

Pooled Cash and Investments

Ratings as of Fiscal Year Ended June 30, 2005

	<u>Fair Value</u>	<u>AAA</u>	<u>A / A-1+ / A-</u>	<u>F-1</u>	<u>Not Rated</u>
U.S. Govt. Agency Securities	\$ 71,060,446	\$ 71,060,446	\$ -	\$ -	\$ -
U.S. Govt. Agency Securities Disc.	9,947,999	-	9,947,999	-	-
Money Market Funds	20,583,620	20,583,620	-	-	-
LAIF	17,801,537	-	-	-	17,801,537
Commercial Paper	8,976,109	-	-	8,976,109	-
City Pooled Cash	753,737	-	-	-	753,737
Total	\$ 129,123,448	\$ 91,644,066	\$ 9,947,999	\$ 8,976,109	\$18,555,274

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
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Restricted Investments

	Fair Value	Ratings as of Fiscal Year Ended June 30, 2005		
		AAA	Aa/AA-	Not Rated
Investment Agreement	\$ 11,611,286	\$ -	\$11,611,286	\$ -
Investment Agreement	46,076,912	46,076,912	-	-
Money Market Funds	7,556,887	7,556,887	-	-
LAIF	24,283,096	-	-	24,283,096
Total	\$ 89,528,181	\$53,633,799	\$11,611,286	\$ 24,283,096

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 any one issuer to no more than five percent of the total portfolio. However, the same policy stipulates that 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. At June 30, 2005, the Agency has investment agreements with AIG Funding Co. and FSA Capital Management in the amounts of \$11,611,286 (5.3% of portfolio) and \$46,076,912 (21.1% of portfolio) respectively.

The following table shows the diversification of the Agency's portfolio:

Pooled Cash and Investments

	Fair Value	% of Portfolio
U.S. Govt. Agency Securities	\$71,060,446	55.04%
U.S. Govt. Ag. Security Disc.	9,947,999	7.70%
Money Market Funds	20,583,620	15.94%
LAIF	17,801,537	13.79%
Commercial Paper	8,976,109	6.95%
City Pooled Cash	753,737	0.58%
TOTAL	\$129,123,448	100.00%

Restricted Investments

	Fair Value	% of Portfolio
Investment Agreement	\$11,611,286	12.97%
Investment Agreement	46,076,912	51.48%
Money Market Funds	7,556,887	8.44%
LAIF	24,283,096	27.11%
TOTAL	\$ 89,528,181	100.00%

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 478 days. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2005, the Agency had the following investments and original maturities:

Pooled Cash and Investments

	Fair Value	Interest Rates (%)	Maturity		
			12 Months or Less	1-3 Years	3-5 Years
U.S. Govt. Agency Securities	\$71,060,446	3.52 – 4.39	\$ 13,008,578	\$37,031,631	\$21,020,237
U.S. Govt. Ag. Security Disc.	9,947,999	3.26 – 3.28	9,947,999	-	-
Money Market Funds	20,583,620	2.97	20,583,620	-	-
LAIF	17,801,537	2.85	17,801,537	-	-
Commercial Paper	8,976,109	3.31 – 5.78	8,976,109	-	-
City Pooled Cash	753,737	N/A	753,737	-	-
TOTAL	\$129,123,448		\$71,071,580	\$37,031,631	\$21,020,237

Restricted Investments

	Fair Value	Interest Rates (%)	Maturity		
			12 Months or Less	1-3 Years	3-5 Years
Investment Agreement	\$11,611,286	3.62	\$ -	\$11,611,286	\$ -
Investment Agreement	46,076,912	3.91	-	-	46,076,912
Money Market Funds	7,556,887	2.89	7,556,887	-	-
LAIF	24,283,096	2.97	24,283,096	-	-
TOTAL	\$89,528,181		\$31,839,983	\$11,611,286	\$46,076,912

Restricted Investments in the Capital Projects 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 June 30, 2005, the amounts held by the trustees aggregated \$89,528,181 of which \$87,679,141 is available to be used for restricted projects and \$1,849,040 is held in reserve accounts. All restricted investments held by trustees as of June 30, 2005 were invested in investment agreements, money market mutual funds and LAIF, and were in compliance with the bond indentures.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2005

Total Agency cash and investments as of June 30, 2005, are as follows:

	Equity in Pooled Cash and Investments	Restricted Cash and Investments With Fiscal Agent	Restricted Cash in Bank	Total Governmental Funds
Central District	\$ 51,772,591	\$ 64,748,219	\$ 39,390	\$ 116,560,200
Coliseum	23,708,045	13,127,716	—	36,835,761
Central City East	5,987,484	—	—	5,987,484
Low and moderate housing	27,612,533	11,108,078	—	38,720,611
Tax allocation debt	708,915	544,168	—	1,253,083
Nonmajor governmental funds	<u>19,352,880</u>	<u>—</u>	<u>233,423</u>	<u>19,586,303</u>
TOTAL	<u>\$129,142,448</u>	<u>\$ 89,528,181</u>	<u>\$ 272,813</u>	<u>\$218,943,442</u>

Discretely Presented Component Unit

Oakland Base Reuse Authority

Cash and investments at June 30, 2005 consisted of the following:

	<u>Fair Value</u>
Unrestricted investments	<u>\$ 6,059,996</u>
Restricted:	
Cash on hand	200
Deposits	7,361,179
Investments	<u>1,570,486</u>
	<u>\$ 8,931,865</u>
 Total	 <u>\$14,991,861</u>

Deposits

At June 30, 2005, the carrying amount of the Authority's deposits was \$7,361,179 and the bank balance was \$5,111,199. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$100,000 was FDIC insured and \$5,011,199 was collateralized with securities held by the pledging financial institution in the Authority's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in OBRA's name.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Investments

OBRA's Governing Body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy.

Investments consisted of the following fair value at June 30, 2005:

	Effective	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Duration</u>
Money Market funds		\$ 6,059,996	Unrated	0
Escrow deposit		2,250,000	Unrated	0
Deposits with banks		5,111,379	Unrated	0
State Local Agency Investment Fund		<u>1,570,486</u>	Unrated	0
Total cash and investment		<u>\$14,991,861</u>		

At June 30, 2005, the OBRA's investment in LAIF is \$1,570,486. The total amount invested by all public agencies in LAIF at that date is approximately \$18.6 billion. Of that amount, over 97.6% is invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the OBRA's position in the pool.

(5) NOTES RECEIVABLE

Notes receivable consisted of advances to developers of various Agency housing and redevelopment projects. These advances are evidenced by promissory notes. A summary of notes receivable at June 30, 2005, follows:

	Central District	Low and Moderate Housing	Nonmajor Governmental Funds	Total Governmental Funds
Housing development projects	\$ —	\$ 40,677,264	\$ 577,000	\$41,254,264
Development loans	8,000,000	—	1,947,060	9,947,060
Small business loans	<u>916,048</u>	<u>—</u>	<u>311,099</u>	<u>1,227,147</u>
Gross notes receivable	8,916,048	40,677,264	2,835,159	52,428,471
Less: Allowance for uncollectible accounts	<u>(882,113)</u>	<u>(195,379)</u>	<u>—</u>	<u>(1,077,492)</u>
Net notes receivable	<u>\$ 8,033,935</u>	<u>\$ 40,481,885</u>	<u>\$ 2,835,159</u>	<u>\$51,350,979</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2005

(6) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows:

	July 1, 2004	Purchases	Sales	June 30, 2005
Property held for resale	<u>\$71,500,558</u>	<u>\$2,818,000</u>	<u>\$ (16,580,702)</u>	<u>\$57,737,856</u>

The increase in the Property held for resale represents the 135 public parking spaces repurchased by the Agency from the developer of the SNK 9th and Franklin Garage. These parking spaces were required to replace the surface parking that was on the site prior to the Agency's sale of the property to the developer in Fiscal Year 2004.

The decrease of \$16,580,702 corresponds to the properties that the Agency sold in Fiscal Year 2005 including four properties sold at a loss of \$1.4 million. These include properties that will be renovated for commercial retail and office spaces, developed into residential condominium units and to continue to be operated as a non-profit office park.

Discretely Presented Component Unit

Oakland Base Reuse Authority

Following is a summary of changes in property held for resale:

	July 1, 2004	Increases	Decreases	June 30, 2005
Property held for resale	<u>\$79,778,363</u>	<u>\$11,761,818</u>	<u>\$ (2,131,965)</u>	<u>\$89,408,216</u>

In September 1, 2004, OBRA purchased certain parcels of land with an aggregate area of 19.32 acres adjacent to the former OARB (Oakland Army Base) for a total of \$10.6 million. Immediately after purchasing this property, OBRA transferred 2.51 acres to the Port for total consideration of \$1.427 million. Additionally, approximately \$1.2 million in environmental remediation costs incurred during the fiscal year ended June 30, 2005 have been added to property held for resale.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(7) INTERFUND TRANSFERS

	Transfers In				Total Governmental Funds
	Central District	Low and Moderate Housing	Tax Allocation Debt	Nonmajor Governmental Funds	
Transfers out:					
Central District	\$ —	\$ 8,894,218	\$ 18,479,954	\$ —	\$ 27,374,172
Coliseum	—	4,276,488	2,434,171	823,539	7,534,198
Central City East		2,114,667			2,114,667
Low and Moderate Housing	350,000	—	4,382,746	—	4,732,746
Nonmajor Governmental Funds	<u>—</u>	<u>2,163,772</u>	<u>1,602,711</u>	<u>120,000</u>	<u>3,886,483</u>
TOTAL	<u>\$ 350,000</u>	<u>\$ 17,449,145</u>	<u>\$ 26,899,582</u>	<u>\$ 943,539</u>	<u>\$ 45,642,266</u>

The Central District, Coliseum, Low & Moderate Housing, and Nonmajor Governmental funds transferred funds to the Tax Allocation Debt Service fund for payment of City advances and principal and interest on the tax allocation debt. The transfers to the Low and Moderate Housing fund, as reflected above, represent the 20% tax increment allocation in accordance with sections 33334.2 and 33334.3 of the California Community Redevelopment Law plus an additional 5% as mandated by City Council Resolution. The transfer of \$823,539 to Nonmajor Governmental funds from the Coliseum fund represents the 10% school set aside based from tax increments received in the Coliseum project area, net of the housing set aside and the AB1290 mandatory pass through. The transfer from the Low and Moderate Housing Fund to Central District Fund is for repayment of Henry Robinson Multi Service Center as provided in the adopted budget for fiscal year 2005. The transfer of \$120,000 between the Nonmajor Governmental funds is for professional contracts and other services for the proposed merger of the Central City East and Oak Knoll Redevelopment Project Areas.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(8) CAPITAL ASSETS

Discretely Presented Component

Oakland Base Reuse Authority

Oakland Base Reuse Authority's capital assets as of June 30, 2005 and capital asset activity for the year then ended consisted only of capital assets being depreciated. Capital asset activity during the year ended June 30, 2005 consisted of the following:

	<u>July 1, 2004</u>	<u>Increases</u>	<u>June 30, 2005</u>
Capital assets, being depreciated:			
Facilities and structures	\$1,000,000	\$ —	\$1,000,000
Furniture and equipment	<u>456,011</u>	<u>1,600</u>	<u>457,611</u>
Total capital assets, being depreciated	<u>1,456,011</u>	<u>1,600</u>	<u>1,457,611</u>
Less accumulated depreciation for:			
Facilities and structures	(314,286)	(342,857)	(657,143)
Furniture and equipment	<u>(164,502)</u>	<u>(145,755)</u>	<u>(310,257)</u>
Total accumulated depreciation	<u>(478,788)</u>	<u>(488,612)</u>	<u>(967,400)</u>
Total capital assets, being depreciated, net	<u>\$ 977,223</u>	<u>\$(487,012)</u>	<u>\$490,211</u>

(9) LONG-TERM DEBT

General Long-Term Obligations

On January 1, 2003, the Agency defeased various bond issues namely, the Central District Redevelopment Project Area Tax Allocation Bonds, Series 1989A, the Subordinated Tax Allocation Refunding Bonds, Series 1992A, the Subordinated Tax Allocation Bonds, Series 1993A, and the Subordinated Tax Allocation Bonds, Series 1995A. These defeased bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old debt. For financial reporting purposes, the 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 \$42.3 million at June 30, 2005.

On February 5, 2005, the Agency issued its \$44.3M Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 Bonds. The original issue premium on the financing was \$3.3M and the proceeds were used to finance various redevelopment activities within the Central District Project Area including the following: property acquisition to facilitate residential and commercial development downtown, environmental remediation, parking garage expansion, renovation, and maintenance of public

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

facilities such as the Fox Theater, and public infrastructure such as streetscape and traffic improvements. Proceeds of the Series 2005 Bonds will also be used to fund façade improvements, tenant improvements, and support for all Agency-sponsored public capital projects for Fiscal Years 2005 through 2007.

Long-term liability activity for the year ended June 30, 2005, was as follows:

	July 1, 2004	Additions	Deductions	June 30, 2005	Due within One Year
Tax Allocation Bonds	\$ 197,095,000	\$ 44,360,000	\$ (8,365,000)	\$ 233,090,000	\$ 8,755,000
Housing Set-Aside Revenue Bonds	38,070,000	—	(1,425,000)	36,645,000	1,530,000
General Obligation Bond	<u>390,000</u>	<u>—</u>	<u>(40,000)</u>	<u>350,000</u>	<u>40,000</u>
Total Bonds Payable	235,555,000	44,360,000	(9,830,000)	270,085,000	10,325,000
Deferred amounts:					
Issuance premiums	10,132,984	3,386,571	(1,063,478)	12,456,077	1,063,478
Refunding loss	<u>(2,157,978)</u>	<u>—</u>	<u>208,508</u>	<u>(1,949,470)</u>	<u>(208,508)</u>
Subtotal	243,530,006	47,746,571	(10,684,970)	280,591,607	11,179,970
Uptown remediation costs		4,085,600		4,085,600	3,999,404
Advances from City of Oakland	<u>36,016,587</u>	<u>1,168,484</u>	<u>(2,554,132)</u>	<u>34,630,939</u>	<u>1,149,631</u>
TOTAL	<u>\$ 279,546,593</u>	<u>\$ 53,000,655</u>	<u>\$ (13,239,102)</u>	<u>\$ 319,308,146</u>	<u>\$ 16,329,005</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2005

General Long-Term Obligations consist of the following:

	Year Ending June 30, 2005 Balance at Maturity	Interest Rates	June 30, 2005
TAX ALLOCATION BONDS			
Acorn Refunding Series 1988			
Term bonds	2006-2007	7.40%	\$ <u>715,000</u>
Central District Senior Tax Allocation			
Refunding Series 1992:			
Serial bonds	2006-2008	6.00%	16,455,000
Term bonds	2009-2014	5.50%	<u>35,910,000</u>
			<u>52,365,000</u>
Central District Subordinated Tax			
Allocation Bonds Series 2003:			
Serial bonds	2006	3.00%	2,870,000
Serial bonds	2007-2009	4.00%	9,245,000
Serial bonds	2010-2012	5.00%	12,970,000
Serial bonds	2013-2020	5.50%	<u>87,865,000</u>
			<u>112,950,000</u>
Central District Subordinated Tax			
Allocation Bonds Series 2005:			
Serial bonds	2006-2022	5.00%	44,360,000
Coliseum Area Tax			
Allocation Bonds Series 2003:			
Term bonds	2006-2009	2.50%-4.00%	1,660,000
Term bonds	2010-2014	3.40%-4.30%	2,440,000
Term bonds	2015-2019	4.50%-4.90%	3,035,000
Term bonds	2020-2023	5.00%-5.125%	3,045,000
Term bonds	2028-2034	5.25%	<u>12,520,000</u>
			<u>22,700,000</u>
TOTAL TAX ALLOCATION BONDS			233,090,000
GENERAL OBLIGATION BOND-Tribune Tower			
	2006-2012	5.643%	350,000
SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			
Series 2000T:			
Term bonds	2006-2011	7.82%	11,160,000
Term bonds	2012-2016	7.93%	14,065,000
Term bonds	2017-2019	8.03%	<u>11,420,000</u>
TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			<u>36,645,000</u>
TOTAL BONDS PAYABLE			<u>\$270,085,000</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. As of June 30, 2005 the total outstanding balance was \$34,630,939, comprised of the following:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>	<u>Due within One Year</u>
Acorn	\$ 2,970,000	\$ —	\$ (328,648)	\$ 2,641,352	\$ 97,574
Central District	18,585,935	200,000	(437,051)	18,348,884	505,907
Coliseum	928,554	—	(928,554)	—	—
Oak Center	13,117,098	768,484	(800,000)	13,085,582	478,897
Stanford/Adeline	415,000	—	(59,879)	355,121	59,810
West Oakland	—	200,000	—	200,000	7,443
TOTAL	<u>\$ 36,016,587</u>	<u>\$ 1,168,484</u>	<u>\$ (2,554,132)</u>	<u>\$ 34,630,939</u>	<u>\$ 1,149,631</u>

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

Bond Indentures

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

Annual Future Payments

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2005.

Year ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 10,325,000	13,859,860
2007	10,920,000	14,518,854
2008	11,165,000	13,892,298
2009	11,775,000	13,255,405
2010	11,130,000	13,154,497
2011-2015	66,020,000	50,913,970
2016-2020	89,530,000	28,129,758
2021-2025	48,475,000	6,777,346
2026-2030	5,340,000	2,149,088
2031-2034	<u>5,405,000</u>	<u>586,293</u>
TOTAL	<u>\$270,085,000</u>	<u>\$157,237,369</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

The Agency issued Certificates of Participation to fund the acquisition of the Oakland Museum. The debt is secured by the Museum's building and the annual lease payments made by the City of Oakland to fund the debt service. As of June 30, 2005, there were two series of certificates outstanding with an aggregate principal amount payable of \$21,426,798. The Agency is not obligated to make the debt payments. The Agency has, therefore, not recorded either the Museum as an asset or the related debt. The City has recorded both the Museum and the debt on its government-wide statement of net assets.

OAKLAND BASE REUSE AUTHORITY

Note Payable

OBRA has a non-interest bearing note payable for \$8,200,000, which has been discounted at the rate of 3.37% to a principal amount of \$7,495,235. The discounting resulted in the reduction of \$704,765 against Property Held for Resale. In addition, OBRA accrued interest expense of \$156,553 for the year ended June 30, 2005 related to above liability.

Principal and interest payments are due on the following dates:

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
November 17, 2006	\$ 1,481,909	\$ 518,091	\$ 2,000,000
May 17, 2007	2,898,675	101,325	3,000,000
November 17, 2007	2,147,518	52,482	2,200,000
November 17, 2008	<u>967,133</u>	<u>32,867</u>	<u>1,000,000</u>
	<u>\$ 7,495,235</u>	<u>\$ 704,765</u>	<u>\$ 8,200,000</u>

The note payable is collateralized by 19.32 acres of property described in Note 6. Payments are applied first to any expenses in connection with the Note before the principal is reduced. There are no prepayment penalties and the Note is not assumable.

Notes payable activity for the year ended June 30, 2005 consisted of the following:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
Note Payable	<u>\$ -</u>	<u>\$ 7,495,235</u>	<u>\$ -</u>	<u>\$ 7,495,235</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

(10) 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 represents reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2005, the Agency reimbursed the City \$13,045,474 for these expenditures.

In addition, the City provides advances and loans for the Agency debt service payments and other redevelopment projects. The Agency has entered into repayment agreements to reimburse the City for all amounts advanced and loaned to the Agency. In accordance with these agreements, the Agency reimbursed the City \$4,021,793 for the fiscal year ended June 30, 2005; \$2,554,132 in principal and \$1,467,661 in interest.

(11) COMMITMENTS AND CONTINGENCIES

Oakland Redevelopment Agency

As of June 30, 2005, the Agency has entered into contractual commitments of approximately \$3,630,167 for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2005, the Agency was committed to fund \$19,879,936 in loans and had issued \$1,648,600 in letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City of Oakland.

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

The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal years 2005-06 and 2006-07, the Agency included in its Adopted Budgets an ERAF shift a total of \$9,560,838. In May 2005 the Agency paid \$4,706,825 to Alameda County for the fiscal year 2004-05 ERAF shift.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Oakland Renaissance NMTC, Inc.

On July 19, 2004, the Oakland Redevelopment Agency approved resolution #2005-0046 C.M.S. authorizing the Agency Administrator to execute a Disposition and Development Agreement (DDA) and related documents with Oakland Renaissance NMTC, Inc., a California non-profit corporation, for the development of the Fox Theater as a mixed-use entertainment, office and school development. The Agency also approved and appropriated the following financial assistance to Renaissance for development of the project: (1) a Redevelopment Agency loan of \$13,000,000, of which \$3,000,000 is currently authorized for predevelopment and \$10,000,000 will not be available until the Agency Board reviews the construction contracts, theater operating agreement and school lease (these requirements will probably not be met until March 2006); (2) transfer of \$4,985,000 of State of California Proposition 55 School Facilities Grant funds; (3) transfer of \$2,885,500 of State of California Proposition 40 California Historic Endowment Grant funds; (4) transfer of \$1,300,000 insurance proceeds the Agency expected to receive from fire damage to the Fox theater pending final resolution with the insurance company, and (5) transfer of a \$375,000 California Heritage Fund Grant from the State of California Office of Historic Preservation.

Oakland Base Reuse Authority

Environmental Remediation

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA is responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. OBRA has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$5.0 million has been received.

The next \$11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. 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 additional environmental remediation-related costs. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance. OBRA management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2005

Oakland Army Base Workforce Development Collaborative

Under a separate agreement between the Authority and the Port dated July 31, 2003, the two parties each agreed to pay fifty percent (50%) of certain EDC property-related acquisition and remediation costs. Accordingly, the Authority has recorded a \$5,400,000 payable to reflect its share of the total \$10,800,000 payable.

As of June 30, 2005, the Authority's share of the remaining liability to the Workforce Collaborative is \$3,600,000. The Authority has set aside in escrow \$2,250,000 on behalf of the Workforce Collaborative.

Lease Revenues

OBRA entered into a Master Lease with the Army on June 16, 1999 to lease approximately 366 acres plus related facilities and improvements at the OARB (the "Leased Premises") for the period that commenced on June 19, 1999 and ended on August 7, 2003. OBRA had no minimum lease payments for the use of the Leased Premises, but was responsible for its operation and maintenance for the benefit of the United States and the general public. OBRA sub-leased certain of the Leased Premises to various tenants for terms ranging from one month to four years. All of these subleases expired on August 7, 2003, when the OARB was conveyed to OBRA.

Tenants with subleases immediately prior to the conveyance entered into new leases with OBRA on August 7, 2003. The longest term of these leases is from August 7, 2003 to 90 days prior to the reconveyance of the property, with the reconveyance date currently set at August 6, 2006. All of OBRA's lease revenues for the year ended June 30, 2005 are from the lease/sub-lease of these properties, facilities and improvements.

OBRA entered into operating leases with members of the Oakland Army Base Workforce Development Collaborative ("Workforce Collaborative") on December 14, 2004 in which the members occupy certain buildings on the former OARB property and pay OBRA no minimum payments throughout the lease terms, which are retroactive to January 1, 2003 and expire on various dates through August 2005. Accordingly, OBRA has not recognized any minimum lease payment revenues from these leases since December 31, 2002.

The following are the estimated minimum future rental revenues for the years after June 30, 2005 under non-cancelable operating leases having an initial term in excess of one year.

<u>Year Ending</u>	
June 30, 2006	<u>\$ 2,378,787</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2005

(12) SUBSEQUENT EVENT

Multifamily Housing Revenue Bonds (Uptown Apartments Project), 2005 Series A

On October 28, 2005, the Redevelopment Agency of the City of Oakland (the "Agency") issued \$160,000,000 of Multifamily Housing Revenue Bonds (Uptown Apartments Project), 2005 Series A ("2005 Bonds"). The Agency acted as a conduit issuer to provide funds to make a loan to Uptown Housing Partners, L.P., a California limited partnership, in order to finance, along with certain other amounts, the construction, and equipping of the multifamily rental housing development located in Oakland, California (the "Project"). A portion of the units in the Project will be reserved for low-income tenants. The 2005 Bonds, set to mature on October 1, 2050, were issued as a private placement with an effective interest rate of 6.20%. The 2005 Bonds do not constitute an indebtedness of the Agency as they were issued as a conduit financing; neither the full faith and credit nor taxing authority of the Agency, State of California, or any political subdivision is obligated for the payment of the principal or interest on the 2005 Bonds. The 2005 Bonds are payable solely from revenue sources and receipts defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indenture.

(13) RESTATEMENT OF NET ASSETS

The Agency's net assets at the beginning of the year ended June 30, 2005 have been restated to record a note receivable (the Note) due from a developer. On October 20, 1999, the Agency sold property to a developer in exchange for a Note, to be repaid in the future. The Note is related to a downtown redevelopment project and the collection is contingent upon its economic success. The Note is deemed to be collectible and there has been no provision made for uncollectability. The restatement is considered a correction of an error and only affects the government-wide financial statements, as deferred revenue has been used to offset the Note in the governmental funds. Net assets of the Governmental Activities were restated as follows:

Total net assets at June 30, 2004, as previously reported	\$ 4,448,558
Adjustment for reclassified note receivable	<u>12,000,000</u>
Total net assets at July 1, 2004, as restated	<u>\$16,448,558</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Acorn	Broadway/ MacArthur	Oakland Army Base	West Oakland	Other Projects	Redevelopment Planning Fund/ West Oakland	Total Nonmajor Governmental Funds
ASSETS							
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ 100
Equity in pooled cash and investments	982,050	2,146,671	3,156,856	1,109,914	10,397,281	1,560,008	19,352,780
Tax increment receivable	19,726	33,637	52,714	21,298	19,760	-	147,135
Accrued interest receivable	-	-	-	-	375,266	-	375,266
Accounts receivable, net	30,000	-	-	-	14,348	-	44,348
Due from primary government	-	-	-	-	-	354,304	354,304
Notes receivable, net	60,000	-	-	-	2,700,159	75,000	2,835,159
Property held for resale	2,970,000	-	-	-	5,066,977	-	8,036,977
Restricted cash in bank	-	-	-	-	233,423	-	233,423
TOTAL ASSETS	\$ 4,061,776	\$ 2,180,308	\$ 3,209,570	\$ 1,131,212	\$ 18,807,214	\$ 1,989,412	\$ 31,379,492

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Oakland Army Base</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
(Continued)							
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accrued liabilities	\$ -	\$ 451,731	\$ 620,165	\$ 250,566	\$ 197,188	\$ 2,184	\$ 1,521,834
Due to primary government	30,273	\$ 93,529	-	219,299	61,518	-	404,619
Deposits	12,250	25,000	-	-	530	-	37,780
Deferred revenue	79,726	33,637	52,714	21,298	1,148,126	429,304	1,764,805
Other liabilities	-	-	-	-	25,000	6,281	31,281
TOTAL LIABILITIES	<u>122,249</u>	<u>603,897</u>	<u>672,879</u>	<u>491,163</u>	<u>1,432,362</u>	<u>437,769</u>	<u>3,760,319</u>
FUND BALANCES							
Reserved for property held for resale	2,970,000	-	-	-	5,066,977	-	8,036,977
Reserved for approved capital projects/activities	969,527	1,576,411	2,536,691	640,049	12,307,875	-	18,030,553
Unreserved	-	-	-	-	-	1,551,643	1,551,643
TOTAL FUND BALANCES	<u>3,939,527</u>	<u>1,576,411</u>	<u>2,536,691</u>	<u>640,049</u>	<u>17,374,852</u>	<u>1,551,643</u>	<u>27,619,173</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,061,776</u>	<u>\$ 2,180,308</u>	<u>\$ 3,209,570</u>	<u>\$ 1,131,212</u>	<u>\$ 18,807,214</u>	<u>\$ 1,989,412</u>	<u>\$ 31,379,492</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2005

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Oakland Army Base</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES							
Tax increment	\$ 1,160,368	\$ 1,978,675	\$ 3,100,823	\$ 1,252,830	\$ 1,162,388	\$ -	\$ 8,655,084
Interest on pooled cash and investments	48,543	41,162	49,387	7,393	290,290	44,256	481,031
Interest on notes receivable	-	-	-	-	7,028	-	7,028
Rents and reimbursements	-	-	-	-	1,976,036	-	1,976,036
Other	59,651	-	-	-	64,029	-	123,680
TOTAL REVENUES	<u>1,268,562</u>	<u>2,019,837</u>	<u>3,150,210</u>	<u>1,260,223</u>	<u>3,499,771</u>	<u>44,256</u>	<u>11,242,859</u>
EXPENDITURES							
Current:							
Urban redevelopment and housing	370,717	964,140	780,624	506,966	4,009,798	77,569	6,709,814
TOTAL EXPENDITURES	<u>370,717</u>	<u>964,140</u>	<u>780,624</u>	<u>506,966</u>	<u>4,009,798</u>	<u>77,569</u>	<u>6,709,814</u>
Excess (deficiency) of revenues over expenditures	897,845	1,055,697	2,369,586	753,257	(510,027)	(33,313)	4,533,045
OTHER FINANCING SOURCES (USES)							
Proceeds from advances	-	-	-	200,000	-	-	200,000
Transfers in	-	-	-	-	823,539	120,000	943,539
Transfers out	(1,530,137)	(494,669)	(775,206)	(313,208)	(773,263)	-	(3,886,483)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,530,137)</u>	<u>(494,669)</u>	<u>(775,206)</u>	<u>(113,208)</u>	<u>50,276</u>	<u>120,000</u>	<u>(2,742,944)</u>
Change in fund balance	(632,292)	561,028	1,594,380	640,049	(459,751)	86,687	1,790,101
Fund balances at beginning of year	<u>4,571,819</u>	<u>1,015,383</u>	<u>942,311</u>	<u>-</u>	<u>17,834,603</u>	<u>1,464,956</u>	<u>25,829,072</u>
FUND BALANCES AT END OF YEAR	<u>\$ 3,939,527</u>	<u>\$ 1,576,411</u>	<u>\$ 2,536,691</u>	<u>\$ 640,049</u>	<u>\$ 17,374,852</u>	<u>\$ 1,551,643</u>	<u>\$ 27,619,173</u>



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Management Consultants

**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***

To the Members of the Redevelopment Agency
of the City of Oakland, California:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency) as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 2, 2005. Our report on the basic financial statements was modified to indicate that the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. 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. We did not audit the financial statements of the Oakland Base Reuse Authority, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for OBRA, is based on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by Agency staff in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 that are required to be reported under *Government Auditing Standards*. However, the results of our tests did disclose an instance of noncompliance that is required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies*, which is described in the accompanying schedule of findings as finding no. 05-1.

This report is intended solely for the information and use of the finance and management committee, Agency management, 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 & Company LLP
Certified Public Accountants

Walnut Creek, California
December 2, 2005

Williams, Adley & Company, LLP
Certified Public Accountants

Oakland, California
December 2, 2005

Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2005

Finding No. 05-1: State Redevelopment Agency Compliance Requirements - Financial Disclosure and Reporting (Submission of Reports to State Controller)

Pursuant to California Health & Safety Code, Section 33080.1, the Agency is required to submit the following reports to its legislative body and the State Controller no later than six months following the end of its previous fiscal year:

- Independent Auditors' Report on Financial Statements
- Independent Auditors' Report on Legal Compliance

The identified reports were not filed in a timely manner.

Recommendation

We recommend that the Agency establish policies and procedures to ensure that all required reports are prepared and submitted in a timely manner.

Management's Response

The delay in submitting the Agency's fiscal year 2003-04 reports listed above in a timely manner was due to the incorporation of the Oakland Base Reuse Authority (OBRA) into the Agency's basic financial statements for the first time as a discretely presented component unit. OBRA's year-end audit did not conclude in a timely manner last year.