ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY OF THE CITY OF ALAMEDA

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION

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ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
OF THE CITY OF ALAMEDA

Basic Component Unit Financial Statements
For the Year Ended June 30, 2006

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents i

Members and Administrative Personnel ii

FINANCIAL SECTION

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Component Unit Financial Statements:

Authority-wide Financial Statements:

Statement of Net Assets 14

Statement of Activities 15

Fund Financial Statements:

Balance Sheet 18

Reconciliation of the Governmental Funds- Fund Balances with the Governmental Activities Net Assets 19

Statement of Revenues, Expenditures, and Changes in Fund Balance 20

Reconciliation of the Net Change in Fund Balances – Total Government Funds with the change in Net Assets of Governmental Activities 21

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

General Fund 22

Notes to the Basic Component Unit Financial Statements 23

Supplemental Information:

General Fund – Balance Sheet by -- Revenue Source 33

Schedule of Revenues, Expenditures and Changes in Fund Balance -- General Fund – By Revenue Source 34

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY

MEMBERS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2006

MEMBERS

City of Alameda Mayor, Beverly Johnson
City of Alameda Councilmember, Doug DeHaan
City of Alameda Councilmember, Tony Daysog
City of Alameda Councilmember, Marie Gilmore
City of Alameda Councilmember, Frank Matarrese

ADMINISTRATIVE PERSONNEL

Debra Kurita, Executive Director
Leslie Little, Development Services Director

MAZE & ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board of the Alameda Reuse and Redevelopment Authority
of the City of Alameda
Alameda, California

We have audited the basic component unit financial statements of the governmental activities and each major fund of the Alameda Reuse and Redevelopment Authority (ARRA) of the City of Alameda California, a component unit of the City of Alameda, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These basic component unit financial statements are the responsibility of the ARRA's management. Our responsibility is to express an opinion on these basic component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic component unit financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and assessing significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic component unit financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and each major fund of the ARRA of the City of Alameda as of June 30, 2006, and the results of its operations and the respective budgetary comparisons listed as part of the basic financial statements thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic component unit financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic component unit financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic component unit financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic component unit financial statements taken as a whole.

Maze + Associates

October 5, 2006

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ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY OF THE CITY OF ALAMEDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Alameda Reuse and Redevelopment Authority (Authority) is required to provide this overview of its financial activities for the fiscal year ended June 30, 2006. The information presented here should be considered in conjunction with the Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- At June 30, 2006, the Authority's net assets totaled $77.4 million.
- The Authority's total revenues, including program and general revenues, were $11.7 million while total expenses were $11.1 million and transfers out were $2.7 million in fiscal year 2006.
- Governmental Program Revenues were $11.5 million in fiscal year 2006.
- Governmental General Revenues were $0.2 million in fiscal year 2006.

OVERVIEW OF BASIC COMPONENT UNIT FINANCIAL STATEMENTS

The Authority's Annual Financial Report is in two parts:

1) Management's Discussion and Analysis (this part), and
2) The Basic Component Unit Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements.

The Basic Component Unit Financial Statements

The Basic Component Unit Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the Authority's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the Authority's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Authority as a whole, including all its capital assets and long-

term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the authority revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Authority's programs. The Statement of Activities explains, in detail, the change in Net Assets for the year.

The Fund Financial Statements report the Authority's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Authority's Governmental Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances. They exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for all the financial activities of the Authority and are presented individually.

The Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental activities*** – All of the Authority's basic services are considered to be governmental activities, including general government and redevelopment services. These services are supported by revenues such as lease and rental revenue, capital grants and developer fees.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Authority as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the Authority's most significant funds, called Major Funds. Each Major Fund is presented individually. Major Funds present the major activities of the Authority for the year, and may change from year to year as a result of changes in the pattern of the Authority's activities.

Fund Financial Statements Include Only Governmental Funds

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets

and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented only for the Governmental General Funds.

Notes to the Financial Statements

The notes 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 financial statements follow the basic financial statements.

AUTHORITY-WIDE FINANCIAL ACTIVITIES

Net assets may serve over time as a useful indicator of a government's financial position. This analysis focuses on the net assets and changes in net assets of the Authority's Governmental Activities.

Summary of Net Assets June 30, 2006 and 2005 (dollars in millions)

	2006	2005	Percentage Change
Cash and Investments	$ 10.22	$ 9.60	-9.38%
Other assets	.04	1.70	-8.82%
Capital assets	81.75	84.20	-2.91%
Total assets	**$ 92.01**	**$ 95.50**	-3.66%
Long-term debt outstanding	13.44	13.40	0.30%
Other liabilities	1.20	2.60	-53.85%
Total Liabilities	**$ 14.64**	**$ 16.00**	-8.50%
Net assets			
Invested in capital assets, net of debt	69.78	72.20	-3.37%
Restricted	2.60	3.70	-29.73%
Unrestricted	5.00	3.50	42.86%
Total net assets	**$ 77.38**	**$ 79.40**	-2.56%

- Cash and investments consist of $8.7 million available to fund ongoing Authority operations; the remaining $1.5 million is legally restricted to debt service and redevelopment projects.

- Other assets consist primarily of accounts receivable.

- Long-term debt consists of 2003 ARRA Demand Revenue Bonds to refund the 1999 ARRA Revenue Bonds and provide financing for redevelopment tasks at Alameda Point.

- Other liabilities consist primarily of accounts payable, advances from the City and deposits payable.

- Restricted net assets consist of net assets that are legally restricted for debt service reserves and capital projects of the Authority.

- Unrestricted net assets can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

The following table presents the items underlying the changes in net assets:

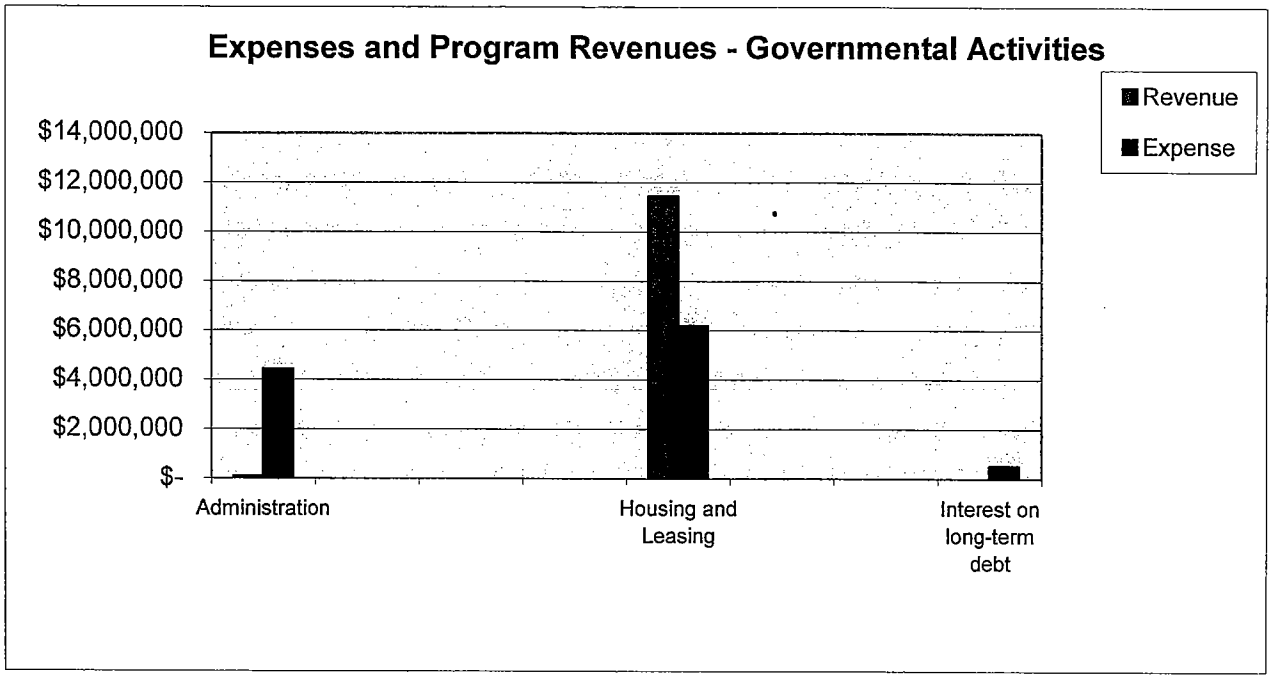
Summary of Changes in Net Assets June 30, 2006 and 2005 (dollars in millions)

	2006	2005	Percentage Change
Revenues			
Program Revenues			
Operating Grants & Contributions	$ 1.10	$ 1.70	-35.29%
Charges for Services	10.41	10.50	-0.86%
Total Program Revenues	11.51	12.20	-5.66%
General Revenues			
Use of Money and Property	0.20	0.20	0.00%
Total General Revenues	0.20	0.20	0.00%
Total Revenues	**$ 11.71**	**$ 12.40**	-5.56%
Program Expenses			
Administration	4.42	$ 7.40	-40.27%
Leasing and Housing	6.19	5.20	19.04%
Interest on long-term debt	0.50	0.40	25.00%
Total Expenses	**$ 11.11**	**$ 13.00**	-14.54%
Change in net assets before transfers	0.60	(0.60)	-200.00%
Transfers, net	(2.67)	(3.50)	-23.71%
Change in net assets	(2.07)	(4.10)	-49.51%
Beginning Net Assets	79.45	83.55	-4.91%
Ending Net Assets	**$ 77.38**	**$ 79.45**	-2.61%

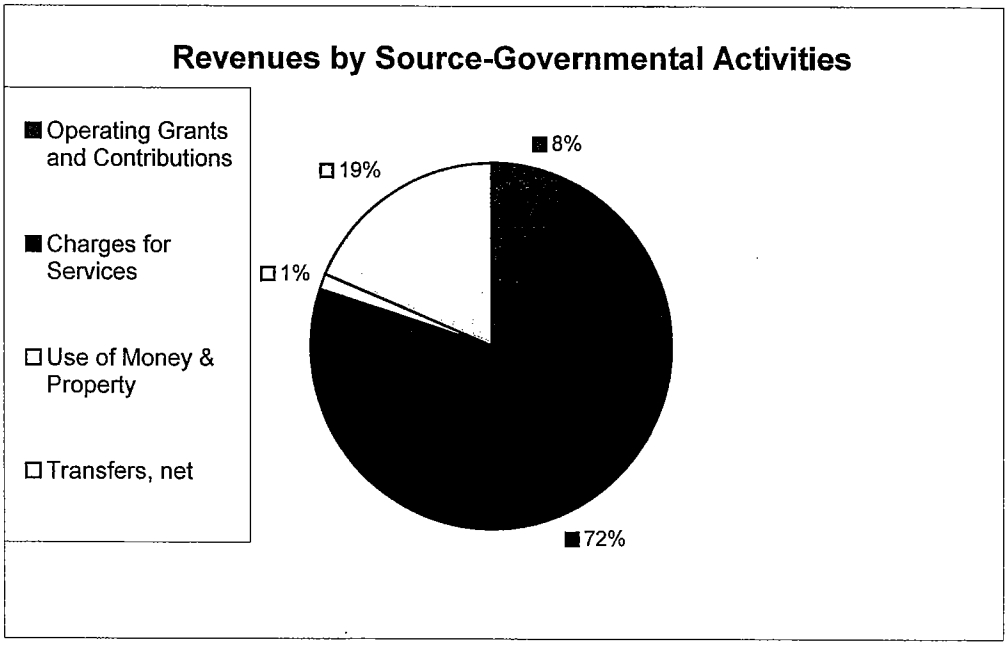
The Authority's major governmental revenue source in fiscal year 2006 was $10.41 million, or 89%, from charges for services.

The expenses above do not include capital expenditures, which are now added to the Authority's capital assets. The Authority's primary governmental expense in fiscal 2006 was $6.2 million or 55% for leasing and housing services.

The following graph presents the net cost of each of the Authority's largest programs – Administration, Housing and Leasing, and Interest on Long-Term Debt. Net cost is defined as total program costs less the revenues generated by those specific activities.



The following chart compares the various revenues by their sources.



Financial Analysis of the Authority's Funds

At June 30, 2006, the Authority's Governmental Funds reported combined fund balances of $9.06 million. Of this amount, $2.6 million is legally reserved as to how the funds are to be spent and $6.46 million is available to fund ongoing Authority operations.

Governmental Fund revenues totaled $11.72 million. Governmental Fund expenditures totaled $8.69 million.

Analysis of Major Governmental Funds

General Fund

General Fund revenue consisted primarily of lease and rental revenue totaling $10.4 million or 89% and grants and contributions totaling $1.03 million or 9% of total fund revenue for the year ended June 30, 2006

General Fund expenditures consisted primarily of professional and administration services totaling $3.8 million or 47% and building/equipment repair and maintenance totaling $2.56 million or 31% for the year ended June 30, 2006.

At June 20, 2006, the General Fund balance comprised $6.46 million in unreserved, undesignated funds.

Capital Project Fund

Capital Project Fund revenues consisted solely of interest income totaling $40,279 at June 30, 2006. Capital Project Fund expenditures consisted solely of building/equipment repair and maintenance totaling $37,791 at June 30, 2006. At June 30, 2006, the Capital Project Fund balance was $597,189 reserved for expenditure on capital improvement projects.

Debt Service Fund

Debt Service Fund revenue consisted solely of interest income of $60,185 for the year ended June 30, 2006. Debt Service Fund expenditures consisted solely of debt service principal and interest payments on outstanding debt totaling $503,284 for the year ended June 30, 2006.

At June 30, 2006, the Debt Service Fund balance was $1.99 million reserved for debt service expenditures.

CAPITAL ASSETS

As of June 30, 2006, the Authority has $81.75 million, net of depreciation, invested in a broad range of capital assets.

SUMMARY OF CAPITAL ASSETS
June 30, 2006 and 2005
(dollars in millions)

		2006	2005	Percentage Change
Governmental Activities				
	Buildings	$ 150.67	$ 151.30	-0.42%
	Machinery and Equipment	0.73	0.9	-18.89%
	Infrastructure	20.37	20.4	-0.15%
	Less: Accumulated Depreciation	-90.02	-88.4	1.83%
	TOTAL	**$ 81.75**	**$ 84.20**	-2.91%

There were no significant construction projects during the fiscal year ended June 30, 2006.

Debt Administration

The Authority's debt issues are discussed in detail in Note 7 to the Financial Statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

Alameda Point

Alameda Point is the reuse and redevelopment area of the former Naval Air Station Alameda located at the western end of the Island. Alameda Point Community Partners (APCP), a consortium of five developers (operating members are Centex Homes, Shea Homes and Shea Properties and passive members are Industrial Realty Group and Morgan Stanley), was selected as the Master Developer in 2001. The proposed land use plan includes up to 1900 residential units, approximately 4 million square feet of commercial development (adaptive reuse and new construction), a 500-slip marina and public open space and parks. The City is also exploring the feasibility of developing an 18-hole golf course and resort hotel on 215 acres to the northwest of the APCP footprint. Alameda Point will be built out over a 15 year period.

In November 2003, the City and APCP entered into a Conditional Acquisition Agreement (CAA) that called for an 18-month City-led predevelopment period. With acceptance of the Preliminary Development Concept, work continued on the historic preservation process. Discussions continued with the Navy on the conveyance term sheet.

The Navy and the City reached a tentative agreement on a term sheet totaling $108 million in July 2006. In September 2006, after reviewing the terms, APCP declined to move forward with the project. The ARRA Board is considering a variety of future options.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This Alameda Reuse and Redevelopment Authority Financial Report is intended to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance Department, at 2263 Santa Clara Avenue, Room 220, Alameda, California, 94501.

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STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between ARRA's total assets and ARRA's total liabilities, including all the ARRA's capital assets and all its long-term debt.

The Statement of Net Assets summarizes the financial position of all of the ARRA's Governmental Activities in a single column.

The Statement of Activities reports increases and decreases in ARRA's net assets. It is also prepared on the full accrual basis, which means it includes all the ARRA's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual"basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	$8,703,277
Restricted cash and investments (Note3)	1,513,290
Accounts receivable	41,524
Capital assets, net of accumulated depreciation (Note 6)	81,752,635
Total Assets	92,010,726
LIABILITIES	
Accounts payable and accrued expenses	349,498
Accrued payroll	13,541
Claims payable	4,805
Advances from City of Alameda (Note 5)	300,000
Deferred revenue	12,708
Deposits payable	519,122
Long-term debt (Note 7):	
Due in more than one year	13,440,000
Total Liabilities	14,639,674
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	69,775,164
Restricted for:	
Capital projects	597,189
Debt service	1,997,995
Total Restricted Net Assets	2,595,184
Unrestricted	5,000,704
Total Net Assets	$77,371,052

See accompanying notes to financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:				
Administration	$4,425,124		$76,338	($4,348,786)
Housing	418,189	$1,546,137		1,127,948
Leasing	5,773,778	8,862,679	1,026,433	4,115,334
Interest on long term debt	503,284			(503,284)
Total Governmental Activities	11,120,375	10,408,816	1,102,771	391,212
General revenues:				
Investment earnings				207,332
Net transfer (out) to the City of Alameda (Note 5)				(2,665,996)
Total general revenues and transfers				(2,458,664)
Change in Net Assets				(2,067,452)
Net Assets-Beginning				79,438,504
Net Assets-Ending				$77,371,052

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the ARRA in fiscal 2006.

GENERAL FUND

General Fund is the general operating fund of the ARRA. It is used to account for all financial resources which are not accounted for in the other funds. The major revenue sources for this Fund are leasing activities revenues and grants. Expenditures are made for base reuse activities.

2003 AP REVENUE BOND PROJECT CAPITAL PROJECT FUND

This fund accounts for the Alameda Point major constructions and improvement projects financed through the 2003 Demand Revenue Bonds.

2003 AP REVENUE BONDS DEBT SERVICE FUND

The 2003 Demand Revenue Bonds were issued in December 2003 by the Alameda Public Financing Authority to refund the 1999 ARRA Revenue Bonds and to finance professional land use planning and other activities required in the redevelopment process at Alameda Point. The debt will be repaid solely from rental revenues paid to ARRA.

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General Fund	2003 AP Revenue Bond Project Capital Project Fund	2003 AP Revenue Bonds Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and investments (Note 3)	$7,600,649	$21,289	$1,081,339	$8,703,277
Restricted cash and investments (Note 3)		596,634	916,656	1,513,290
Accounts receivable	41,524			41,524
Total Assets	$7,642,173	$617,923	$1,997,995	$10,258,091
LIABILITIES				
Accounts payable and accrued expenses	$328,764	$20,734		$349,498
Accrued payroll	13,541			13,541
Claims payable	4,805			4,805
Deferred revenue	12,708			12,708
Advances from City of Alameda (Note 5)	300,000			300,000
Deposits payable	519,122			519,122
Total Liabilities	1,178,940	20,734		1,199,674
FUND BALANCES				
Fund balance				
Reserved for:				
Debt service			$1,997,995	1,997,995
Capital improvement		597,189		597,189
Unreserved:				
Undesignated, Reported in:				
General Fund	6,463,233			6,463,233
Total Fund Balances	6,463,233	597,189	1,997,995	9,058,417
Total Liabilities and Fund Balances	$7,642,173	$617,923	$1,997,995	$10,258,091

See accompanying notes to financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
Reconciliation of the
GOVERNMENTAL FUNDS -- FUND BALANCE
with the
GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2006

Total fund balances reported on the governmental funds balance sheet	$9,058,417
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	81,752,635
LONG-TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(13,440,000)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$77,371,052

See accompanying notes to financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	2003 AP Revenue Bond Project Capital Project Fund	2003 AP Revenue Bonds Debt Service Fund	Total Governmental Funds
REVENUES				
Miscellaneous grants and contributions	$1,026,433			$1,026,433
Lease revenue	8,856,980			8,856,980
Rent revenue	1,547,145			1,547,145
Interest	106,868	$40,279	$60,185	207,332
Other	81,029			81,029
Total Revenues	11,618,455	40,279	60,185	11,718,919
EXPENDITURES				
Staff salaries	640,371			640,371
Staff fringe benefits	198,897			198,897
Office expenditures	11,725			11,725
Travel expenditures	8,769			8,769
Professional and administrative services	3,825,506			3,825,506
Building/equipment repairs and maintenance	2,556,676	37,791		2,594,467
Utility	906,225			906,225
Office/heavy equipment	272			272
Interest, fiscal charges and issuance costs			503,284	503,284
Total Expenditures	8,148,441	37,791	503,284	8,689,516
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,470,014	2,488	(443,099)	3,029,403
OTHER FINANCING SOURCES (USES)				
Transfer from the City of Alameda (Note 5)	653,250		37,210	690,460
Transfer to the City of Alameda (Note 5)	(2,669,581)	(686,875)		(3,356,456)
Total Other Financing Sources (Uses)	(2,016,331)	(686,875)	37,210	(2,665,996)
NET CHANGE IN FUND BALANCES	1,453,683	(684,387)	(405,889)	363,407
BEGINNING FUND BALANCES	5,009,550	1,281,576	2,403,884	8,695,010
ENDING FUND BALANCES	$6,463,233	$597,189	$1,997,995	$9,058,417

See accompanying notes to financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$363,407
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense is deducted from the fund balance	(2,151,909)
Net retirements of capital assets are deducted from fund balance	(278,950)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	($2,067,452)

See accompanying notes to financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Miscellaneous grants and contributions		$246,415	$1,026,433	$780,018
Lease revenue	$12,162,174	10,656,674	8,856,980	(1,799,694)
Rent revenue		1,505,500	1,547,145	41,645
Interest			106,868	106,868
Other			81,029	81,029
Total Revenues	12,162,174	12,408,589	11,618,455	(790,134)
EXPENDITURES:				
Staff salaries	1,111,535	943,413	640,371	303,042
Staff fringe benefits		168,560	198,897	(30,337)
Office expenditures			11,725	(11,725)
Travel expenditures	750	750	8,769	(8,019)
Professional and administrative services	3,215,447	3,465,447	3,825,506	(360,059)
Building/equipment repairs and maintenance	4,048,402	4,048,402	2,556,676	1,491,726
Utility	1,015,000	1,015,000	906,225	108,775
Office/heavy equipment			272	(272)
Total Expenditures	9,391,134	9,641,572	8,148,441	1,493,131
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,771,040	2,767,017	3,470,014	702,997
OTHER FINANCING SOURCES (USES)				
Transfer from the City of Alameda	1,065,232	1,068,817	653,250	(415,567)
Transfer to the City of Alameda	(2,024,000)	(2,024,000)	(2,669,581)	(645,581)
Total other financing sources (uses)	(958,768)	(955,183)	(2,016,331)	(1,061,148)
NET CHANGE IN FUND BALANCE	$1,812,272	1,811,834	1,453,683	(358,151)
Beginning fund balance	5,009,550	5,009,550	5,009,550	
Ending fund balance	$6,821,822	$6,821,384	$6,463,233	($358,151)

See accompanying notes to financial statements

NOTE 1 - ORGANIZATION AND PROGRAMS

The Alameda Reuse and Redevelopment Authority (ARRA) was formed in April 1994 between the City of Alameda and the County of Alameda. The purpose of ARRA is to assure the effective transition of the Alameda Naval Air Station (NAS) from federal ownership to local ownership. ARRA is responsible for the development of an Interim Reuse Strategy, taking title to base lands, and implementation of the Community Reuse Plan. ARRA is recognized by the Department of Defense as the responsible entity for submitting and completing the Community Reuse Plan for the 1997 decommission of the NAS.

ARRA is governed by a Governing Body which was restructured in January 2000 and is now composed of the members of the City Council of the City of Alameda acting in their separate capacity as board members of the Authority. All staff work is performed by the officials and staff of the City or by consultants. The City Council sits as the Governing Board of the Authority, which is a component unit of the City and is accounted for in separate funds established by the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of ARRA conform with generally accepted accounting principles applicable to governments. The following is a summary of the significant policies:

A. Basis of Presentation

The ARRA Basic Component Unit financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

Authority-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall ARRA entity. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the ARRA governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the ARRA funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. ARRA considers all its funds to be major funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Major Funds

GASB Statement 34 defines major funds and requires that the ARRA major funds be identified and presented separately in the fund financial statements.

The ARRA reported the following major governmental funds in the accompanying financial statements:

GENERAL FUND

General Fund is the general operating fund of the ARRA. It is used to account for all financial resources that are not accounted for in the other funds. The major revenue sources for this Fund are leasing activities revenues and grants. Expenditures are made for base reuse activities.

2003 AP REVENUE BOND PROJECT CAPITAL PROJECT FUND

This fund accounts for the Alameda Point major constructions and improvement projects financed through the 2003 Demand Revenue Bonds.

2003 AP REVENUE BONDS DEBT SERVICE FUND

The 2003 Demand Revenue Bonds were issued in December 2003 by the Alameda Public Financing Authority to refund the 1999 ARRA Revenue Bonds and to finance professional land use planning and other activities required in the redevelopment process at Alameda Point. The debt will be repaid solely from rental revenues paid to ARRA.

C. Basis of Accounting

The authority-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. ARRA considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are grants and leases. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Grant Revenues

ARRA obtains grants from public and private organizations. Under the terms of these grant agreements, funds are advanced to finance program expenditures. Revenues from grants are recognized over the grant period, or as allowable costs are incurred for the purposes specified in the grant.

NOTE 3 - CASH AND INVESTMENTS

A. Policies

ARRA's cash, except cash with fiscal agents, is included in the cash and investments pool of the City of Alameda, the details of which are presented in the City's basic financial statements.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

ARRA and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by ARRA's fiscal agents as required under its debt issues; ARRA normally invests only in the California Local Agency Investment Fund pool administered by the State.

ARRA's investments are carried at fair value, as required by generally accepted accounting principles. ARRA adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of ARRA debt instruments or agency agreements.

Cash and investments at June 30, 2006 are as follows:

Cash and investments available for operations	$8,703,277
Restricted cash and investments	1,513,290
Total ARRA Investments	$10,216,567

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by the California Government Code and the City's Investment Policy*

The City's investment policy and the California Government Code allow ARRA to invest in the following, provided the credit ratings of the issuers are acceptable to ARRA; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the City's investment policy where the City's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	270 Days	N/A	20%	No Limit
California Local Agency Investment Fund (LAIF)	Upon Demand	N/A	$40,000,000 per account	$40,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	No Limit	No Limit
U.S. Agency and U.S. Government Sponsored Enterprise Securities	5 Years	N/A	75%	25% in each U.S. Agency
Bankers' Acceptances	180 Days	N/A	30%	30%
Commercial Papers	270 Days	A1, P1	25%	No Limit
Negotiable Certificates of Deposit	5 Years	AA	30%	No Limit
Time Certificates of Deposit	5 Years	N/A	30%	No Limit
Medium-Term Corporate Notes	5 Years	A	30%	No Limit
Money Market Mutual Funds	N/A	AAA	20%	No Limit
County Agency Investment Fund	Upon Demand	N/A	15%	No Limit
California Asset Management Program (CAMP)	Upon Demand	N/A	No Limit	No Limit

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Investments Authorized by Debt Agreements*

ARRA must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the ARRA fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with ARRA ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	30 days	Top Four Rating Category	No Limit	No Limit
U. S. Treasury Bonds, Notes and Bills	No Limit	N/A	No Limit	No Limit
U.S. Agency and U.S. Government Sponsored Enterprise Securities	No Limit	N/A	No Limit	No Limit
Commercial Paper	No Limit	A-1+	No Limit	No Limit
Negotiable Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Time Certificates of Deposit	No Limit	N/A	No Limit	No Limit
Guaranteed Investment Contracts	No Limit	Not lower than their bond rating	No Limit	No Limit
Shares of Beneficial Interest	No Limit	Top Rating Category	No Limit	No Limit
Money Market Mutual Funds	No Limit	AAm	20%	No Limit
Bankers' Acceptances	365 days	A-1+	40%	30%
California Local Agency Investment Fund (LAIF)	Upon Demand	N/A	$40,000,000 per account	$40,000,000 per account
Investment Agreements	No Limit	N/A	No Limit	No Limit

* Comprises only debt issued by special assessment districts in the City of Alameda

E. *Interest Rate Risk*

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the ARRA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the ARRA's investments by maturity:

Investment Type	12 Months or less
Money Market Mutual funds	$1,513,290
California Local Agency Investment Fund	8,703,277
Total Investments	$10,216,567

The ARRA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The ARRA reports its investment in LAIF at the fair value amounts provided by LAIF, which is the same as the value of the pool share. At June 30, 2006 the fair value approximated is the ARRA's cost. The balance available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2006, these investments have an average maturity of 152 days.

D. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's:

Investment Type	Total
AAA rated:	
Mutual Funds	$1,513,290
Not rated:	
California Local Agency Investment Fund	8,703,277
Total Investments	$10,216,567

NOTE 4 – REVENUES

ARRA collects lease revenues from a variety of tenants who occupy space at Alameda Point. A significant source of this revenue is generated from berthing fees received from the U.S. Department of Transportation whose fees are based on the number of days their ships are berthed.

NOTE 5 – INTERFUND TRANSACTIONS

A. Long-Term Interfund Advances

The Golf Course Enterprise Fund advanced the General Fund Leasing Activity Subfund $300,000 in fiscal year 2001 for predevelopment activities in connection with the Golf Course at Alameda Point. This loan is to be repaid upon the development of the golf course.

B. Transfers Between the City and the ARRA

During the year ended June 30, 2006 ARRA made cash transfers of $3,356,456 to reimburse the City for capital expenditures for infrastructure improvements and its prorata share of operating expenditures incurred on behalf of ARRA, as determined by the City's approved Cost Allocation Plan.

During the year ended June 30, 2006 the City made cash transfers of $690,460 to reimburse ARRA for the predevelopment costs for Alameda Point.

NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

All capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The ARRA has assigned the useful lives listed below to capital assets:

Buildings	40 - 80 years
Machinery and Equipment	4 - 40 years
Infrastructure	15 - 75 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 6 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions, Retirements and Transfers

Capital assets at June 30 comprise:

	Balance June 30, 2005	Additions	Retirements & Transfers	Balance June 30, 2006
Governmental activities				
Buildings	$151,306,351		($636,492)	$150,669,859
Machinery and equipment	856,732		(126,483)	730,249
Infrastructure	20,367,548			20,367,548
Less Accumulated Depreciation:				
Buildings	(71,128,101)	($1,888,782)	386,224	(72,630,659)
Machinery and equipment	(659,297)	(3,891)	97,801	(565,387)
Infrastructure	(16,559,739)	(259,236)		(16,818,975)
Total	$84,183,494	($2,151,909)	($278,950)	$81,752,635

Depreciation expense of $2,151,909 was added to the Administration function expenses on the statement of activities.

B. Capital Asset Contributions

Some capital assets may be acquired using Federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

NOTE 7 - LONG-TERM DEBT

2003 ARRA Demand Revenue Bonds – On December 1, 2003, the Alameda Public Financing Authority issued Revenue Bonds in the original principal amount of $13,440,000 at a variable rate of interest determined on a weekly basis. The proceeds from the bonds were used to refund the 1999 ARRA Revenue Bonds which was issued to finance the costs of certain improvements at Alameda Point and to finance professional services for land use planning and other activities required in the redevelopment process at Alameda Point. Repayment of these bonds is from rental revenues paid to ARRA from certain land, buildings, fixtures and equipment. Interest is payable on the first business day of each month.

NOTE 7 - LONG-TERM DEBT (Continued)

Repayment requirements for the Revenue Bonds were as follows at June 30, 2006:

	Governmental Activities	
For the Year Ending June 30	Principal	Interest
2007		$138,015
2008	$240,000	138,015
2009	300,000	135,552
2010	300,000	132,471
2011	300,000	129,390
2012-2016	1,700,000	599,712
2017-2021	2,000,000	503,217
2022-2026	2,900,000	384,112
2027-2031	3,300,000	230,069
2032-2036	2,400,000	46,213
Total	$13,440,000	$2,436,766

NOTE 8 - NET ASSETS

A. Net Assets

Net Assets is the excess of all the ARRA's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions as described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the ARRA's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which ARRA cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

NOTE 9 - RISK MANAGEMENT

Through the City, ARRA participates in public entity risk pools, which provide coverage against liability and workers' compensation claims. Coverage and terms are discussed in the City's basic financial statements at Note 10.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

ARRA (through the Community Improvement Commission) has an agreement extending through 2014 under which it refunds a portion of Alameda Marina Village Assessment District incremental property taxes to the Alameda Marina Village property owners as a partial offset of their assessment liability. These refunds have been reported as housing and community services expenditures in the West End Community Improvement Commission Special Revenue Fund.

ARRA is subject to litigation arising in the normal course of business. In the opinion of the ARRA Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of ARRA.

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
GENERAL FUND
BALANCE SHEET-BY REVENUE SOURCE
JUNE 30, 2006

	Economic Development Administration	Alameda Point Administration	Housing Activities	Leasing Activities	Total
ASSETS					
Cash and investments (Note 3)	$54,441	($14,904,580)	$7,722,795	$14,727,993	$7,600,649
Accounts receivable		34,059		7,465	41,524
Total Assets	$54,441	($14,870,521)	$7,722,795	$14,735,458	$7,642,173
LIABILITIES					
Accounts payable and accrued expenses		$198,985		$129,779	$328,764
Accrued payroll				13,541	13,541
Claims payable				4,805	4,805
Advances from City of Alameda				300,000	300,000
Deposits payable			$165,400	353,722	519,122
Deferred revenue		12,708			12,708
Total Liabilities		211,693	165,400	801,847	1,178,940
FUND BALANCES					
Fund balance					
Reserved for:					
Investments held to maturity					
Debt service					
Capital improvement					
Unreserved:					
Undesignated, Reported in:					
General Fund	$54,441	(15,082,214)	7,557,395	13,933,611	6,463,233
Total Fund Balances	54,441	(15,082,214)	7,557,395	13,933,611	6,463,233
Total Liabilities and Fund Balances (Deficits)	$54,441	($14,870,521)	$7,722,795	$14,735,458	$7,642,173

See accompanying notes to the component unit financial statements

ALAMEDA REUSE AND REDEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GENERAL FUND - BY REVENUE SOURCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Economic Development Administration	Alameda Point Administration	Housing Activities	Leasing Activities	Total
REVENUES					
Miscellaneous grants and contributions				$1,026,433	$1,026,433
Lease revenue				8,856,980	8,856,980
Rent revenue			$1,546,137	1,008	1,547,145
Interest			145	106,723	106,868
Other		$76,338		4,691	81,029
Total Revenues		76,338	1,546,282	9,995,835	11,618,455
EXPENDITURES					
Staff salaries		370,030		270,341	640,371
Staff fringe benefits		96,404		102,493	198,897
Office expenditures		2,567		9,158	11,725
Travel expenditures		8,388		381	8,769
Professional and administrative services	$75,406	526,229	418,189	2,805,682	3,825,506
Building/equipment repairs and maintenance		56,281		2,500,395	2,556,676
Utility		821,169		85,056	906,225
Office/ heavy equipment				272	272
Total Expenditures	75,406	1,881,068	418,189	5,773,778	8,148,441
EXCESS OF REVENUES OVER EXPENDITURES	(75,406)	(1,804,730)	1,128,093	4,222,057	3,470,014
OTHER FINANCING SOURCES (USES)					
Transfer from the City of Alameda	129,847	523,403			653,250
Transfer to the City of Alameda		(146,834)		(2,522,747)	(2,669,581)
Total Other Financing Sources (Uses)	129,847	376,569		(2,522,747)	(2,016,331)
NET CHANGE IN FUND BALANCES	54,441	(1,428,161)	1,128,093	1,699,310	1,453,683
Fund balances (deficit) at beginning of year		(13,654,053)	6,429,302	12,234,301	5,009,550
Fund balances (deficit) at end of year	$54,441	($15,082,214)	$7,557,395	$13,933,611	$6,463,233