

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**BASIC FINANCIAL STATEMENTS**

**WITH INDEPENDENT AUDITORS' REPORTS**

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**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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## **INDEPENDENT AUDITORS' REPORT**

The Board Members of the  
Albany Community Reinvestment Agency  
City of Albany, California

We have audited the accompanying basic financial statements of the government activities and each major fund of the Albany Community Reinvestment Agency (the "Agency"), a component unit of the City of Albany, California (the "City"), as of and for the year ended June 30, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency as of June 30, 2007 and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are 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 do not express an 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 accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary comparison information as listed in the accompanying table of contents are not a required part of the basic 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2007 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering results of our audit.

Odeberg Ullakko Muraiishi - COLUP

San Francisco, California  
October 26, 2007

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This is management's discussion and analysis of the Albany Community Reinvestment Agency's financial activities and performance for the fiscal year ended June 30, 2007. Please read this in conjunction with the Agency's financial statements, which follow this discussion and analysis.

**FINANCIAL HIGHLIGHTS**

- Property tax increment revenue to the Agency was \$338,741. This revenue represents the Agency's share of the property tax from the increased assessed value of property in the redevelopment area, over the base year valuation established in 1998.
- The Agency reported an excess of revenues over expenditures for the year ended June 30, 2007 of \$329,226. This excess revenue eliminated prior year deficit fund balance of \$93,957 and resulted in a positive balance of \$ 235,269.
- Tax increment revenue pass-through to local educational entities for the fiscal year ended June 30, 2007 was \$50,090.
- The Agency paid \$125,385 to the City during the current fiscal year for prior years' interest owed on advances. The payment reduced the Agency's accrued interest and advances from City of Albany.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the Albany Community Reinvestment 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. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The government-wide financial statements consist of a Statement of Net Assets (Deficit) and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business. They provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances.

The Statement of Net Assets (Deficit) presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the Agency's net assets changed during the fiscal year. All changes in net assets are reported in the period that the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses may be reported in this statement for some items that produce cash flows in future fiscal periods, such as assessed but uncollected tax revenues, and interest expense incurred but not paid.

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Generally accepted reporting standards for government-wide financial statements require disclosure of the following activities:

*Governmental activities* – Functions that are principally supported by taxes and intergovernmental revenues. For the Agency, governmental activities include issuance and repayment of debt, purchase and improvement of property, and expenditures to promote development.

*Business-type activities* - Functions that are primarily funded through user charges. The Agency currently has no business-type activities.

*Component units* – These are other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be incomplete. The Albany Community Reinvestment Agency is the primary government in this report and there are no component units requiring disclosure.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Albany Community Reinvestment Agency, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of governmental entities can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources and (2) the remaining year-end balances available for spending. This information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist the reader with this comparison between governmental funds and governmental activities. However, there are no reconciling items in the Albany Community Reinvestment Agency's financial statements for the year ended June 30, 2007.

The Agency maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the following funds that are considered to be major funds:

- Special Revenue Low & Moderate Housing
- Capital Projects
- Debt Service

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Proprietary funds

Proprietary funds generally account for services for which customer fees are intended to finance the costs of operations. The Albany Community Reinvestment Agency has no proprietary funds.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Albany Community Reinvestment Agency has no fiduciary funds.

**Notes to the Financial Statements**

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

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information, in addition to this discussion and analysis, concerning the Agency's progress in promoting development. Budgetary comparison schedules are presented to provide benchmarks for measuring financial performance.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Analysis of Net Assets**

Net assets and the increase or decrease in net assets serve as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$235,269 at June 30, 2007, as compared to an excess of liabilities over assets of \$93,957 at June 30, 2006. Commencing with its formation, the Agency borrowed funds for the purpose of economic development, with the borrowed funds to be repaid from the tax increment revenue generated by the increased economic activity. Thus the Agency's statement of net assets showed net deficit through June 30, 2006.

As of June 30, 2007, the Agency's total liabilities were \$905,249. Of this amount, \$786,203 represents advances and loans from the City of Albany, \$36,847 represents advances from developers, which will be recognized in future periods when expended, and \$82,199 represents accrued interest, salaries and benefits, and other liabilities. The advances and loans from the City accrue interest expense at the rate the City of Albany earns on its investments in the State of California Local Agency Investment Fund (LAIF).

The Special Revenue Low & Moderate Housing Fund has positive net assets of \$298,509 that have accumulated from the set-aside of 20% of the Agency's revenues, for the purpose of providing housing for low & moderate income families, and from interest earned on the fund's net assets that are invested in the California Local Agency Investment Fund (LAIF).

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Analysis of Changes in Net Assets**

The Agency's net assets increased by \$329,226 during the current fiscal year. This increase resulted from revenue of \$387,961 less expenditure of \$58,735. Administrative expenses were \$16,415, interest expense was \$40,175, and expenditures for special projects were \$2,145. Special project activities were related to traffic studies in the area of East Shore Highway and Buchanan Street.

**Budgetary Highlights**

There were no changes between the original and final adopted budgets for the Agency.

The variance between actual and budgeted revenues for the Special Revenue Low & Moderate Housing Fund was a positive \$13,293.

Tax increment revenue and interest earnings of \$294,368 were budgeted for the Capital Projects Fund, but these revenues were allocated to the Debt Service Fund, so as to reduce the deficit fund balance in the Debt Service Fund and accumulate cash for future loan payments.

The budgeted principal payment of \$209,000 in the Debt Service Fund did not occur; however, the Agency paid \$125,385 to the City for prior years' interest owed on advances. This amount included \$94,985 for the Debt Service Fund and \$30,400 for the Capital Projects Fund. The Special Projects expenditures were significantly below budget because the anticipated construction of a traffic signal light in the redevelopment area did not occur.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The incremental assessed value of property in the redevelopment area was \$33,827,360 in fiscal year 2006-07, and has increased to \$52,530,145 for fiscal year 2007-08.

Between October 2004 and September 2005, four retail businesses opened in the redevelopment area: Target Department Store, Bridal Evening & Prom dress store, PetsMart Store and Toyota – Berkeley. The Bridal Evening & Prom dress store closed in 2007. The Toyota auto service location began displaying used autos for sale in October 2007, and it is anticipated that local sales tax revenue will be generated by this activity.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information.

City of Albany  
Finance and Administrative Services Department  
1000 San Pablo Avenue  
Albany, CA 94706



**BASIC FINANCIAL STATEMENTS**

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**STATEMENT OF NET ASSETS (DEFICIT)**

**JUNE 30, 2007**

**(With Comparative Totals for June 30, 2006)**

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 1,140,518	\$ 818,408
Other receivables	-	85,342
Total current assets	<u>1,140,518</u>	<u>903,750</u>
 Total assets	<u>1,140,518</u>	<u>903,750</u>
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	69	379
Accrued wages	485	425
Accrued liabilities	41,470	46,322
Accrued interest due to City of Albany	40,175	30,190
Unearned revenue	<u>36,847</u>	<u>38,993</u>
	119,046	116,309
Advances from City of Albany, due in more than one year	<u>786,203</u>	<u>881,398</u>
 Total liabilities	<u>905,249</u>	<u>997,707</u>
 <b>NET ASSETS (DEFICIT)</b>		
Restricted	298,509	209,221
Unrestricted (deficit)	<u>(63,240)</u>	<u>(303,178)</u>
 Total net assets (deficit)	<u>\$ 235,269</u>	<u>\$ (93,957)</u>

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**  
(With Comparative Totals for the Fiscal Year Ended June 30, 2006)

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Assets (Deficit)</b>	
			<b>Governmental Activities</b>	
		<b>Total Program Revenues</b>	<b>2007</b>	<b>2006</b>
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 16,415	\$ -	\$ (16,415)	\$ (12,989)
Special projects	2,145	-	(2,145)	(12,975)
Interest on long-term debt	40,175	-	(40,175)	(30,190)
<b>Total governmental activities</b>	<b>\$ 58,735</b>	<b>\$ -</b>	<b>(58,735)</b>	<b>(56,154)</b>
<b>General revenues:</b>				
Property taxes			338,741	462,807
Investment earnings			47,075	22,120
Other revenue			2,145	11,497
<b>Total general revenues</b>			<b>387,961</b>	<b>496,424</b>
<b>Change in net assets</b>			<b>329,226</b>	<b>440,270</b>
Net assets-beginning of year			(93,957)	(534,227)
<b>Net assets (deficit) - end of year</b>			<b>\$ 235,269</b>	<b>\$ (93,957)</b>

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2007**

(With Comparative Totals for June 30, 2006)

	Major Funds			Totals	
	Special Revenue Low & Moderate Housing Fund	Capital Projects Fund	Debt Service Fund	2007	2006
<b>ASSETS</b>					
Cash and investments	\$ 298,509	\$ 531,331	\$ 310,678	\$ 1,140,518	\$ 818,408
Other receivables	-	-	-	-	85,342
<b>Total assets</b>	<b>\$ 298,509</b>	<b>\$ 531,331</b>	<b>\$ 310,678</b>	<b>\$ 1,140,518</b>	<b>\$ 903,750</b>
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ 69	\$ -	\$ 69	\$ 379
Accrued wages	-	485	-	485	425
Accrued liabilities	-	41,470	-	41,470	46,322
Accrued interest due to City of Albany	-	20,440	19,735	40,175	30,190
Unearned revenue	-	36,847	-	36,847	38,993
Advances from City of Albany	-	400,000	386,203	786,203	881,398
<b>Total liabilities</b>	<b>-</b>	<b>499,311</b>	<b>405,938</b>	<b>905,249</b>	<b>997,707</b>
<b>FUND BALANCES (DEFICIT)</b>					
Reserved-low income housing	298,509	-	-	298,509	209,221
Reserved for capital projects	-	32,020	-	32,020	68,875
Unreserved (deficit) - Debt Service Fund	-	-	(95,260)	(95,260)	(372,053)
<b>Total fund balances (deficit)</b>	<b>298,509</b>	<b>32,020</b>	<b>(95,260)</b>	<b>235,269</b>	<b>(93,957)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 298,509</b>	<b>\$ 531,331</b>	<b>\$ 310,678</b>	<b>\$ 1,140,518</b>	<b>\$ 903,750</b>

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS (DEFICIT)**

**JUNE 30, 2007**

(With Comparative Reconciliation for June 30, 2006)

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	<u>2007</u>	<u>2006</u>
<b>Total Fund Balances (Deficit) - Total Governmental Funds</b>	<b>\$ 235,269</b>	<b>\$ (93,957)</b>
There are no reporting differences between Total Fund Balances - Total Governmental Funds and Net Assets of Governmental Activities for the fiscal year ended June 30, 2007		
<b>Net Assets (Deficit) of Governmental Activities</b>	<b><u>\$ 235,269</u></b>	<b><u>\$ (93,957)</u></b>

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**  
(With Comparative Totals for the Fiscal Year Ended June 30, 2006)

	Major Funds			Totals	
	Special Revenue Low & Moderate Housing	Capital Projects	Debt Service	2007	2006
<b>REVENUES</b>					
Property taxes	\$ 77,766	\$ -	\$ 260,975	\$ 338,741	\$ 462,807
Investment earnings	11,522	-	35,553	47,075	22,120
Other revenue		2,145	-	2,145	11,497
Total revenues	89,288	2,145	296,528	387,961	496,424
<b>EXPENDITURES</b>					
Administrative costs	-	16,415	-	16,415	12,989
Interest costs	-	20,440	19,735	40,175	30,190
Special projects	-	2,145	-	2,145	12,975
Total expenditures	-	39,000	19,735	58,735	56,154
Excess of revenues over expenditures	89,288	(36,855)	276,793	329,226	440,270
Excess of revenues over (under) expenditures and other uses	89,288	(36,855)	276,793	329,226	440,270
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	89,288	(36,855)	276,793	329,226	440,270
<b>FUND BALANCES (DEFICIT)</b>					
Beginning of year	209,221	68,875	(372,053)	(93,957)	(534,227)
End of year	\$ 298,509	\$ 32,020	\$ (95,260)	\$ 235,269	\$ (93,957)

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF  
ACTIVITIES AND CHANGES IN NET ASSETS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(With Comparative Reconciliation for the Fiscal Year Ended June 30, 2006)

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	<u>2007</u>	<u>2006</u>
<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 329,226</b>	<b>\$ 440,270</b>
There are no reporting differences between Net Changes in Fund Balances - Total Governmental Funds and Total Changes in Net Assets of Governmental Activities for the fiscal year ended June 30, 2007		
<b>Total Changes in Net Assets of Governmental Activities</b>	<b><u>\$ 329,226</u></b>	<b><u>\$ 440,270</u></b>

## ALBANY COMMUNITY REINVESTMENT AGENCY

### NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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#### **NOTE 1 - Summary of Significant Accounting Policies**

The basic financial statements of the Albany Community Reinvestment Agency (the "Agency") have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") as applied to governmental agencies. The Governmental Accounting Standards Boards ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles applicable to the Agency are described below.

##### A. Reporting Entity

The Agency is a separate governmental entity that was established in 1977 pursuant to the provisions of California statutes for the purpose of redeveloping certain areas of the City of Albany. The Agency is a component unit of the City of Albany, the primary government, and is a blended component of the City's financial statements. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Agency currently has one Project Area known as the Cleveland Avenue/Eastshore Highway Project Area, which was adopted by City Council Resolution on June 15, 1998.

Funds for redevelopment can be provided from various sources, including the issuance of tax allocation and lease revenue bonds, long-term notes, funds provided by the City of Albany incremental property taxes, and proceeds from the sale or lease of real property acquired with these funds.

##### B. Description of Funds

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

##### C. Government-wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets (Deficit) and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency accompanied by a total column. The Agency does not have business-type activities or related entities requiring inclusion in the financial statements as component units; therefore, only governmental activities are reported.

These basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets and long-term liabilities, if any, are included in the accompanying Statement of Net Assets (Deficit). The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.



**ALBANY COMMUNITY REINVESTMENT AGENCY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2007**

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**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

Certain types of transactions are reported as program revenues for the Agency in three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* ("GASB No. 34") in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets (Deficit) have been eliminated except those representing balances between the Agency activities and the City of Albany, which are presented as internal balances and eliminated in the City's total primary government column.

**D. Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Reporting standards require an accompanying schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. However, the Agency has only major funds, and does not have any differences in reported net assets.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet, The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are incremental property taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reporting standards require a reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements to explain the differences created by the integrated approach of GASB No. 34. However, the Agency does not have any reported differences.

**E. Governmental Fund Types**

The Governmental fund financial statements include the following fund types:

**Special Revenue Fund** – The Special Revenue Fund (Low and Moderate Income Housing) is used to account for the set-aside requirements for the increment within the Reinvestment Agency. The California Health and Safety Code requires Agency project areas to deposit 20% of allocated incremental property tax revenues into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community's supply of low and moderate-income housing.

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2007**

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**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities.

Debt Service Fund – The Debt Service Fund is used to account for the payment of principal and interest on long-term obligations.

F. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

G. Budgets and Budgetary Accounting

Budget amounts are reported as originally adopted and as further amended by the Board of Directors. Budgets are adopted for the governmental funds on a basis consistent with accounting principles generally accepted in the United States of America.

H. Property Tax Revenues

Incremental property tax revenues represent property taxes in a project area arising from increased assessed valuations over base valuations established at the inception of a project. Incremental property taxes from a project accrue to the Agency until all liabilities of the project have been repaid (including cumulative funds provided by the City of Albany). After all such indebtedness has been repaid, all property taxes from a project area accrue to the various taxing authorities.

I. Net Assets (Deficit)

Government-Wide Net Assets (Deficit) consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets. The Agency does not own any capital assets as of June 30, 2007.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets (deficit) – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Balance includes reservations of fund balances which are created to either satisfy legal covenants, including State laws, which require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2007**

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**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

K. Comparative Data

Prior year total columns on the accompanying financial statements are not necessary for a fair presentation of the financial statements, but are presented only to facilitate financial analysis.

**NOTE 2 – Cash and Investments**

Cash and investment at June 30, 2007 consist of the following:

Cash and investments pooled with the City \$ 1,140,518

The Agency follows the practice of pooling its cash and investments with the cash and investments of the City of Albany for all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

In accordance with Section 53601 of the California Government Code, the Agency may invest in the following types of investments:

- Securities of the U.S. Government or its agencies
- Bonds issued by the City or other local California agencies
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Corporate medium term notes
- Securities of the State of California or its agencies

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average month-end balances. Interest income from cash and investment with fiscal agent is credited directly to the related fund. The credit risk, carrying amount and market value of pooled cash and investments at June 30, 2007 are included in the Comprehensive Annual Financial Report of the City of Albany.

**NOTE 3 – Unearned Revenue**

In fiscal year 2003-04, the Agency received \$70,000 from Target Corporation for installation of a traffic signal. In fiscal year 2004-05, the Agency received \$19,700 from PetsMart and other funds of \$3,085 for this project. Expenditures of \$2,145 have been charged against the deposits during fiscal year 2006-07. The remaining balance of unexpended project funds as of June 30, 2007 was \$36,847.

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**NOTE 4 - Advances Payable to the City of Albany**

Advances payable to the City of Albany consist of the following:

	June 30, 2006	Additions	(Deletions)	June 30, 2007
Advances from City of Albany:				
Principal	\$ 386,203	\$ -	\$ -	\$ 386,203
Interest	80,155	-	(80,155)	-
	<u>466,358</u>	<u>-</u>	<u>(80,155)</u>	<u>386,203</u>
Advances from City of Albany:				
Principal	400,000	-	-	400,000
Interest	15,040	-	(15,040)	-
	<u>415,040</u>	<u>-</u>	<u>(15,040)</u>	<u>400,000</u>
	<u>\$ 881,398</u>	<u>\$ -</u>	<u>\$ (95,195)</u>	<u>\$ 786,203</u>

Advances from the City of Albany (\$386,203): As set forth in the Cooperation Agreement between the City and the Agency, the City advanced certain monies on behalf of the Agency to fund certain costs and expenses. Under the terms of the agreement, interest is accrued at rates based on the current Local Agency Investment Fund rate. Any unpaid accrued interest is added to the total obligation on an annual basis. The total obligation is subordinate to any external debt of the Agency as well as the \$400,000 advance discussed below. The Agency expects to repay the obligation using future incremental tax revenues. There is no fixed due date. Interest of \$19,735 accruing during the current fiscal year was recorded as a current liability at June 30, 2007, and will be paid to the City in the subsequent fiscal year.

Advances from the City of Albany (\$400,000): The \$400,000 advance from the City of Albany was made for the specific purpose of providing funds for the development of the Buchanan-Eastshore Highway Interchange project located in the Cleveland Avenue/Eastshore Highway Project Area. Any unpaid accrued interest is added to the total obligation on an annual basis. This obligation is expected to be repaid from property tax increment revenues, in installments of principal plus interest at rates based on the current Local Agency Investment Fund rate. Interest of \$20,440 accruing during the current fiscal year was recorded as a current liability at June 30, 2007, and will be paid to the City in the subsequent fiscal year.

**NOTE 5 - Stewardship, Compliance and Accountability**

At June 30, 2007, the Debt Service Fund had a deficit as follows:

Debt Service Fund	\$95,260
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The deficit will be eliminated in future years as tax increment revenue is recorded to this fund.

**NOTE 6 – Commitments and Contingencies**

The Agency is at times involved as a defendant in various legal proceedings. There are no current cases, in the opinion of the Agency, for which the outcomes will have a material adverse effect on the financial position of the Agency.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2007**

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**Budgets and Budgetary Accounting**

Procedures followed in establishing the budgetary data reflected in the financial statements are as follows:

By June 1, of even-numbered years, the City Administrator of the City of Albany submits to the Agency's Board of Directors a budget for the two fiscal years commencing the following July 1. The budget includes proposed expenditures and the sources of financing. Public hearings and work sessions are conducted to obtain comments from interested individuals and organizations, and then the budget is formalized and legally enacted through a resolution.

Changes in appropriations must be approved by the Board of Directors. Formal budgetary integration, in the form of the annual budgets, is employed as a management control device during the year for the Special Revenue Fund Low & Moderate Housing Fund, the Capital Projects Fund and the Debt Service Fund. Budgets for these funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

As needed, budgeted amounts are subjected to amendments presented to the Board of Directors for approval. Budgeted amounts are reported as originally adopted and as further amended by the Board of Directors.

**ALBANY COMMUNITY REINVESTMENT AGENCY**

**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE - LOW & MODERATE INCOME HOUSING**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Positive (Negative) Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES (INFLOWS)</b>				
Property taxes	\$ 70,000	\$ 70,000	\$ 77,766	\$ 7,766
Investment earnings	5,995	5,995	11,522	5,527
Total available resources	<u>75,995</u>	<u>75,995</u>	<u>89,288</u>	<u>13,293</u>
<b>EXPENDITURES (OUTFLOWS)</b>				
Administrative costs	-	-	-	-
Interest costs	-	-	-	-
Special projects	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>\$ 75,995</u>	<u>\$ 75,995</u>	89,288	<u>\$ 13,293</u>
<b>FUND BALANCES</b>				
Beginning of year			<u>209,221</u>	
End of year			<u>\$ 298,509</u>	

**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES (INFLOWS)</b>				
Property taxes	\$ 280,000	\$ 280,000	\$ -	\$ (280,000)
Investment earnings	14,368	14,368	-	(14,368)
Other revenue	-	-	2,145	2,145
Total available resources	<u>294,368</u>	<u>294,368</u>	<u>2,145</u>	<u>(292,223)</u>
<b>EXPENDITURES (OUTFLOWS)</b>				
Administrative costs	24,249	24,249	16,415	7,834
Interest costs	-	-	20,440	(20,440)
Special Projects	330,743	330,743	2,145	328,598
Total expenditures	<u>354,992</u>	<u>354,992</u>	<u>39,000</u>	<u>315,992</u>
Excess of revenues over (under) expenditures	<u>\$ (60,624)</u>	<u>\$ (60,624)</u>	(36,855)	<u>\$ 23,769</u>
<b>FUND BALANCES</b>				
Beginning of year			68,875	
End of year			<u>\$ 32,020</u>	



**ALBANY COMMUNITY REINVESTMENT AGENCY**  
**BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES (INFLOWS)</b>				
Property taxes	\$ -	\$ -	\$ 260,975	\$ 260,975
Investment earnings	2,691	2,691	35,553	32,862
Total available resources	<u>2,691</u>	<u>2,691</u>	<u>296,528</u>	<u>293,837</u>
<b>EXPENDITURES (OUTFLOWS)</b>				
Administrative costs	-	-	-	-
Interest costs	9,000	9,000	19,735	(10,735)
Special projects	-	-	-	-
Debt service:				
Principal	209,000	209,000	-	209,000
Total expenditures	<u>218,000</u>	<u>218,000</u>	<u>19,735</u>	<u>198,265</u>
Excess of revenues over (under) expenditures	<u>\$ (215,309)</u>	<u>\$ (215,309)</u>	276,793	<u>\$ 492,102</u>
<b>FUND BALANCES</b>				
Beginning of year			(372,053)	
End of year			<u>\$ (95,260)</u>	

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board Members of the  
Albany Community Reinvestment Agency  
City of Albany, California

We have audited the basic financial statements of the Albany Community Reinvestment Agency (the "Agency"), a component unit of the City of Albany, California, as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Accounting and Reporting, 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*.

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 opinion on the basic financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the basic 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.

This report is intended for the information of the Agency Members of the Board, the State Controller's office, and management. However, this report is a matter of public record and its distribution is not limited.

*Odenberg Ullakko Muranishi & Co LLP*

San Francisco, California  
October 26, 2007