

ALBANY COMMUNITY REINVESTMENT AGENCY

BASIC FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITORS' REPORTS

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FOR THE FISCAL YEAR ENDED JUNE 30, 2010

ALBANY COMMUNITY REINVESTMENT AGENCY

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Albany Community Reinvestment Agency
Albany, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Albany Community Reinvestment Agency (Agency), a component unit of the City of Albany (City), as of and for the year ended June 30, 2010, as listed in the table of contents. These basic 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Agency are intended to present the financial position, and changes in financial position of only that portion of the City of Albany, California that is attributable to the Agency. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2010 and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

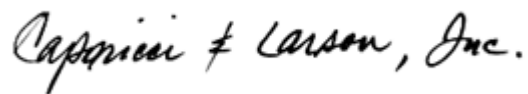
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

To the Board of Directors
of the Albany Community Reinvestment Agency
Albany, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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



Caporicci & Larson
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 17, 2011

ALBANY COMMUNITY REINVESTMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented here is management's discussion and analysis of the Albany Community Reinvestment Agency's financial activities and performance for the fiscal year ended June 30, 2010. Please read this discussion and analysis in conjunction with the Agency's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Property tax increment revenue for the Redevelopment District was \$441,977. This revenue represents the property tax attributable to the increased assessed value of property in the Redevelopment District, over the base year valuation established in 1998.
- The Agency reported an excess of revenues over expenditures for the year ended June 30, 2010 of \$90,758.
- Tax increment revenue pass-through to other local taxing entities for the fiscal year ended June 30, 2010 was \$121,291.
- As required by the State, a payment of \$146,346 was made to the Supplemental Education Revenue Augmentation Fund (SERAF).

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 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 presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether 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

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. The following fund category is used by the Agency.

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, 2010.

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

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.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain 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 \$893,949 at June 30, 2010 compared to \$803,191 at June 30, 2009.

As of June 30, 2010, the Agency's total liabilities were \$828,357. Of this amount, \$686,203 represents advances and loans from the City of Albany, \$35,782 represents advances from developers, which will be expended in future periods, and \$106,372 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).

As of June 30, 2009, the Agency's total liabilities were \$791,888, of which \$686,203 were loan and advances from the City, \$35,782 were advances from developers and \$69,903 were accrued interest, salaries and other liabilities.

The Special Revenue Low & Moderate Housing Fund had net assets of \$586,461 at June 30, 2010 and \$493,693 at June 30, 2009. These assets 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).

Analysis of Changes in Net Assets

The Agency's net assets increased by \$90,758 during the fiscal year ended June 30, 2010. This increase resulted from revenue of \$454,961 less expenditure of \$364,203. Administrative expenditures were \$22,615, interest expenditures were \$23,549, and expenditures for special projects were \$50,402. The largest outflows of cash during the year were the pass-through of tax increment of \$121,291 and the Supplemental Educational Revenue Augmentation Funds (SERAF) payment of \$146,346.

For the fiscal year ended June 30, 2009, net assets increased \$193,177. Revenues were \$406,938 and expenditures were \$213,761. Administrative expenditures were \$30,107, interest \$12,352, special projects \$38,820, pass-through of tax increment \$66,450, and the Education Revenue Augmentation Funds (ERAF) payment of \$66,032.

ALBANY COMMUNITY REINVESTMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

There were no changes between the original and final adopted budgets for the Agency in the fiscal years ended June 30, 2010 or 2009.

Highlights for the fiscal year ended June 30, 2010 include:

- Revenues for the Special Revenue Low & Moderate Housing Fund were \$6,580 below budget, as a result of low interest rates reducing the earnings on cash investments.
- Revenue for the Capital Projects Fund was \$18,435 below budget principally due to low investment earnings. Expenditures were \$229,634 over budget due to the SERAF and pass-through payments that were not included in the budget.
- In the Debt Service Fund, investment earnings were \$6,161 below budget due to the low interest rates. Budgeted debt repayments of \$120,406 were not made in order to preserve cash for purchase of property in the Redevelopment District.

Highlights for the fiscal year ended June 30, 2009 include:

- The variance between actual and budgeted revenues for the Special Revenue Low & Moderate Housing Fund was a positive \$1,907 for property taxes and a negative \$1,486 for interest revenue.
- Revenue for the Capital Projects Fund was \$61,238 below budget and expenditures were \$43,073 over budget, for a net budget variance of \$104,401.
- In the Debt Service Fund, investment earnings were \$631 below budget and interest costs were \$1,454 below budget for a net budget variance of \$823.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The incremental assessed value of property in the redevelopment area was \$53,965,847 in fiscal year 2009-10, and has decreased to \$53,833,021 for fiscal year 2010-11.

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 and its location was occupied by a contractor's supply wholesaler in 2009. The Toyota auto service location began reporting used car sales from the Albany location in 2009. There was no significant business expansion or contraction in fiscal year 2009-10.

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

JUNE 30, 2010

(With Comparative Totals for June 30, 2009)

| | Governmental Activities | |
|---|--------------------------------|-------------------|
| | 2010 | 2009 |
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ 1,666,132 | \$ 1,486,345 |
| Accounts receivable | 56,174 | 108,734 |
| Total current assets | <u>1,722,306</u> | <u>1,595,079</u> |
| Total assets | <u>1,722,306</u> | <u>1,595,079</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 37,647 | 12,012 |
| Accrued wages | 1,237 | 670 |
| Accrued liabilities | 43,939 | 44,869 |
| Accrued interest due to City of Albany | 23,549 | 12,352 |
| Unearned revenue | 35,782 | 35,782 |
| | <u>142,154</u> | <u>105,685</u> |
| Advances from City of Albany, due in more than one year | <u>686,203</u> | <u>686,203</u> |
| Total liabilities | <u>828,357</u> | <u>791,888</u> |
| NET ASSETS | | |
| Restricted | <u>893,949</u> | <u>803,191</u> |
| Total net assets | <u>\$ 893,949</u> | <u>\$ 803,191</u> |

ALBANY COMMUNITY REINVESTMENT AGENCY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

| Functions/Programs | Expenses | Net (Expense) Revenue and Changes in Net Assets (Deficit) | |
|---------------------------------|-------------------|--|-------------------|
| | | Governmental Activities | |
| | | 2010 | 2009 |
| Primary government: | | | |
| Governmental Activities: | | | |
| General government | \$ 22,615 | \$ (22,615) | \$ (30,107) |
| Other expenditures | 267,637 | (267,637) | (132,482) |
| Special projects | 50,402 | (50,402) | (38,820) |
| Interest on long-term debt | 23,549 | (23,549) | (12,352) |
| Total governmental activities | <u>\$ 364,203</u> | <u>(364,203)</u> | <u>(213,761)</u> |
| | | | |
| General revenues: | | | |
| Property taxes | | 441,977 | 377,433 |
| Investment earnings | | 12,984 | 29,505 |
| Total general revenues | | <u>454,961</u> | <u>406,938</u> |
| | | | |
| Change in net assets | | 90,758 | 193,177 |
| | | | |
| Net assets-beginning of year | | <u>803,191</u> | <u>610,014</u> |
| | | | |
| Net assets - end of year | | <u>\$ 893,949</u> | <u>\$ 803,191</u> |

ALBANY COMMUNITY REINVESTMENT AGENCY**BALANCE SHEET - GOVERNMENTAL FUNDS****JUNE 30, 2010**

(With Comparative Totals for June 30, 2009)

| | Major Funds | | | Totals | |
|--|--|-----------------------------|-------------------------|---------------------|---------------------|
| | Special Revenue Low & Moderate Housing Fund | Capital Projects Fund | Debt Service Fund | 2010 | 2009 |
| ASSETS | | | | | |
| Cash and investments | \$ 586,459 | \$ 662,847 | \$ 416,826 | \$ 1,666,132 | \$ 1,486,345 |
| Accounts receivable | 2 | 56,172 | - | 56,174 | 108,734 |
| Total assets | \$ 586,461 | \$ 719,019 | \$ 416,826 | \$ 1,722,306 | \$ 1,595,079 |
| LIABILITIES | | | | | |
| Accounts payable | \$ - | \$ 37,647 | \$ - | \$ 37,647 | \$ 12,012 |
| Accrued wages | - | 1,237 | - | 1,237 | 670 |
| Accrued liabilities | - | 43,939 | - | 43,939 | 44,869 |
| Accrued interest due to City of Albany | - | 8,434 | 15,115 | 23,549 | 12,352 |
| Unearned revenue | - | 35,782 | - | 35,782 | 35,782 |
| Advances from City of Albany | - | 300,000 | 386,203 | 686,203 | 686,203 |
| Total liabilities | - | 427,039 | 401,318 | 828,357 | 791,888 |
| FUND BALANCES | | | | | |
| Reserved for special revenue | 586,461 | - | - | 586,461 | 493,693 |
| Reserved for capital projects | - | 291,980 | - | 291,980 | 282,414 |
| Reserved for debt service | - | - | 15,508 | 15,508 | 27,084 |
| Total fund balances | 586,461 | 291,980 | 15,508 | 893,949 | 803,191 |
| Total liabilities and fund balances | \$ 586,461 | \$ 719,019 | \$ 416,826 | \$ 1,722,306 | \$ 1,595,079 |

ALBANY COMMUNITY REINVESTMENT AGENCY

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

JUNE 30, 2010

(With Comparative Reconciliation for June 30, 2009)

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Fund Balances - Total Governmental Funds | \$ 893,949 | \$ 803,191 |
| 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, 2010 | | |
| Net Assets of Governmental Activities | <u>\$ 893,949</u> | <u>\$ 803,191</u> |

ALBANY COMMUNITY REINVESTMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(With Comparative Totals for the Fiscal Year Ended June 30, 2009)

| | Major Funds | | | Totals | |
|---|--|---------------------|------------------|-------------------|-------------------|
| | Special Revenue Low & Moderate Housing Fund | Capital Projects | Debt Service | 2010 | 2009 |
| REVENUES | | | | | |
| Property taxes | \$ 88,395 | \$ 353,582 | \$ - | \$ 441,977 | \$ 377,433 |
| Investment earnings | 4,373 | 5,072 | 3,539 | 12,984 | 29,505 |
| Total revenues | <u>92,768</u> | <u>358,654</u> | <u>3,539</u> | <u>454,961</u> | <u>406,938</u> |
| EXPENDITURES | | | | | |
| Administrative costs | - | 22,615 | - | 22,615 | 30,107 |
| Interest costs | - | 8,434 | 15,115 | 23,549 | 12,352 |
| Other expenditures | - | 267,637 | - | 267,637 | 132,482 |
| Special projects | - | 50,402 | - | 50,402 | 38,820 |
| Total expenditures | <u>-</u> | <u>349,088</u> | <u>15,115</u> | <u>364,203</u> | <u>213,761</u> |
| Excess of revenues over expenditures | <u>92,768</u> | <u>9,566</u> | <u>(11,576)</u> | <u>90,758</u> | <u>193,177</u> |
| Net change in fund balances | 92,768 | 9,566 | (11,576) | 90,758 | 193,177 |
| FUND BALANCES | | | | | |
| Beginning of year | 493,693 | 282,414 | 27,084 | 803,191 | 610,014 |
| End of year | <u>\$ 586,461</u> | <u>\$ 291,980</u> | <u>\$ 15,508</u> | <u>\$ 893,949</u> | <u>\$ 803,191</u> |

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, 2010

(With Comparative Reconciliation for the Fiscal Year Ended June 30, 2009)

| | <u>2010</u> | <u>2009</u> |
|--|-------------------------|--------------------------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ 90,758 | \$ 193,177 |
| <p>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, 2010</p> | | |
| Total Changes in Net Assets of Governmental Activities | <u>\$ 90,758</u> | <u>\$ 193,177</u> |

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

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 Board ("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 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. 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, 2010

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 have been eliminated. Advances to the Agency from the City's General Fund are included in these financial statements. In the City's financial statements they 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 governmental funds. 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 presents 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.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

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. Cash and Investments

The Agency pools its cash with the City. The City pools cash resources from all funds in order to facilitate and maximize the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, certain disclosure requirements for deposits and investment risks have been made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balance.

G. Low and Moderate Income Housing

The California Health and Safety Code requires Agency project areas to deposit a minimum of 20% of incremental property tax revenues into a separate fund. This money is restricted for the purpose of increasing, improving, or preserving the community's supply of low and moderate-income housing. The Agency accounts for these revenues in the Low and Moderate Income Housing Fund.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 – Summary of Significant Accounting Policies (Continued)

H. 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.

I. 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. The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amount to the Agency. Property taxes are levied as of January 1, and a statutory lien is established. The property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively.

Incremental property taxes from a project, in excess of amounts passed-through to agencies levying taxes within the project area, accrue to the Agency until all liabilities of the Agency 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.

J. Unearned Revenue

Under the modified accrual basis of accounting revenue may be recognized only when it is earned. The Agency received funds to support traffic mitigation during fiscal year 2003-04; accordingly, the unexpended balance of these funds is reported as unearned revenue.

K. Net Assets/Fund Balances

Government-Wide Net Assets consist of net assets restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Governmental Fund Balances include 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 to identify the portion of the fund not available for future expenditures.

L. 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.

M. Comparative Data

Prior year total columns on the accompanying financial statements are not necessary for a fair presentation of the financial statements and the independent auditors do not provide any report on these prior year amount. The prior year totals are presented to facilitate financial analysis by persons utilizing these statements.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 – Summary of Significant Accounting Policies (Continued)

N. Subsequent Events

The California Governor has proposed the elimination of Redevelopment District Agencies. The draft legislation effectively prohibits RDAs from incurring long term liabilities subsequent to January 1, 2011. A successor agency would be created to liquidate all RDA liabilities incurred prior to January 1, 2011. Inaction of the proposed legislation would not impair the value of Agency assets or create new liabilities for the Agency.

On January 17, 2011, the Agency's Board of Directors adopted resolutions 2011-1 and 2011-2, approving a Public Improvements Grant and Cooperation Agreement with the City of Albany, adopting Operating Budgets for fiscal years 2011-11 and 2011-12, and confirming the agency's debt to the City as of June 30, 2011. The proposed elimination of RDAs, as discussed above, would impact the future funding of public improvements, as outlined in the Public Improvements Grant and Cooperation Agreement.

NOTE 2 – Cash and Investments

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.

A. Cash and investment at June 30, 2010 consist of the following:

| | |
|---|---------------------|
| Cash and investments pooled with the City | <u>\$ 1,666,132</u> |
|---|---------------------|

B. Authorized Investments

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

- U.S. Treasury obligations
- U.S. Agency securities
- Bankers' acceptances
- Commercial paper
- Corporate medium-term notes
- Money market mutual funds
- Repurchase agreements
- Local Agency Investment Fund (State Pool)
- Investment Trust of California (CalTrust)
- Negotiable certificates of deposit

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 – Cash and Investments (Continued)

C. Risk Disclosures

Interest Rate Risk. This is the risk that changes in 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 changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Agency monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. In accordance with the City's investment policy, the Agency is not allowed to invest more than 25% of its investment portfolio in maturities greater than one year. Investments which exceed five years in maturity require City Council's approval. Further, each individual security is limited to one million dollars. At June 30, 2010 all of the Agency's investments had remaining maturities of twelve months or less.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized credit rating organization. The Agency's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of June 30, 2010, there are no investments in any one issuer that represent 5% or more of total Agency investments.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, the Agency had cash and investments pooled with the City of \$1,666,132. The City's bank balances of \$2,745,850 were held at four institutions and included certificates of deposits of \$752,143, which were covered by depository insurance. The remaining balance of \$1,993,707 was held in accounts collateralized with securities held by the financial institutions.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 – Cash and Investments (Continued)

D. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of \$30,482,549 whose pro-rata share of fair value was estimated by the state Treasurer to be \$30,532,655.

The Agency's investments with LAIF at June 30, 2010 included a portion of the pooled funds invested in structured notes and asset-backed securities. Structured notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMS) or credit card receivables. As of June 30 2010, the State Treasurer had invested 5.42% of the pool's funds in structured notes and asset-backed securities.

NOTE 3 – Accounts Receivable

The Agency is obligated to pass-through a portion of the tax increment revenue from the Redevelopment District, to other entities that levy taxes in the District. Between fiscal year 2002/2003 to 2007/2008, the Agency overpaid several entities creating a receivable due to the Agency. The Agency will offset future pass-through payments against the receivable. At June 30, 2010, the balance receivable from those entities totaled \$56,174.

NOTE 4 – Accrued Liabilities

The Agency's accrued liabilities consist of accrued tax increment pass-through liabilities and other accrued expenditures. For the fiscal year ended June 30, 2010 the accrued pass-through liabilities were \$43,939, and other accrued expenditures were \$37,647.

NOTE 5 – Unearned Revenue

To support traffic mitigation in the area of Buchanan Street and East Shore Highway, Target Corporation paid the Agency \$70,000 in fiscal year 2003-04 and PetSmart paid the City \$19,700 in fiscal year 2004-05. Expenditures of \$53,918 have been made from these funds yielding a balance of \$35,782 at June 30, 2010. The current plans to utilize these remaining funds are to construct an AC Transit bus stop and turn-around in the redevelopment area.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - Advances Payable to the City of Albany

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

| | June 30, 2009 | Additions | (Deletions) | June 30, 2010 |
|-------------------------------|-------------------|-------------|-------------|-------------------|
| Advances from City of Albany: | | | | |
| Debt Service Fund | \$ 386,203 | \$ - | \$ - | \$ 386,203 |
| Capital Projects Fund | 300,000 | - | - | 300,000 |
| | <u>\$ 686,203</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 686,203</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 \$15,115 accruing during the current fiscal year was recorded as a current liability at June 30, 2010, 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. During fiscal year 2007-08, the Agency paid the City \$100,000 and reduced the loan amount to \$300,000. Interest of \$8,434 accruing during the current fiscal year was recorded as a current liability at June 30, 2010, and will be paid to the City in the subsequent fiscal year.

NOTE 7 – Other Expenditures

The Agency's pass-through tax increment revenue to other taxing entities in the redevelopment district for the fiscal year ended June 30, 2010 were \$121,291.

ABX4-26 State legislation enacted in 2009 requires the shift of \$2.05 billion from California redevelopment agencies to the Supplemental Education Revenue Augmentation Fund (SERAF), with \$1.7 billion payable by May 10, 2010 and \$350 million payable by May 10, 2011. In compliance with this legislation, the Albany Reinvestment Agency made payment of \$146,346 to the Alameda County SERAF for the fiscal year ended June 30, 2010.

NOTE 8 – 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.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 9 – Excessive Expenditures over Appropriations

At June 30, 2010, the following fund had excess expenditures over appropriations:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|-----------------------|-----------------------|---------------------|---------------|
| Capital Project Fund: | | | |
| Interest costs | - | 8,434 | (8,434) |
| Other expenditures | - | 267,637 | (267,637) |
| Debt Service Fund: | | | |
| Interest costs | - | 15,115 | (15,115) |

REQUIRED SUPPLEMENTARY INFORMATION

ALBANY COMMUNITY REINVESTMENT AGENCY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2010

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
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|----------------------------|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 88,723 | \$ 88,723 | \$ 88,395 | \$ (328) |
| Investment earnings | 10,625 | 10,625 | 4,373 | (6,252) |
| Total revenues | <u>99,348</u> | <u>99,348</u> | <u>92,768</u> | <u>(6,580)</u> |
| Net change in fund balance | <u>\$ 99,348</u> | <u>\$ 99,348</u> | 92,768 | <u>\$ (6,580)</u> |
| FUND BALANCES | | | | |
| Beginning of year | | | <u>493,693</u> | |
| End of year | | | <u>\$ 586,461</u> | |

SUPPLEMENTARY INFORMATION

ALBANY COMMUNITY REINVESTMENT AGENCY

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL PROJECT FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|----------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 354,893 | \$ 354,893 | \$ 353,582 | \$ (1,311) |
| Investment earnings | 20,196 | 20,196 | 5,072 | (15,124) |
| Other revenue | 2,000 | 2,000 | - | (2,000) |
| Total revenues | <u>377,089</u> | <u>377,089</u> | <u>358,654</u> | <u>(18,435)</u> |
| | | | | |
| EXPENDITURES | | | | |
| Administrative costs | 65,454 | 65,454 | 22,615 | 42,839 |
| Interest costs | - | - | 8,434 | (8,434) |
| Other expenditures | - | - | 267,637 | (267,637) |
| Special Projects | 54,000 | 54,000 | 50,402 | 3,598 |
| Total expenditures | <u>119,454</u> | <u>119,454</u> | <u>349,088</u> | <u>(229,634)</u> |
| | | | | |
| Net change in fund balance | <u>\$ 257,635</u> | <u>\$ 257,635</u> | 9,566 | <u>\$ (248,069)</u> |
| | | | | |
| FUND BALANCES | | | | |
| Beginning of year | | | <u>282,414</u> | |
| End of year | | | <u>\$ 291,980</u> | |

ALBANY COMMUNITY REINVESTMENT AGENCY

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - DEBT SERVICE FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Positive (Negative) Variance with Final Budget |
|-----------------------------|---------------------|---------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Investment earnings | \$ 9,700 | \$ 9,700 | \$ 3,539 | \$ (6,161) |
| Total revenues | <u>9,700</u> | <u>9,700</u> | <u>3,539</u> | <u>(6,161)</u> |
| EXPENDITURES | | | | |
| Interest costs | | - | 15,115 | (15,115) |
| Debt service: | | | | |
| Principal | <u>120,406</u> | <u>120,406</u> | <u>-</u> | <u>120,406</u> |
| Total expenditures | <u>120,406</u> | <u>120,406</u> | <u>15,115</u> | <u>105,291</u> |
| Net change in fund balances | <u>\$ (110,706)</u> | <u>\$ (110,706)</u> | (11,576) | <u>\$ 99,130</u> |
| FUND BALANCES | | | | |
| Beginning of year | | | <u>27,084</u> | |
| End of year | | | <u>\$ 15,508</u> | |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
of the Albany Community Reinvestment Agency
Albany, California

We have audited the basic financial statements of the Community Reinvestment Agency (Agency) of the City of Albany (City), a component unit of the City, as of and for the year ended June 30, 2010, and have issued our report thereon dated March 17, 2011. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

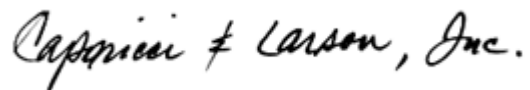
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We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

To the Board of Directors
of the Albany Community Reinvestment Agency
Albany, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc
A Subsidiary of Marcum LLP
Certified Public Accountant
San Francisco, California
March 17, 2011