

ALBANY COMMUNITY REINVESTMENT AGENCY

BASIC FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITORS' REPORTS

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ALBANY COMMUNITY REINVESTMENT AGENCY

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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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, 2008, 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. The financial statements of the Agency as of June 30, 2007, were audited by other auditors whose report dated October 26, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

Subsequent to the basic financial statements date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Agency has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2008 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. 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.

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To the Board of Directors
of the Albany Community Reinvestment Agency
Albany, California
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The accompanying Required Supplementary Information, such as management's discussion and analysis and other information as listed in the foregoing table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the Agency. 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.

Capricci & Larson

Oakland, California
December 3, 2008

ALBANY COMMUNITY REINVESTMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008. 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 \$381,295. 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, 2008 of \$374,745.
- Tax increment revenue pass-through to local educational entities for the fiscal year ended June 30, 2008 was \$45,521.
- The Agency paid \$40,175 to the City during the current fiscal year for prior year' interest owed on advances. In addition, the Agency made a principal payment of \$100,000 to the City, which reduced the \$400,000 loan in the Capital Projects Fund to \$300,000.

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. Funds of governmental entities are 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, 2008.

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

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 \$610,014 at June 30, 2008 compared to \$235,269 at June 30, 2007.

As of June 30, 2008, the Agency's total liabilities were \$798,875. Of this amount, \$686,203 represents advances and loans from the City of Albany, \$35,782 represents advances from developers, which will be recognized in future periods when expended, and \$76,890 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 net assets of \$397,493 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).

Analysis of Changes in Net Assets

The Agency's net assets increased by \$374,745 during the current fiscal year. This increase resulted from revenue of \$433,919 less expenditure of \$59,174. Administrative expenses were \$28,122, interest expense was \$29,987, and expenditures for special projects were \$1,065. Special project activities were related to traffic studies in the area of East Shore Highway and Buchanan Street.

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.

The variance between actual and budgeted revenues for the Special Revenue Low & Moderate Housing Fund was a positive \$17,989.

Tax increment revenue and interest earnings of \$389,368 were budgeted for the Capital Projects Fund, but a portion of these revenues was allocated to the Debt Service Fund, so as to eliminate the deficit fund balance in the Debt Service Fund and accumulate cash for future loan payments.

The budgeted principal payment of \$115,000 in the Debt Service Fund did not occur; however, principal payment of \$100,000 was made to the City out of the Capital Projects Fund. The Agency paid \$40,175 to the City for prior year's interest owed on advances. This amount included \$19,735 for the Debt Service Fund and \$20,440 for the Capital Projects Fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The incremental assessed value of property in the redevelopment area was \$52,530,145 in fiscal year 2007-08, and has increased to \$53,292,212 for fiscal year 2008-09.

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. During the current fiscal year, no new businesses were opened in the redevelopment area.

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
405 Kains Avenue
Albany, CA 94706

BASIC FINANCIAL STATEMENTS

ALBANY COMMUNITY REINVESTMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2008

(With Comparative Totals for June 30, 2007)

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and investments	\$ 1,408,889	\$ 1,140,518
Total current assets	<u>1,408,889</u>	<u>1,140,518</u>
Total assets	<u>1,408,889</u>	<u>1,140,518</u>
LIABILITIES		
Current liabilities:		
Accounts payable	791	69
Accrued wages	591	485
Accrued liabilities	45,521	41,470
Accrued interest due to City of Albany	29,987	40,175
Unearned revenue	35,782	36,847
	<u>112,672</u>	<u>119,046</u>
Advances from City of Albany, due in more than one year	<u>686,203</u>	<u>786,203</u>
Total liabilities	<u>798,875</u>	<u>905,249</u>
NET ASSETS		
Restricted	610,014	330,529
Unrestricted (deficit)	<u>-</u>	<u>(95,260)</u>
Total net assets (deficit)	<u>\$ 610,014</u>	<u>\$ 235,269</u>

ALBANY COMMUNITY REINVESTMENT AGENCY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for the Fiscal Year Ended June 30, 2007)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets (Deficit)	
			Governmental Activities	
		Total Program Revenues	2008	2007
Primary government:				
Governmental Activities:				
General government	\$ 28,122	\$ -	\$ (28,122)	\$ (16,415)
Special projects	1,065	-	(1,065)	(2,145)
Interest on long-term debt	29,987	-	(29,987)	(40,175)
Total governmental activities	<u>\$ 59,174</u>	<u>\$ -</u>	<u>(59,174)</u>	<u>(58,735)</u>
General revenues:				
Property taxes			381,295	338,741
Investment earnings			51,559	47,075
Other revenue			1,065	2,145
Total general revenues			<u>433,919</u>	<u>387,961</u>
Change in net assets			374,745	329,226
Net assets-beginning of year			<u>235,269</u>	<u>(93,957)</u>
Net assets (deficit) - end of year			<u>\$ 610,014</u>	<u>\$ 235,269</u>

ALBANY COMMUNITY REINVESTMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

(With Comparative Totals for June 30, 2007)

	Major Funds			Totals	
	Special Revenue Low & Moderate Housing Fund	Capital Projects Fund	Debt Service Fund	2008	2007
ASSETS					
Cash and investments	\$ 397,493	\$583,205	\$428,191	\$1,408,889	\$1,140,518
Total assets	\$ 397,493	\$583,205	\$428,191	\$1,408,889	\$1,140,518
LIABILITIES					
Accounts payable	\$ -	\$ 791	\$ -	\$ 791	\$ 69
Accrued wages	-	591	-	591	485
Accrued liabilities	-	45,521	-	45,521	41,470
Accrued interest due to City of Albany	-	13,110	16,877	29,987	40,175
Unearned revenue	-	35,782	-	35,782	36,847
Advances from City of Albany	-	300,000	386,203	686,203	786,203
Total liabilities	-	395,795	403,080	798,875	905,249
FUND BALANCES (DEFICIT)					
Reserved-low income housing	397,493	-	-	397,493	298,509
Reserved for capital projects	-	187,410	-	187,410	32,020
Reserved for debt service	-	-	25,111	25,111	-
Unreserved (deficit) - Debt Service Fund	-	-	-	-	(95,260)
Total fund balances (deficit)	397,493	187,410	25,111	610,014	235,269
Total liabilities and fund balances	\$ 397,493	\$583,205	\$428,191	\$1,408,889	\$1,140,518

ALBANY COMMUNITY REINVESTMENT AGENCY

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

JUNE 30, 2008

(With Comparative Reconciliation for June 30, 2007)

	<u>2008</u>	<u>2007</u>
Total Fund Balances (Deficit) - Total Governmental Funds	\$ 610,014	\$ 235,269
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, 2008		
Net Assets (Deficit) of Governmental Activities	<u><u>\$ 610,014</u></u>	<u><u>\$ 235,269</u></u>

ALBANY COMMUNITY REINVESTMENT AGENCY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(With Comparative Totals for the Fiscal Year Ended June 30, 2007)

	Major Funds			Totals	
	Special Revenue Low & Moderate Housing	Capital Projects	Debt Service	2008	2007
REVENUES					
Property taxes	\$ 85,363	\$ 171,932	\$ 124,000	\$ 381,295	\$ 338,741
Investment earnings	13,621	24,690	13,248	51,559	47,075
Other revenue		1,065	-	1,065	2,145
Total revenues	<u>98,984</u>	<u>197,687</u>	<u>137,248</u>	<u>433,919</u>	<u>387,961</u>
EXPENDITURES					
Administrative costs	-	28,122	-	28,122	16,415
Interest costs	-	13,110	16,877	29,987	40,175
Special projects	-	1,065	-	1,065	2,145
Total expenditures	<u>-</u>	<u>42,297</u>	<u>16,877</u>	<u>59,174</u>	<u>58,735</u>
Excess of revenues over expenditures	<u>98,984</u>	<u>155,390</u>	<u>120,371</u>	<u>374,745</u>	<u>329,226</u>
Excess of revenues over (under) expenditures and other uses	98,984	155,390	120,371	374,745	329,226
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	98,984	155,390	120,371	374,745	329,226
FUND BALANCES (DEFICIT)					
Beginning of year	<u>298,509</u>	<u>32,020</u>	<u>(95,260)</u>	<u>235,269</u>	<u>(93,957)</u>
End of year	<u>\$ 397,493</u>	<u>\$ 187,410</u>	<u>\$ 25,111</u>	<u>\$ 610,014</u>	<u>\$ 235,269</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, 2008

(With Comparative Reconciliation for the Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Net Changes in Fund Balances - Total Governmental Funds	\$ 374,745	\$ 329,226
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, 2008		
Total Changes in Net Assets of Governmental Activities	<u>\$ 374,745</u>	<u>\$ 329,226</u>

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008

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, 2008

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, 2008.

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, 2008

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, 2008 consist of the following:

Cash and investments pooled with the City \$1,408,889

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, 2008 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 \$1,065 have been charged against the deposits during fiscal year 2007-08. The remaining balance of unexpended project funds as of June 30, 2008 was \$35,782.

ALBANY COMMUNITY REINVESTMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 4 - Advances Payable to the City of Albany

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

	<u>June 30,</u> <u>2007</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30,</u> <u>2008</u>
Advances from City of Albany:				
Debt Service Fund	\$ 386,203	\$ -	\$ -	\$ 386,203
Capital Projects Fund	400,000	-	(100,000)	300,000
	<u>\$ 786,203</u>	<u>\$ -</u>	<u>\$ (100,000)</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 \$16,877 accruing during the current fiscal year was recorded as a current liability at June 30, 2008, 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 the fiscal year, the Agency paid the City \$100,000 and reduced the loan amount to \$300,000. Interest of \$13,110 accruing during the current fiscal year was recorded as a current liability at June 30, 2008, and will be paid to the City in the subsequent fiscal year.

NOTE 5 - Stewardship, Compliance and Accountability

The debt service fund had a deficit fund balance of \$95,260 at June 30, 2007. Additional tax increment revenues were recorded in this fund during the fiscal year to eliminate the deficit. At June 30, 2008, the fund had a positive fund balance of \$25,111.

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, 2008

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, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Positive (Negative) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES (INFLOWS)				
Property taxes	\$ 75,000	\$ 75,000	\$ 85,363	\$ 10,363
Investment earnings	5,995	5,995	13,621	7,626
Total available resources	<u>80,995</u>	<u>80,995</u>	<u>98,984</u>	<u>17,989</u>
EXPENDITURES (OUTFLOWS)				
Administrative costs	-	-	-	-
Interest costs	-	-	-	-
Special projects	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>\$ 80,995</u>	<u>\$ 80,995</u>	98,984	<u>\$ 17,989</u>
FUND BALANCES				
Beginning of year			<u>298,509</u>	
End of year			<u>\$ 397,493</u>	

ALBANY COMMUNITY REINVESTMENT AGENCY
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES (INFLOWS)				
Property taxes	\$ 375,000	\$ 375,000	\$ 171,932	\$ (203,068)
Investment earnings	14,368	14,368	24,690	10,322
Other revenue	-	-	1,065	1,065
Total available resources	<u>389,368</u>	<u>389,368</u>	<u>197,687</u>	<u>(191,681)</u>
EXPENDITURES (OUTFLOWS)				
Administrative costs	25,012	25,012	28,122	(3,110)
Interest costs	15,000	15,000	13,110	1,890
Special Projects	-	-	1,065	(1,065)
Total expenditures	<u>40,012</u>	<u>40,012</u>	<u>42,297</u>	<u>(2,285)</u>
Excess of revenues over (under) expenditures	<u>\$ 349,356</u>	<u>\$ 349,356</u>	155,390	<u>\$ (193,966)</u>
FUND BALANCES				
Beginning of year			<u>32,020</u>	
End of year			<u>\$ 187,410</u>	

ALBANY COMMUNITY REINVESTMENT AGENCY
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES (INFLOWS)				
Property taxes	\$ -	\$ -	\$ 124,000	\$ 124,000
Investment earnings	2,691	2,691	13,248	10,557
Total available resources	<u>2,691</u>	<u>2,691</u>	<u>137,248</u>	<u>134,557</u>
EXPENDITURES (OUTFLOWS)				
Administrative costs	-	-	-	-
Interest costs	9,000	9,000	16,877	(7,877)
Special projects	-	-	-	-
Debt service:				
Principal	115,000	115,000	-	115,000
Total expenditures	<u>124,000</u>	<u>124,000</u>	<u>16,877</u>	<u>107,123</u>
Excess of revenues over (under) expenditures	<u>\$ (121,309)</u>	<u>\$ (121,309)</u>	120,371	<u>\$ 241,680</u>
FUND BALANCES				
Beginning of year			(95,260)	
End of year			<u>\$ 25,111</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**

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

We have audited the basic financial statements of the Community Reinvestment Agency of the City of Albany (Agency), a component unit of the City of Albany (City), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 3, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States 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 control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

The Board of Directors
of the Community Reinvestment Agency of the City of Albany
Albany, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions 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 City Council, others within the entity, 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.

Capricci & Carson

Oakland, California
December 3, 2008