BASE REUSE FUNDS
OF THE CITY OF ALAMEDA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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BASE REUSE FUNDS
OF THE CITY OF ALAMEDA

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members, Mayor and the Council Members
of the City of Alameda
Alameda, California

Report on Financial Statements

We have audited the accompanying financial statements of the Base Reuse Special Revenue Fund and Base Reuse Debt Service Fund (Funds) of the City of Alameda, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Funds as of June 30, 2014, and the respected changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 1, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
October 15, 2014

BASE REUSE FUNDS
OF THE CITY OF ALAMEDA
For the Year Ended June 30, 2014

FUND FINANCIAL STATEMENTS

BASE REUSE SPECIAL REVENUE FUND

The fund accounts for the revenues from leasing activities, revenues and grants. Expenditures are made for base reuse activities.

BASE REUSE DEBT SERVICE FUND

The 2003 Variable Rate Demand Revenue Bonds were issued in December 2003 by the Alameda Public Financing Authority to refund the 1999 Base Reuse Revenue Bonds and to finance professional land use planning and other activities required in the redevelopment process at Alameda Point. The debt will be repaid solely from lease revenues related to base reuse.

BASE REUSE FUNDS
OF THE CITY OF ALAMEDA
BALANCE SHEET
JUNE 30, 2014

	Base Reuse Special Revenue Fund	Base Reuse Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and investments (Note 3)	$4,353,735	$43,232	$4,396,967
Restricted cash and investments (Note 3)		1,008	1,008
Accounts receivable	246,806		246,806
Total Assets	$4,600,541	$44,240	$4,644,781
LIABILITIES			
Accounts payable and accrued expenses	$361,610		$361,610
Accrued payroll	3,387		3,387
Interest payable		$1,006	1,006
Refundable deposits	667,978		667,978
Total Liabilities	1,032,975	1,006	1,033,981
FUND BALANCES			
Fund balance (Note 6)			
Restricted	3,567,566	$43,234	3,610,800
Total Fund Balances	3,567,566	43,234	3,610,800
Total Liabilities and Fund Balances	$4,600,541	$44,240	$4,644,781

See accompanying notes to financial statements

BASE REUSE FUNDS
OF THE CITY OF ALAMEDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Base Reuse Special Revenue Fund	Base Reuse Debt Service Fund	Total Governmental Funds
REVENUES			
Revenues from other agencies	$136,667		$136,667
Lease revenue	9,858,898		9,858,898
Rent revenue	1,836,286		1,836,286
Interest and other use of money and property	45,267	$1,585	46,852
Other	228,327		228,327
Total Revenues	12,105,445	1,585	12,107,030
EXPENDITURES			
Wages and benefits	951,474		951,474
Office supplies	3,184,088		3,184,088
Travel	186		186
Professional and administrative services	3,023,691		3,023,691
Building/equipment repairs and maintenance	2,496,249		2,496,249
Utilities	1,345,747		1,345,747
Debt service:			
Principal		300,000	300,000
Interest		22,987	22,987
Total Expenditures	11,001,435	322,987	11,324,422
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,104,010	(321,402)	782,608
OTHER FINANCING SOURCES (USES)			
Transfer in (Note 4)		150,000	150,000
Transfer (out) (Note 4)	(150,000)		(150,000)
Transfer to the City of Alameda (Note 4)	(291,728)		(291,728)
Total Other Financing Sources (Uses)	(441,728)	150,000	(291,728)
NET CHANGE IN FUND BALANCES	662,282	(171,402)	490,880
BEGINNING FUND BALANCES	2,905,284	214,636	3,119,920
ENDING FUND BALANCES	$3,567,566	$43,234	$3,610,800

See accompanying notes to financial statements

BASE REUSE SPECIAL REVENUE FUND
OF THE CITY OF ALAMEDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Revenues from other agencies		$136,667	$136,667	
Charges for current services	$24,000	24,000		($24,000)
Lease revenue	11,800,000	11,800,000	9,858,898	(1,941,102)
Rent Revenue			1,836,286	1,836,286
Use of money and property	32,842	32,842	45,267	12,425
Other			228,327	228,327
Total Revenues	11,856,842	11,993,509	12,105,445	111,936
EXPENDITURES:				
Wages and benefits	1,030,763	1,030,763	951,474	79,289
Office supplies	3,179,228	3,179,228	3,184,088	(4,860)
Travel	1,780	1,750	186	1,564
Professional and administrative services	3,852,423	4,039,090	3,023,691	1,015,399
Building/equipment repairs and maintenance	2,100,061	2,100,061	2,496,249	(396,188)
Utilities	1,367,775	1,367,775	1,345,747	22,028
Total Expenditures	11,532,030	11,718,667	11,001,435	717,232
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	324,812	274,842	1,104,010	829,168
OTHER FINANCING SOURCES (USES)				
Transfer (out) (Note 4)	(300,000)	(300,000)	(150,000)	150,000
Transfer to the City of Alameda (Note 4)	(451,635)	(451,635)	(291,728)	159,907
Total Other Financing Sources (Uses)	(751,635)	(751,635)	(441,728)	309,907
NET CHANGE IN FUND BALANCE	($426,823)	($476,793)	662,282	$1,139,075
Beginning fund balance			2,905,284	
Ending fund balance			$3,567,566	

See accompanying notes to financial statements

NOTE 1 – REPORTING ENTITY

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

On February 7, 2012, ARRA was dissolved and became a department of the City of Alameda (City). ARRA's activities are now accounted for in the following two funds for the City. The Base Reuse Special Revenue Fund and Base Reuse Debt Service Funds (Funds) of the City are integral parts of the reporting entity. These Funds are included in the basic financial statements of the City. Governmental funds are used to account for operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Major Funds

BASE REUSE SPECIAL REVENUE FUND

The fund accounts for the revenues from leasing activities, revenues and grants. Expenditures are made for base reuse activities.

BASE REUSE DEBT SERVICE FUND

The 2003 Variable Rate Demand Revenue Bonds were issued in December 2003 by the Alameda Public Financing Authority to refund the 1999 Base Reuse Revenue Bonds and to finance professional land use planning and other activities required in the redevelopment process at Alameda Point. The debt will be repaid solely from lease revenues related to base reuse.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Basis of Accounting*

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

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

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

D. *Grant Revenues*

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

NOTE 3 - CASH AND INVESTMENTS

The Fund's cash is pooled with other funds of the City in an unrated cash and investment pool, the details of which are presented in the City's Comprehensive Annual Financial Report. The City is primarily invested in the California Local Agency Investment Fund and investments of U.S. Government sponsored agencies. Investments are stated at fair market value as required by generally accepted accounting principles.

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest income earned on pooled cash and investments is allocated monthly to the various funds of which the Funds is a participant, based on the month-end cash balances. Interest income from restricted cash and cash equivalents is credited directly.

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes.

NOTE 4 – TRANSFERS BETWEEN THE CITY AND THE FUNDS

During the fiscal year ended June 30, 2014, Base Reuse Department made net cash transfers of $291,728 to reimburse the City for capital expenditures for infrastructure improvements and its prorata share of operating expenditures incurred on behalf of the Department, as determined by the City's approved Cost Allocation Plan.

The Base Reuse Special Revenue Fund transferred $150,000 to the Base Reuse Debt Service Fund for debt repayment.

NOTE 5 - LONG-TERM DEBT

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

The pledge of sublease revenues ends upon repayment of the $11,533,510 in remaining debt service on the Bonds, which is scheduled to occur in 2034. As disclosed in the bond indenture documents, pledged future sublease revenues are expected to provide coverage over debt service of 1.5 during the life of the Bonds. For fiscal year 2013-14, sublease revenues amounted to $11,695,184 which represented coverage of 3,762% over the $310,866 in debt service.

NOTE 5 - LONG-TERM DEBT (Continued)

The current year principal retirement is $300,000. Repayment requirements for the Revenue Bonds were as follows at June 30, 2014:

For the Year Ending June 30	Principal	Interest
2015	$400,000	$10,556
2016	400,000	10,246
2017	400,000	9,936
2018	400,000	9,626
2019	400,000	9,316
2020-2024	2,500,000	40,970
2025-2029	3,000,000	28,780
2030-2034	3,900,000	14,080
Total	$11,400,000	$133,510

NOTE 6 – FUND BALANCE

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions,* which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendables represent balances set aside to indicate items that do not represent available, spendable resources, even though they are a component of assets. Fund balances required to be maintained intact, such as permanent funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment, are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action (through a resolution) of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

NOTE 6 – FUND BALANCE (Continued)

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Manager or its designee as authorized by an adopted City Council resolution and may be changed at the discretion of the City Council or its designee. This category includes encumbrances; Nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed through a council resolution, the City Council has designated the City Manager or his designee to determine the amount of assigned fund balance.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

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