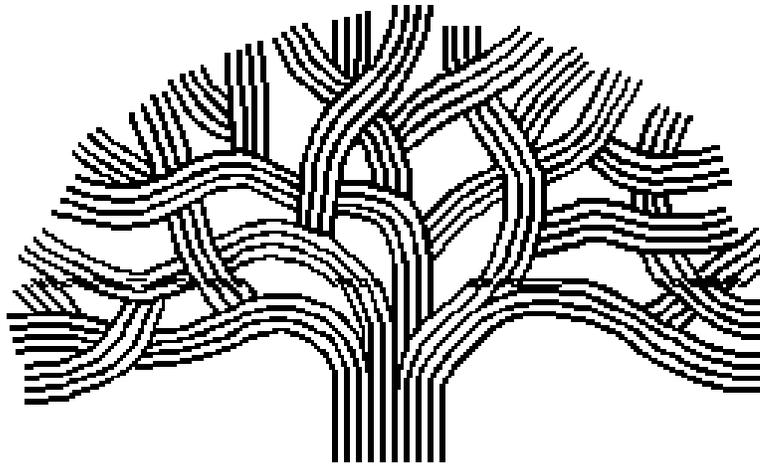


CITY OF OAKLAND
CALIFORNIA



SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2007

CITY OF OAKLAND

SINGLE AUDIT REPORT

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City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

Risk Management

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2007

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FINANCIAL SECTION



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Honorable Mayor and Members
of the City Council
City of Oakland, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent 70.1%, 73.7% and 26.8%, respectively, of the assets, net assets/fund balances and revenues/additions of the aggregate remaining fund information as of and for the year ended June 30, 2007. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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 City'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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007, 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 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 considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress, and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by 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 and the other auditors did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, supplemental schedules of revenue and expenditures prepared by the City's Community Services Department, and supplemental schedule of expenditures of Alameda County Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, the State Department of Community Services and Development, and the County of Alameda, respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants
Walnut Creek, California

December 4, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Oakland's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the additional information contained in the City's financial statements and related notes and our letter of transmittal that precedes this section.

FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by \$821.0 million as of June 30, 2007, compared to \$690.5 million at June 30, 2006. This represents a net growth of \$130.5 million or 18.9% compared to the previous year. Assets increased by 11.4% or \$313.2 million primarily as the result of the combined increase of \$199.9 million in pooled and restricted cash and investments attributable to unspent bond proceeds and improved cash collections. Also, an increase of \$67 million for Property Held for Resale by the Agency contributed to the increase. Conversely, liabilities grew by 8.9% or \$182.7 million compared to the prior fiscal year primarily as a result of new debts associated with the above unspent bond proceeds.
- The City's cumulative fund balances grew by 26.8% (\$255.6 million) to \$1,211.0 million compared to \$955.3 million for the prior fiscal year. This growth is primarily attributed to: (1) the net increase of \$226.1 million is primarily attributable to unspent bond proceeds; (2) the 17.2% improvement in property taxes as a result of double digit increases in property valuation; and (3) offset by 13.5% increase in overall governmental expenditures for its operations.
- As of June 30, 2007, the City had total long-term obligations outstanding of \$2.0 billion compared to a similar amount outstanding for the prior fiscal year for an increase of 8.6%. Of this amount, \$345 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.7 billion is comprised of various long-term debt instruments including accruals of year-end estimates for other long-term liabilities.
- The City's General Fund unreserved/undesignated fund balance at June 30, 2007 was \$56.1 million compared to \$59.4 million for the previous year, a decrease of (\$3.3) million or (5.7%). The unreserved/undesignated fund balance met the requirements of the City Council's 7.5% reserve policy based on the total General Fund expenditures for fiscal year 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to introduce the City's basic financial statements. The City'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 includes required and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to the financial statements for a private-sector business.

The *statement of net assets* presents information on all of the City'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 or not the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, life enrichment, community and economic development, and public works. The business-type activities of the City include the sewer service system and the parks and recreation.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following 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. Most of the City's basic services are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City'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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects, debt service, and general fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, federal and state grant special revenue fund, Oakland Redevelopment Agency (Agency) as a blended component unit of the City, and municipal capital improvement fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund in the required supplementary information to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers, either outside customers or internal units or departments of the City. Proprietary funds provide the same type of information shown in the government-wide statements only in more detail. The City maintains the following two types of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Sewer Service System and the Parks and Recreation operations. The Sewer Service Fund is considered to be a major fund of the City.

Internal service funds are used to report activities that provide services and supplies for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, radio and communication equipment, facilities management, printing and reproduction, and central stores. Because

these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of employees and parties outside the City. The Oakland Municipal Employees Retirement System (OMERS) Fund, the Police and Fire Retirement System (PFRS) Fund are reported as pension trust funds. The Private Purpose Trust Fund along with the pension trust funds are reported as trust funds since their resources are not available to support the City's own programs. For this reason, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information, other than this discussion and analysis, concerning the City's progress in funding its obligation to provide pension benefits to its employees and budget-to-actual information for the City's general fund. This required supplementary information is presented immediately following the notes to the basic financial statements.

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are immediately following the required supplementary information along with budgetary comparison schedules.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. The City's total assets exceeded its liabilities as of June 30, 2007 by \$821.0 million compared to \$690.5 million as of June 30, 2006, an increase of \$130.5 million. The largest portion of the City's net assets (56.4%) reflects its investment in capital assets of \$463.6 million for governmental and business type activities net of related debt. Of the remaining balance, (43.6%) reflects \$317.5 million in resources that are subject to external restrictions on how they may be used and unrestricted net assets of \$39.9 million are primarily attributed to ongoing projects related governmental activities.

City of Oakland's Net Assets
June 30, 2007
(In Thousands)

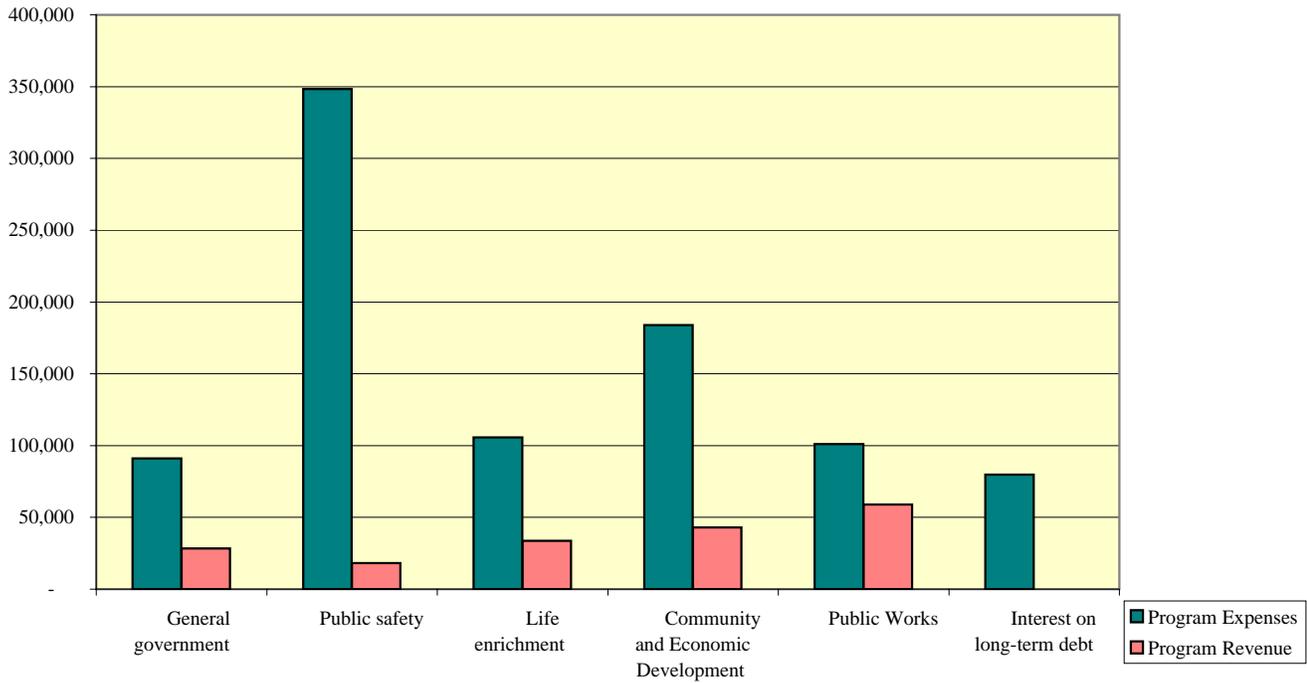
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	2,020,139	\$1,723,502	43,835	54,508	2,063,974	1,778,010
Capital assets	854,373	835,991	136,093	127,221	990,466	963,212
TOTAL ASSETS	2,874,512	2,559,493	179,928	181,729	3,054,440	2,741,222
Long-term liabilities outstanding	1,979,249	1,815,189	66,024	68,475	2,045,273	1,883,664
Other liabilities	186,286	165,070	1,845	1,986	188,131	167,056
TOTAL LIABILITIES	2,165,535	1,980,259	67,869	70,461	2,233,404	2,050,720
Net assets:						
Invested in capital assets, net of related debt	353,715	319,932	109,886	110,279	463,601	430,211
Restricted net assets:						
Debt service	2,083	27,470	-	-	2,083	27,470
Pension obligations	138,778	153,735	-	-	138,778	153,735
Urban redevelopment and housing	156,077	82,940	-	-	156,077	82,940
Other purposes	20,620	3,679	-	-	20,620	3,679
Unrestricted	37,704	(8,522)	2,173	989	39,877	(7,533)
TOTAL NET ASSETS	\$ 708,977	\$ 579,234	\$ 112,059	\$ 111,268	\$ 821,036	\$ 690,502

Governmental activities. The City's change in net assets of \$130.5 million for the year ended June 30, 2007 compared to \$32.9 million for the previous fiscal year represents a net increase of \$97.6 million. The key elements of this increase are listed below.

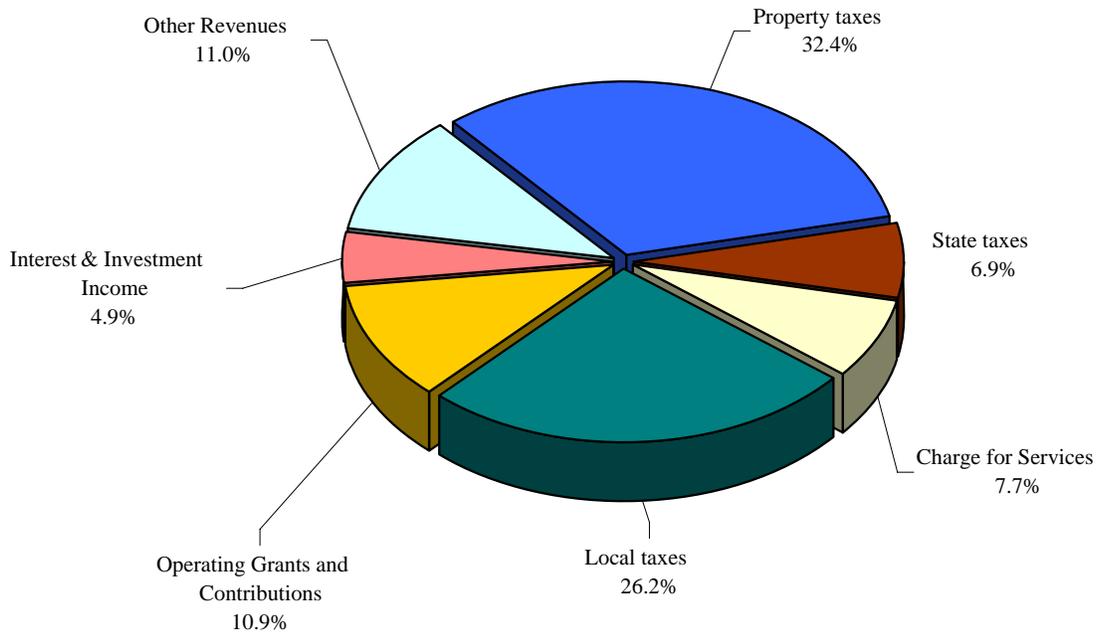
Changes in Net Assets
June 30, 2007
(In Thousands)

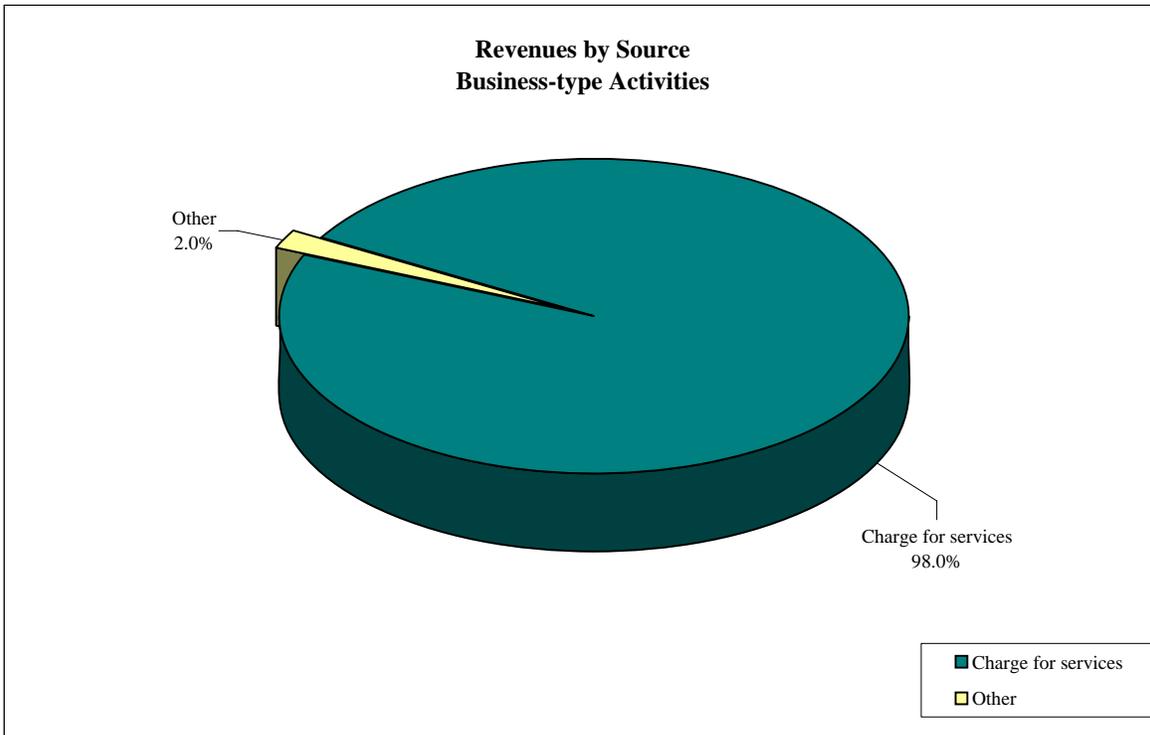
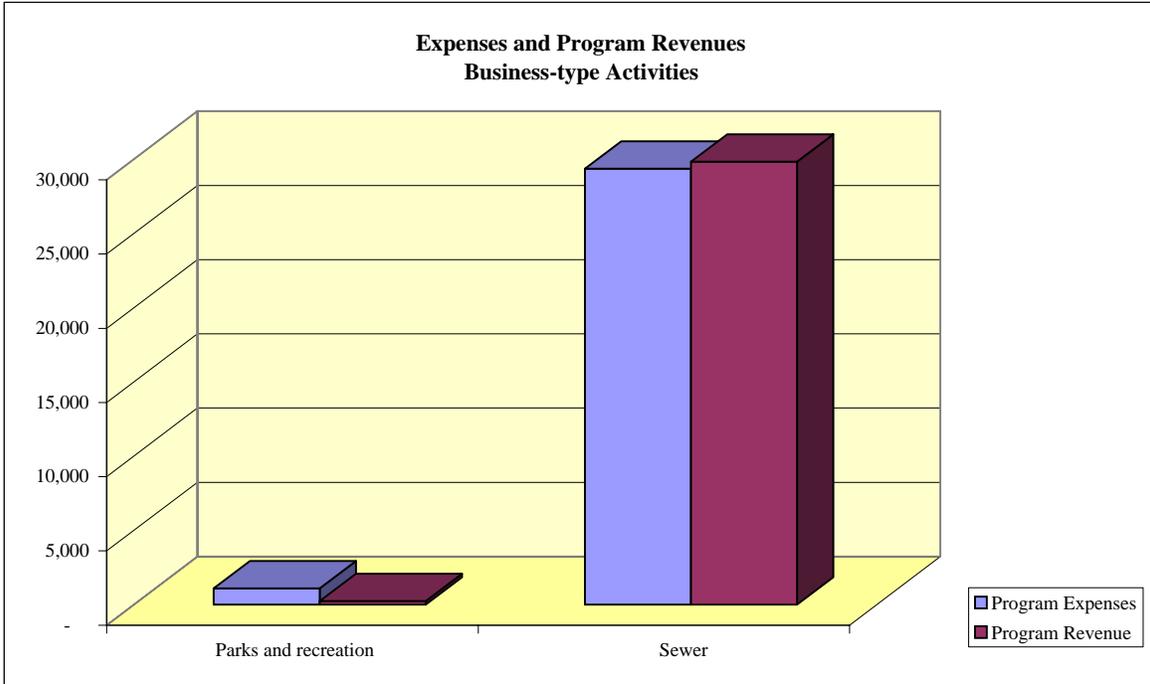
	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 75,242	\$ 70,711	30,075	24,875	105,317	95,586
Operating grants and contributions	106,903	77,154	21	-	106,924	77,154
General revenues:						
Property taxes	317,666	268,693	-	-	317,666	268,693
State taxes:						
Sales and use taxes	58,006	56,844	-	-	58,006	56,844
Motor vehicles in-lieu tax	2,268	2,984	-	-	2,268	2,984
Gas tax	7,449	7,476	-	-	7,449	7,476
Local taxes:						
Business license	50,339	43,790	-	-	50,339	43,790
Utility consumption	51,426	48,770	-	-	51,426	48,770
Real estate transfer	61,505	79,483	-	-	61,505	79,483
Transient occupancy	12,303	11,690	-	-	12,303	11,690
Parking	16,202	15,196	-	-	16,202	15,196
Voter approved special tax	31,483	31,728	-	-	31,483	31,728
Franchise	13,010	12,152	-	-	13,010	12,152
License and permits	20,390	19,006	-	-	20,390	19,006
Interest and investment income	48,073	30,406	1,745	1,996	49,818	32,402
Other	108,048	78,053	2	62	108,050	78,115
TOTAL REVENUES	980,313	854,136	31,843	26,933	1,012,156	881,069
Expenses:						
General government	91,119	71,471	-	-	91,119	71,471
Public safety	348,436	335,171	-	-	348,436	335,171
Life enrichment	105,728	101,902	-	-	105,728	101,902
Community & economic development	183,968	140,351	-	-	183,968	140,351
Public works	101,075	100,448	-	-	101,075	100,448
Interest on long-term debt	79,864	73,224	-	-	79,864	73,224
Sewer	-	-	29,365	24,841	29,365	24,841
Parks and recreation	-	-	1,087	734	1,087	734
TOTAL EXPENSES	910,190	822,567	30,452	25,575	940,642	848,142
Change in net assets before transfers and special item	70,123	31,569	1,391	1,358	71,514	32,927
Transfers	600	600	(600)	(600)	-	-
Special item:						
Net resale properties from OBRA	59,020	-	-	-	59,020	-
Change in net assets	129,743	32,169	791	758	130,534	32,927
Net assets at beginning of year	579,234	547,065	111,268	110,510	690,502	657,575
NET ASSETS AT END OF YEAR	\$ 708,977	\$ 579,234	\$ 112,059	\$ 111,268	\$ 821,036	\$ 690,502

Expenses and Program Revenues Governmental Activities



Revenues by Sources Governmental Activities





The increase of \$97.6 million (18.9%) is attributed to the following significant elements:

- While the increases in property taxes of \$49 million or 18.2% were driven by enhancement in assessed property valuation within the boundaries of the City of Oakland during fiscal year 2006-07, operating grants and contributions, and other revenues increased by \$30 million or 38.6%, and \$29.9 million or 38.3% respectively.
- The increase in interest and investment income of \$17.4 million or 53.7% is primarily attributable to the increase in earnings from the City's pooled and restricted cash and investments as a result of carrying higher balances compared to the previous year.
- The increase of \$19.6 million or 27.5% of spending in general government when compared to the previous year is due primarily to spending related to the Urban Area Security Initiative Grant.
- The increase of \$13.3 million or 4.0% of spending in public safety when compared to the previous year is due primarily to overtime costs resulting from the continuing problem of shortage in sworn staff, and the added costs to recruit new officers and conduct police academies to train and certify new recruits.
- The increases in community & economic development and life enrichment expenses of \$43.6 million or 31.1% and \$3.8 million or 3.8% respectively are attributed to completed projects and costs related to continuing projects from previous years.
- Interest on long-term debt increased by \$6.6 million or 9.1% due to defeasance and refunding of certain debts by the City.

Business-type activities. Business-type activities ended the fiscal year with a positive change in its net assets of \$0.8 million compared to a similar amount for the previous fiscal year. The increase of \$0.03 million in net assets is attributable to an 18.2% or \$4.9 million increase in revenues offset by an 18.2% or \$4.5 million increase in sewer project related expenses.

Financial Analysis of the Government's Funds

Governmental funds. The focus of City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Oakland Redevelopment Agency had a fund balance of \$598.6 million as of June 30, 2007 that represents an increase of 86.1% over the prior fiscal year. The net increase of

\$276.9 million was primarily related to the improvement in property tax revenues in the project areas and the remaining bond proceeds for the Low and Moderate Housing Project Area to be completed by fiscal year 2007.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements under the *business-type* column but in more detail.

The portion of net assets invested in capital assets, net of related debt amounted to \$109.9 million as of June 30, 2007, compared to \$110.3 million for the previous fiscal year. The -0.4% or \$0.4 million decrease is related to partial proceeds spent from a debt issued to finance sewer projects. During the fiscal year, the City capitalized \$8.8 million in sewer system completed projects, net of depreciation.

General Fund Budgetary Highlights

Differences between the original and the final amended expenditure budgets totaling \$11.9 million were due primarily to the determination of actual project carryforwards for continuing appropriations for various multi-year projects, capital improvement projects, and other projects authorized by City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Total general fund actual expenditures compared to the final amended expenditure budget showed net budget savings of \$12.6 million for the year ended June 30, 2007, compared to \$19.8 million in savings for the previous fiscal year. The net budget savings is attributed to (1) the significant turnover in full time sworn officers through attrition, (2) the absorption of a certain portion of sworn officers salaries and benefits by Measure Y funds to satisfy that Measure's mandates while recruitment for additional authorized full time peace officers is in progress, and (3) the completion of carryforward projects during the fiscal year.

Actual revenues compared to the final amended general fund revenue budget exceeded projections by \$15.3 million, compared to a favorable variance of \$16.3 million for the previous fiscal year. The increase is primarily attributed to improved property taxes driven by a 42% improvement in assessed property valuation as reported by the County of Alameda.

Capital Assets

The City's capital assets, net of depreciation, totaled \$990.5 million as of June 30, 2007 compared to \$963.2 million as of June 30, 2006, an increase of \$27.3 million or 3%. Governmental activities additions of \$68.6 million in capital assets included land acquisition and capitalization of infrastructure, facilities improvements, and furniture and equipment which met the City's threshold for capitalization. These additions were offset by retirements and depreciation, the net effect of which was an increase of \$18.4 million in adjustments against capital assets for governmental activities. Business activities,

primarily the sewer fund, increased its capital assets by \$8.8 million, net of retirements and depreciation. See Note (7) for more details in capital assets.

Construction Commitments

The City has active construction projects as of June 30, 2007 totaling \$316,073,158. The projects include street construction, park construction, building improvements and sewer and storm drain improvements.

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75% of property valuation, net of exemptions subject to taxation) was \$985.0 million. The total amount of debt applicable to the debt limit was \$345.2 million. The resulting legal debt margin was \$639.8 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2007, were as follows:

Standard and Poor's Corporation	A+
Moody's Investors Services, Inc.	A1
Fitch, JBCA, Inc.	A+

As of June 30, 2007, the City had total long-term obligations outstanding of \$2.05 billion compared to \$1.88 billion outstanding for the prior fiscal year, an increase of 8.6%. Of this amount, \$345.2 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.70 billion is comprised of various long-term debt instruments listed below including accruals of year-end estimates for other long-term liabilities.

Outstanding Debt
June 30, 2007
(In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 345,214	\$ 358,124	\$ -	\$ -	345,214	358,124
Tax allocation bonds	514,475	319,115	-	-	514,475	319,115
Certificate of participation	45,795	49,154	-	-	45,795	49,154
Lease revenue bonds	325,105	346,110	-	-	325,105	346,110
Pension obligation bonds	313,625	341,475	-	-	313,625	341,475
Special assessment debt with government commitments	6,800	7,085	-	-	6,800	7,085
Accreted interest on appreciation bonds	104,356	85,884	-	-	104,356	85,884
Sewer-bonds & notes payable	-	-	63,431	65,765	63,431	65,765
Less: deferred amounts						
Bond issuance premiums	22,887	22,734	2,593	2,710	25,480	25,444
Bond refunding loss	(20,035)	(22,216)			(20,035)	(22,216)
Total Bonds Payable	<u>1,658,222</u>	<u>1,507,465</u>	<u>66,024</u>	<u>68,475</u>	<u>1,724,246</u>	<u>1,575,940</u>
Notes & Leases payable	48,899	38,158	-	-	48,899	38,158
Other long-term liabilities	272,128	269,566	-	-	272,128	269,566
Total Outstanding Debt	<u>\$ 1,979,249</u>	<u>\$1,815,189</u>	<u>\$ 66,024</u>	<u>\$ 68,475</u>	<u>\$2,045,273</u>	<u>\$1,883,664</u>

The City's overall total long-term obligations increased by \$161.6 million compared to fiscal year 2006. The net increase is primarily attributable to (1) the City issuance of Capital Lease for 450 Lancaster Building and Parking Meters, (2) the Agency issuance of the Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE & Series 2006A-T, (3) the Agency issuance of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE & Series 2006B-T, (4) the Agency issuance of Broadway/MacArther/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE & Series 2006C-T and (5) the Agency issuance of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2006T (Federally Taxable). The other long-term obligations increased basically because of the additional amounts provided for estimated environmental remediation cost for fiscal year 2007.

Summary of New Debt:

City of Oakland Capital Lease - 450 Lancaster Building

On July 21, 2006, the City of Oakland closed a lease transaction with Bank of America in the principal amount of \$4,940,000 for the purpose of purchasing a building at 450 Lancaster Street (Oakland, CA). The financing is tax-exempt with a final maturity of August 1, 2021; the interest rate on this lease transaction is 5.30%.

City of Oakland Capital Lease - Parking Meters

On June 14, 2007, the City of Oakland closed a lease transaction with CitiCapital in the principal amount of \$4,520,000 for the purpose of purchasing multi-space pay and display parking meters (“Meters”). The financing is tax-exempt with a final maturity of July 15, 2014; the interest rate on this lease transaction is 3.90%.

The City also entered into other capital leases during the year amounting to \$8,805,000.

Redevelopment Agency of the City of Oakland Central City East Redevelopment Project Tax Allocation Bonds Series 2006A-TE & Series 2006A-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$13,780,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE (the “Series 2006A-TE Bonds”) and \$62,520,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-T (Federally Taxable) (the “Series 2006A-T Bonds”). The Series 2006A-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2034; the interest rates of these bonds range from 5.263% to 5.537%.

Redevelopment Agency of the City of Oakland Coliseum Area Redevelopment Project Tax Allocation Bonds Series 2006B-TE & Series 2006B-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$28,770,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE (the “Series 2006B-TE Bonds”) and \$73,820,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-T (Federally Taxable) (the “Series 2006B-T Bonds”). The Series 2006B-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rates of these bonds range from 4.000% to 5.000%. The Series 2006B-T Bonds are federally taxable with a final maturity of September 1, 2035; the interest rates of these bonds range from 5.263% to 5.537%.

The refunding resulted in a cash flow savings of \$2,797,908. In addition, the Agency obtained a net economic gain on this financing of \$626,658.

**Redevelopment Agency of the City of Oakland
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds
Series 2006C-TE & Series 2006C-T (Federally Taxable)**

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$4,945,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE (the “Series 2006C-TE Bonds”) and \$12,325,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-T (Federally Taxable) (the “Series 2006C-T Bonds”). The Series 2006C-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006C-T Bonds are federally taxable with a final maturity of September 1, 2032; the interest rates of these bonds range from 5.283% to 5.587%.

**Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Bonds
Series 2006T (Federally Taxable)**

On November 21, 2006 the Redevelopment Agency of the City of Oakland (“Agency”) issued \$33,135,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2006T (Federally Taxable) (the “Series 2006T Bonds”). The Series 2006T Bonds are federally taxable with a final maturity of September 1, 2021; the interest rates of these bonds range from 5.252% to 5.411%.

Additional information on the City’s long-term debt obligations can be found in Note 12 to the financial statements.

Economic Factors and Next Year’s Budgets and Tax Rates

The economic indicators highlighted below, among others and including labor union contracts, were factored into the City’s budget formulation process as they relate to revenue forecasting, program planning, and resource allocation for fiscal year 2006-07.

The City of Oakland’s unemployment rate increased to 7.4% in July 2007 compared to an average unemployment rate of 7.1% for August 2006.

The Bay Area’s consumer price index for all urban consumers in October 2007 was 217.949 compared to the U.S. city average consumer price index (CPI-U) for all urban consumers at 208.936. (Base period: 1982 – 84 = 100).

Average forecast residential rental and vacancy rates for 2007 were \$1,321 per month and 3.8% respectively compared to \$1,236 and 6.0% for 2006.

For the 2007 third quarter, the average office space rental rate per square foot for the City ranged from \$1.68 to \$2.42 compared to \$3.39 for San Francisco and \$2.62 for the Silicon Valley.

Oakland's gross metropolitan product, estimated at \$107.8 billion for 2004, ranks in the top 20 metropolitan economies in the United States and among the top 60 largest economy in the world.

Estimated population for January 1, 2007 is 415,492 with a total number of households of 150,790 and an average household size of 2.60 persons with a mean household income of \$59,500.

Electric utility rates for commercial range from 13.15 to 15.85 cents per kilowatt hour while industrial rates are from 8.87 to 12.82 cents per kilowatt hour.

Increases in expenditures due to new union contracts, CalPERS pension rates, and healthcare costs have been factored into the City's Fiscal Year 2006-07 budget without raising or imposing new taxes.

Requests for Information

This financial report is designed to provide a general overview of the City of Oakland's finances for all those with an interest in the City's fiscal and economic affairs. Requests for additional financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093.

BASIC FINANCIAL STATEMENTS

City of Oakland
Statement of Net Assets
June 30, 2007
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Port of Oakland
ASSETS				
Cash and investments	\$ 418,276	\$ 3,936	\$ 422,212	\$ 84,346
Receivables (net of allowance for uncollectibles of \$6,404 for City and \$1,733 for Port):				
Accrued interest	2,561	-	2,561	740
Property taxes	21,304	-	21,304	-
Accounts receivable	59,401	3,498	62,899	39,855
Grants receivable	32,550	-	32,550	-
Due from Port	11,694	-	11,694	-
Internal balances	3,416	(3,416)	-	-
Due from pension trust fund	4,206	-	4,206	-
Notes and loans receivable (net of allowance for uncollectibles of \$41,564 for the City)	230,605	-	230,605	-
Restricted assets:				
Cash and investments	712,135	39,160	751,295	193,882
Receivables	-	-	-	7,374
Inventories	1,228	-	1,228	-
Property held for resale	120,586	-	120,586	-
Capital assets:				
Land and other assets not being depreciated	119,379	6,919	126,298	754,574
Facilities, infrastructures, and equipment, net of depreciation	734,994	129,174	864,168	1,525,828
Unamortized bond issuance costs	26,117	657	26,774	-
Net pension asset	376,024	-	376,024	-
Other	36	-	36	79,756
TOTAL ASSETS	<u>2,874,512</u>	<u>179,928</u>	<u>3,054,440</u>	<u>2,686,355</u>
LIABILITIES				
Accounts payable and other current liabilities	130,306	1,813	132,119	54,364
Accrued interest payable	15,813	-	15,813	28,059
Due to other governments	15,558	-	15,558	-
Due to primary government	-	-	-	11,694
Unearned revenue	9,704	25	9,729	65,925
Matured bonds and interest payable	520	-	520	-
Other	14,385	7	14,392	45,310
Noncurrent liabilities:				
Due within one year	158,812	2,483	161,295	40,608
Due in more than one year	1,820,437	63,541	1,883,978	1,543,146
TOTAL LIABILITIES	<u>2,165,535</u>	<u>67,869</u>	<u>2,233,404</u>	<u>1,789,106</u>
NET ASSETS (deficit)				
Invested in capital assets, net of related debt	353,715	109,886	463,601	894,073
Restricted net assets:				
Debt service	2,083	-	2,083	469
Pension	138,778	-	138,778	-
Urban redevelopment and housing	156,077	-	156,077	-
Other purposes	20,620	-	20,620	9,337
Unrestricted net assets (deficit)	37,704	2,173	39,877	(6,630)
TOTAL NET ASSETS	<u>\$ 708,977</u>	<u>\$ 112,059</u>	<u>\$ 821,036</u>	<u>\$ 897,249</u>

The notes to the basic financial statements are an integral part of this statement.

City of Oakland
Statement of Activities
Year Ended June 30, 2007
(In Thousands)

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total	Port of Oakland	Oakland Base Reuse Authority
			Grants and Contributions	Grants and Contributions					
Primary government:									
Governmental activities:									
General government	\$ 91,119	\$ 13,741	\$ 14,707	\$ -	\$ (62,671)	\$ -	\$ (62,671)		
Public safety	348,436	9,803	8,341	-	(330,292)	-	(330,292)		
Life enrichment	105,728	3,992	29,582	-	(72,154)	-	(72,154)		
Community and economic development	183,968	16,437	26,641	-	(140,890)	-	(140,890)		
Public works	101,075	31,269	27,632	-	(42,174)	-	(42,174)		
Interest on long-term debt	79,864	-	-	-	(79,864)	-	(79,864)		
TOTAL GOVERNMENTAL ACTIVITIES	910,190	75,242	106,903	-	(728,045)	-	(728,045)		
Business-type activities:									
Sewer	29,365	29,838	21	-	-	494	494		
Park and recreation	1,087	237	-	-	-	(850)	(850)		
TOTAL BUSINESS-TYPE ACTIVITIES	30,452	30,075	21	-	-	(356)	(356)		
TOTAL PRIMARY GOVERNMENT	\$ 940,642	\$ 105,317	\$ 106,924	\$ -	\$ (728,045)	\$ (356)	\$ (728,401)		
Component units:									
Port of Oakland	\$ 299,140	\$ 277,374	\$ -	\$ 35,667				\$ 13,901	
Oakland Base Reuse Authority	\$ 91,350	\$ -	\$ -	\$ -					\$ (91,350)
General revenues:									
Property taxes					317,666	-	317,666	-	-
State taxes:									
Sales and use taxes					58,006	-	58,006	-	-
Motor vehicle in-lieu tax					2,268	-	2,268	-	-
Gas tax					7,449	-	7,449	-	-
Local taxes:									
Business license					50,339	-	50,339	-	-
Utility consumption					51,426	-	51,426	-	-
Real estate transfer					61,505	-	61,505	-	-
Transient occupancy					12,303	-	12,303	-	-
Parking					16,202	-	16,202	-	-
Voter approved special tax					31,483	-	31,483	-	-
Franchise					13,010	-	13,010	-	-
License and permits					20,390	-	20,390	-	-
Interest and investment income					48,073	1,745	49,818	10,457	-
Other					108,048	2	108,050	45,309	-
Transfers					600	(600)	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					798,768	1,147	799,915	55,766	-
Special Items									
Net resale properties from OBRA					59,020	-	59,020	-	-
Changes in net assets					129,743	791	130,534	69,667	(91,350)
NET ASSETS - BEGINNING					579,234	111,268	690,502	827,582	91,350
NET ASSETS - ENDING					\$ 708,977	\$ 112,059	\$ 821,036	\$ 897,249	\$ -

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2007
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$133,649	\$ -	\$ 187,187	\$ 9,304	\$ 86,795	\$ 416,935
Receivables (net of allowance for uncollectibles of \$3,902):						
Accrued interest	1,436	-	35	363	727	2,561
Property taxes	6,928	795	9,663	-	3,918	21,304
Accounts receivable	43,572	33	3,758	-	11,969	59,332
Grants receivable	-	32,118	-	-	432	32,550
Due from component unit	11,352	-	-	-	342	11,694
Due from other funds	74,730	-	14,552	-	2,804	92,086
Notes and loans receivable (net of allowance for uncollectibles of \$41,564)	21,693	91,844	97,581	-	19,487	230,605
Restricted cash and investments	143,542	7,115	309,213	90,144	153,314	703,328
Property held for resale	-	-	120,586	-	-	120,586
Other	36	-	-	-	-	36
TOTAL ASSETS	<u>\$436,938</u>	<u>\$ 131,905</u>	<u>\$ 742,575</u>	<u>\$ 99,811</u>	<u>\$ 279,788</u>	<u>\$1,691,017</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	\$108,730	\$ 5,554	\$ 5,798	\$ 1,796	\$ 5,336	\$ 127,214
Due to other funds	8,228	16,087	2,955	-	17,530	44,800
Due to other governments	60	257	15,240	-	1	15,558
Deferred revenue	36,413	104,965	113,044	-	23,153	277,575
Matured bonds and interest payable	-	-	-	520	-	520
Other	1,600	-	4,169	612	8,004	14,385
TOTAL LIABILITIES	<u>155,031</u>	<u>126,863</u>	<u>141,206</u>	<u>2,928</u>	<u>54,024</u>	<u>480,052</u>
Fund balances						
Reserved:						
Encumbrances	7,440	19,619	-	6,867	6,591	40,517
Long-term receivables	-	-	1,739	-	-	1,739
Debt service	16,451	17,090	-	1,610	146,201	181,352
Property held for resale	-	-	120,586	-	-	120,586
Capital projects	-	-	477,399	-	-	477,399
Pension obligations	115,000	-	-	-	-	115,000
Unreserved/(deficit) reported in:						
General fund	143,016	-	-	-	-	143,016
Special revenue funds	-	(31,667)	-	-	64,111	32,444
Capital project funds	-	-	1,645	88,406	8,861	98,912
TOTAL FUND BALANCES	<u>281,907</u>	<u>5,042</u>	<u>601,369</u>	<u>96,883</u>	<u>225,764</u>	<u>1,210,965</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$436,938</u>	<u>\$ 131,905</u>	<u>\$ 742,575</u>	<u>\$ 99,811</u>	<u>\$ 279,788</u>	<u>\$1,691,017</u>

The notes to the basic financial statements are an integral part of this statement.

City of Oakland
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Assets for Governmental Activities
June 30, 2007
(In Thousands)

Fund balance - total governmental funds	\$ 1,210,965
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resource and therefore, are not reported in the funds.

Primary government capital assets, net of depreciation	\$ 854,373	
Less: internal service funds' capital assets, net of depreciation	<u>(19,319)</u>	835,054

Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets.	26,117
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Net pension assets are recognized in the statement of net assets as an asset, however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds.	376,024
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Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(15,813)
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.	267,871
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Long-term liabilities	\$ (1,979,249)	
Less: long-term liabilities for internal service funds	<u>13,748</u>	(1,965,501)

Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>(25,740)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 708,977</u>
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The note to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	\$ 170,105	\$ -	\$ 109,613	\$ -	\$ 34,750	\$ 314,468
State:						
Sales and use	46,690	-	-	-	11,316	58,006
Motor vehicle in-lieu	2,268	-	-	-	-	2,268
Gas	-	-	-	-	7,449	7,449
Local:						
Business license	50,339	-	-	-	-	50,339
Utility consumption	51,426	-	-	-	-	51,426
Real estate transfer	61,505	-	-	-	-	61,505
Transient occupancy	12,303	-	-	-	-	12,303
Parking	8,892	-	-	-	7,310	16,202
Voter approved special tax	-	11,148	-	-	18,630	29,778
Franchise	13,010	-	-	-	-	13,010
Licenses and permits	1,066	-	-	-	19,324	20,390
Fines and penalties	24,727	358	-	-	1,774	26,859
Interest and investment income	7,007	3,112	18,590	4,951	15,481	49,141
Charges for services	55,837	77	-	-	19,328	75,242
Federal and state grants and subventions	7,051	83,772	-	5	6,554	97,382
Annuity income	9,324	-	-	-	-	9,324
Other	15,116	8,764	17,018	161	24,375	65,434
TOTAL REVENUES	536,666	107,231	145,221	5,117	166,291	960,526
EXPENDITURES						
Current:						
Elected and Appointed Officials:						
Mayor	2,745	-	-	-	199	2,944
Council	3,701	-	-	23	1,269	4,993
City Manager	11,089	10,400	-	1,354	3,023	25,866
City Attorney	9,365	169	-	-	4,231	13,765
City Auditor	1,043	-	-	-	49	1,092
City Clerk	2,757	-	-	-	74	2,831
Agencies/Departments:						
Personnel Resource Management	5,232	-	-	-	319	5,551
Information Technology	9,339	109	-	668	36	10,152
Financial Services	24,631	252	-	12	1,123	26,018
Police Services	195,206	3,848	-	3	7,504	206,561
Fire Services	101,184	2,001	-	1,840	7,674	112,699
Life Enrichment:						
Parks and Recreation	15,285	-	-	212	3,651	19,148
Library	11,799	12,674	-	42	116	24,631
Cultural Arts and Museum	6,595	-	-	2	379	6,976
Aging & Health and Human Services	6,336	25,773	-	28	21,091	53,228
Community and Economic Development	2,780	29,789	93,695	609	42,360	169,233
Public Works	33,595	8,777	-	9,359	39,759	91,490
Other	9,162	-	1,116	-	363	10,641
Capital outlay	14,885	8,911	-	18,511	7,588	49,895
Debt service:						
Principal repayment	832	850	12,040	833	65,409	79,964
Bond issuance costs	172	-	4,295	-	-	4,467
Interest charges	550	1,143	21,998	77	45,914	69,682
TOTAL EXPENDITURES	468,283	104,696	133,144	33,573	252,131	991,827
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	68,383	2,535	12,077	(28,456)	(85,840)	(31,301)
OTHER FINANCING SOURCES (USES)						
Issuance of debt	17,283	-	126,705	-	-	143,988
Issuance of refunding bonds	-	-	102,590	-	-	102,590
Premiums on issuance of bonds	-	-	1,963	-	-	1,963
Payment to refunding bond escrow agent	-	-	(22,729)	-	-	(22,729)
Property sale proceeds	328	237	-	-	53	618
Transfers in	2,857	-	-	899	93,641	97,397
Transfers out	(93,463)	-	-	-	(2,434)	(95,897)
TOTAL OTHER FINANCING SOURCES (USES)	(72,995)	237	208,529	899	91,260	227,930
SPECIAL ITEMS						
Net resale properties from OBRA	-	-	59,020	-	-	59,020
NET CHANGE IN FUND BALANCES	(4,612)	2,772	279,626	(27,557)	5,420	255,649
Fund balances - beginning	286,519	2,270	321,743	124,440	220,344	955,316
FUND BALANCES - ENDING	\$ 281,907	\$ 5,042	\$ 601,369	\$ 96,883	\$ 225,764	\$ 1,210,965

The notes to the basic financial statements are an integral part of this statement.

City of Oakland
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the
Statement of Activities of Governmental Activities
Year Ended June 30, 2007
(In Thousands)

Net change in fund balance - total governmental funds		\$ 255,649
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.</p>		
<p>Primary government:</p>		
Capital asset acquisition	\$ 68,598	
Retirement of capital assets	(3,630)	
Depreciation	(46,586)	
Net changes of capital assets within internal service funds	5,408	23,790
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period.</p>		
		41,996
<p>Some expenses such as claims, vacations and sick leave reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.</p>		
		3,567
<p>Changes to the net pension assets, as reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
		(8,401)
<p>Bond issuance costs are expended in the governmental funds when paid, and are deferred and amortized over the life of the corresponding life of the bonds for purposes of the statement of net assets. This is the amount by which current year bond issuance costs exceeded amortization expense in the current period.</p>		
		2,268
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financing sources of the governmental funds. These transactions, however have no effect on net assets. This is the amount by which principal retirement and payment to escrow agent exceeded bond proceeds in the current period.</p>		
Debt and capital lease principal payments	\$ 79,964	
Payments to escrow agent for refunded debt	22,729	
Issuance of bonds and notes	(246,578)	
Premium on bond proceeds	(1,963)	(145,848)
Amortization of bond premiums		1,810
Amortization of refunding loss		(3,015)
Additional accrued and accreted interest calculated on bonds and notes payable		(24,527)
Principal payments of Coliseum Authority pledge obligation		2,750
Net changes on other long-term liability for mandated Alameda County environmental clean-up health costs		(8,879)
The net loss of activities of internal service funds is reported with governmental activities		(11,417)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ 129,743

The note to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Fund Net Assets
Proprietary Funds
June 30, 2007
(In Thousands)

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
ASSETS				
Current Assets:				
Cash and investments	\$ -	\$ 3,936	\$ 3,936	\$ 1,341
Accounts receivables (net of uncollectibles of \$2,148 and \$354) for the enterprise funds and internal service funds, respectively)	3,466	32	3,498	69
Due from other funds	-	-	-	55
Inventories	-	-	-	1,228
Restricted cash and investments	39,160	-	39,160	8,807
Total Current Assets	<u>42,626</u>	<u>3,968</u>	<u>46,594</u>	<u>11,500</u>
Noncurrent Assets:				
Capital assets:				
Land and other assets not being depreciated	6,620	299	6,919	326
Facilities and equipment, net of depreciation	127,463	1,711	129,174	18,993
Total capital assets	134,083	2,010	136,093	19,319
Unamortized bond issuance costs	657	-	657	-
Total Noncurrent Assets	<u>134,740</u>	<u>2,010</u>	<u>136,750</u>	<u>19,319</u>
TOTAL ASSETS	<u>177,366</u>	<u>5,978</u>	<u>183,344</u>	<u>30,819</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	1,803	10	1,813	3,092
Due to other funds	3,416	-	3,416	39,719
Unearned revenue	25	-	25	-
Other payables	7	-	7	-
Bonds, notes payables	2,483	-	2,483	2,907
Total Current Liabilities	<u>7,734</u>	<u>10</u>	<u>7,744</u>	<u>45,718</u>
Noncurrent Liabilities:				
Bonds, notes and other payables	63,541	-	63,541	10,841
Total Noncurrent Liabilities	<u>63,541</u>	<u>-</u>	<u>63,541</u>	<u>10,841</u>
TOTAL LIABILITIES	<u>71,275</u>	<u>10</u>	<u>71,285</u>	<u>56,559</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	107,876	2,010	109,886	9,765
Unrestricted (deficit)	(1,785)	3,958	2,173	(35,505)
TOTAL NET ASSETS (DEFICIT)	<u>\$ 106,091</u>	<u>\$ 5,968</u>	<u>\$ 112,059</u>	<u>\$ (25,740)</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007
(In Thousands)

	<u>Business-type Activities Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
OPERATING REVENUES				
Rental	\$ -	\$ 237	\$ 237	\$ -
Sewer services	29,792	-	29,792	-
Charges for services	-	-	-	40,373
Other	46	-	46	751
TOTAL OPERATING REVENUES	<u>29,838</u>	<u>237</u>	<u>30,075</u>	<u>41,124</u>
OPERATING EXPENSES				
Personnel	13,965	259	14,224	18,191
Supplies	704	282	986	8,767
Depreciation and amortization	3,820	151	3,971	6,529
Contractual services and supplies	1,362	74	1,436	1,851
Repairs and maintenance	41	110	151	2,556
General and administrative	4,160	62	4,222	4,750
Rental	1,392	133	1,525	1,773
Other	916	16	932	7,679
TOTAL OPERATING EXPENSES	<u>26,360</u>	<u>1,087</u>	<u>27,447</u>	<u>52,096</u>
OPERATING INCOME (LOSS)	<u>3,478</u>	<u>(850)</u>	<u>2,628</u>	<u>(10,972)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and investment income	1,564	181	1,745	(1,068)
Interest expense	(3,005)	-	(3,005)	(723)
Federal and State grants	21	-	21	184
Other, net (Property sale proceeds)	2	-	2	2,062
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,418)</u>	<u>181</u>	<u>(1,237)</u>	<u>455</u>
INCOME (LOSS) BEFORE TRANSFERS	2,060	(669)	1,391	(10,517)
Transfers in	-	-	-	2,761
Transfers out	(600)	-	(600)	(3,661)
TOTAL TRANSFERS	<u>(600)</u>	<u>-</u>	<u>(600)</u>	<u>(900)</u>
Change in net assets (deficit)	1,460	(669)	791	(11,417)
Net Assets (Deficit) - Beginning	104,631	6,637	111,268	(14,323)
NET ASSETS (DEFICIT) - ENDING	<u>\$ 106,091</u>	<u>\$ 5,968</u>	<u>\$ 112,059</u>	<u>\$ (25,740)</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007
(In Thousands)

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers, including other funds and cash deposits	\$ 29,256	\$ -	\$ 29,256	\$ 40,015
Cash received from tenants for rents	-	237	237	-
Cash from other sources	46	-	46	751
Cash paid to employees for services	(13,965)	(259)	(14,224)	(18,191)
Cash paid to suppliers for goods & services	(8,733)	(651)	(9,384)	(26,146)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>6,604</u>	<u>(673)</u>	<u>5,931</u>	<u>(3,571)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from interfund loans	-	-	-	7,557
Repayment of interfund loans	(1,244)	-	(1,244)	(2,447)
Federal and state grants	21	-	21	184
Transfers in	-	-	-	2,761
Transfers out	(600)	-	(600)	(3,661)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>(1,823)</u>	<u>-</u>	<u>(1,823)</u>	<u>4,394</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(12,577)	(245)	(12,822)	(1,129)
Proceeds from sales of property	2	-	2	55
Long-term debt:				
Loan Proceeds	-	-	-	982
Repayment of long-term debt	(2,451)	-	(2,451)	(5,009)
Interest paid on long-term debt	(3,005)	-	(3,005)	(723)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,031)</u>	<u>(245)</u>	<u>(18,276)</u>	<u>(5,824)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income (expense)	1,564	181	1,745	(1,068)
Rental income	-	-	-	2,007
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,564</u>	<u>181</u>	<u>1,745</u>	<u>939</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(11,686)</u>	<u>(737)</u>	<u>(12,423)</u>	<u>(4,062)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>50,846</u>	<u>4,673</u>	<u>55,519</u>	<u>14,210</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 39,160</u>	<u>\$ 3,936</u>	<u>\$ 43,096</u>	<u>\$ 10,148</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 3,478	\$ (850)	\$ 2,628	\$ (10,972)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and amortization	3,820	151	3,971	6,529
Retirement of capital assets	-	16	16	8
Changes in assets and liabilities:				
Receivables	(536)	-	(536)	20
Inventories	-	-	-	(378)
Accounts payable and accrued liabilities	(142)	10	(132)	1,222
Unearned revenue	(16)	-	(16)	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 6,604</u>	<u>\$ (673)</u>	<u>\$ 5,931</u>	<u>\$ (3,571)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	-	3,936	3,936	1,341
Restricted cash and investments	39,160	-	39,160	8,807
TOTAL	<u>\$ 39,160</u>	<u>\$ 3,936</u>	<u>\$ 43,096</u>	<u>\$ 10,148</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(In Thousands)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 3,136	\$ 6,435
Receivables:		
Accrued interest and dividends	2,588	37
Investments and contributions	57,572	-
Retired members and beneficiaries	303	-
Restricted:		
Cash and investments:		
Short-term investments	31,011	-
U.S. government bonds	172,558	-
U.S. Corporate bonds	109,194	-
Other government bonds	2,838	-
Domestic equities and mutual funds	231,735	-
International equities and mutual funds	103,116	-
Real estate mortgage loans	54	-
Securities lending collateral	42,014	-
TOTAL ASSETS	<u>756,119</u>	<u>6,472</u>
LIABILITIES		
Accounts payable and accrued liabilities	115,641	5
Due to other funds	4,206	-
Securities lending collateral	42,014	-
Other	-	7
TOTAL LIABILITIES	<u>161,861</u>	<u>12</u>
NET ASSETS		
Net assets held in trust	<u>\$ 594,258</u>	<u>\$ 6,460</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007
(In Thousands)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
ADDITIONS:		
Contributions:		
Member contributions	\$ 18	\$ -
Trust receipts	<u>-</u>	<u>993</u>
Investment income:		
Net appreciation in fair value of investments	59,550	-
Interest	15,123	216
Dividends	5,328	-
Securities lending	<u>2,419</u>	<u>-</u>
TOTAL INVESTMENT INCOME	82,420	216
Less investment expenses:		
Investment expenses	(2,788)	-
Borrowers rebates and other agent fees on securities lending transactions	<u>(2,350)</u>	<u>-</u>
Total investment expenses	<u>(5,138)</u>	<u>-</u>
NET INVESTMENT INCOME	<u>77,282</u>	<u>216</u>
Other income	<u>-</u>	<u>-</u>
TOTAL ADDITIONS	<u>77,300</u>	<u>1,209</u>
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	43,805	-
Disability	26,267	-
Death	<u>2,251</u>	<u>-</u>
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	72,323	-
Administrative expenses	1,164	5
Change in payable to City	548	-
Other	-	77
Police services	<u>-</u>	<u>346</u>
TOTAL DEDUCTIONS	<u>74,035</u>	<u>428</u>
Change in net assets	3,265	781
NET ASSETS - BEGINNING	<u>590,993</u>	<u>5,679</u>
NET ASSETS - ENDING	<u>\$ 594,258</u>	<u>\$ 6,460</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Notes to Basic Financial Statements
Year Ended June 30, 2007

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NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF OAKLAND
Notes to Basic Financial Statements
Year Ended June 30, 2007

(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

The City of Oakland, California, (the City or Primary Government) was incorporated on May 25, 1854, by the State of California and is organized and exists under and pursuant to the provisions of State law. The Mayor/Council form of government was established in November 1998 through Charter amendment. The legislative authority is vested in the City Council and the executive authority is vested in the Mayor with administrative authority resting with the City Administrator.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are combined with the data of the Primary Government within the governmental activities column in the government-wide financial statements and governmental funds in the fund financial statements. The Port of Oakland (Port) is the City's discretely presented component unit and is reported in a separate column in the government-wide financial statements to emphasize that they possess characteristics that they are legally separate from the City. Although the Port has a significant relationship with the City, it is fiscally independent and does not provide services solely to the City and, therefore, is presented discretely.

Blended Component Units

The Redevelopment Agency of the City of Oakland (Agency) was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities are acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council serves as the Board of the Agency. The Agency's funds are reported as a major governmental fund.

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. The Corporation's activities are reported in other governmental funds.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. JPFA transactions are reported in other governmental funds. Related debt is included in the long-term obligations of the City in the governmental activities column of the government-wide statement of net assets.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Discretely Presented Component Units

The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport and the Port of Oakland Marine Terminal Facilities. All interfund transactions have been eliminated. The Port is governed by a seven-member Board of Port Commissioners (the Board) that is appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City Treasury. The City is responsible for investing and managing such funds. The Port is presented in a separate column in the government-wide financial statements.

Oakland Base Reuse Authority (OBRA), reported as discretely presented component unit of the City in the prior fiscal year, was dissolved and all its assets and obligations were transferred to and were accepted by the Oakland Redevelopment Agency on August 7, 2006. The OBRA assets transferred to the Agency was net of the amount of the property held for resale that was transferred to the Port of Oakland as part of OBRA's dissolution. Also transferred were the rights and obligations with respect to the balance of \$1.05 million of a \$2.4 million public works grant awarded by the United States Department of Commerce Economic Development Administration. OBRA is now accounted for and reported as a project area of the Agency.

Complete financial statements of the individual component units may be obtained from:

Finance and Management Agency, Accounting Division
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612-2093

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the remaining potential component units were individually significant to the City's reporting entity.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. The effect of inter-fund activity has been removed from these statements except for interfund services provided among funds. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from its discretely presented component units, legally separate entities for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

liabilities of the current period. The City considers property tax revenues to be available for the year levied and if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and local taxes, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered available, as defined above, are recorded as receivables and offset by deferred revenue.

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of July 1 on all taxable property located in the City, and result in a lien on real property. 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. General property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the year ended June 30, 2007.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government except those required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business, utility and real estate transfer taxes, interest and investment income, and charges for services.

The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.

The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenues relating to redevelopment projects. Expenditures are comprised of land acquisitions and improvements and all other costs inherent in redevelopment activities.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The **Municipal Capital Improvement Fund** accounts primarily for monies pertaining to the Museum and the Scotland Convention Center financings. This fund may be used for the lease, acquisition, construction or other improvements of public facilities.

The City reports the following major enterprise fund:

The **Sewer Service Fund** accounts for the sewer service charges received by the City based on the use of water by East Bay Municipal Utility District customers residing in the City. The proceeds from the sewer charges are used for the construction and maintenance of sanitary sewers and storm drains and the administrative costs of the program.

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the purchase of automotive and rolling equipment; radio and other communication equipment; the repair and maintenance of City facilities; acquisition, maintenance and provision of reproduction equipment and services; and acquisition of inventory provided to various City departments on a cost reimbursement basis.

The **Pension Trust Funds** account for closed benefit plans that cover uniformed employees hired prior to July 1976 and non-uniformed employees hired prior to September 1970.

The **Private Purpose Trust Fund** accounts for the operations of the Youth Opportunity Program and certain gifts that are not related to Agency projects or parks, recreation and cultural activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the business-type activities in the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Charges between the City and the Port are not eliminated because the elimination of these charges would distort the direct costs and revenues reported.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

enterprise and internal service funds are charges for customer services including: sewers, golf courses, vehicle acquisition and maintenance, radio and telecommunication support charges, and reproduction services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for the Oakland Redevelopment Agency Fund, and funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

Income earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units based on their proportionate share of the average daily cash balance.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary fund types' investments in the City's cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Net receivables and

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

payables between the governmental activities and business-type activities are classified as internal balances.

Interest Rate Swap Agreements

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expense resulting from these agreements, no amounts are recorded in the financial statements. Refer to Note 12 for additional information.

Inter-fund Transfers

In the fund financial statements, inter-fund transfers are recorded as transfers in/out except for certain types of transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.

Reimbursements for expenditures, initially made by one fund that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

Bond Issuance Costs and Discounts/Premiums

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Inventories

Inventories, consisting of materials and supplies held for consumption, are stated at cost. Cost is calculated using the average cost method. Inventory items are considered expensed when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, museum collections, construction in progress, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), sewers and storm drains, and capital assets acquired prior to 1980, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the general, federal/state grant, the Agency, municipal capital improvements, and other governmental funds and as assets in the government-wide and proprietary financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. These items are protected, kept unencumbered, cared for and preserved by the City. The proceeds from the sale of any pieces of the collection are used to purchase other acquisitions for the collection. However, future acquisitions purchased with authorized budgeted City funds during a fiscal year will be reported as non-depreciable assets in the City's financial statements.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	15-40 years
Furniture, machinery and equipment	3-20 years
Infrastructure	7-50 years

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Property Held for Resale

Property held for resale is recorded as an asset at the lower of cost or estimated net realizable value. In its fund statements, the Agency charges as expenditures, the cost of developing and administering its capital development projects related to costs over and above the cost of the initial acquisition.

Net Pension Asset

In February 1997, the City issued pension obligation bonds to reduce the actuarial accrued liability of the Police and Fire Retirement System (PFRS). The net pension asset represents a prepaid asset amortized over the same period used by the actuary at the time of the bond issuance, as it allows for the matching of the asset with the related pension obligation bond liability. See Note 16 for the accounting treatment of the net pension asset.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vested vacation, sick leave and other compensatory time. All earned compensatory time is accrued when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they are due and payable.

Retirement Plans

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS), collectively the Plans. Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the provisions of the Plans. Refer to Note 16 for additional information.

Refunding of Debt

Gains or losses occurring from advance refundings are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities reported in the government-wide financial statements, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Fund Balances

Reservations of fund balances of the governmental funds indicate those portions of fund equity that are not available for appropriation for expenditure or which have been legally restricted to a specific use. Following is a brief description of the nature of certain reserves.

1. **Reserve for Encumbrances** – Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.
2. **Reserve for Long-Term Receivables** – This fund balance is reserved for long-term receivables that do not represent expendable available financial resources
3. **Reserve for Debt Service** – This fund balance is reserved for the payment of debt service requirements in subsequent years.
4. **Reserve for Property Held for Resale** – This fund balance is reserved for the cost of developing and administering residential and commercial properties intended for resale.
5. **Reserve for Capital Projects** – This fund balance is reserved for ongoing projects in specific areas excluding the General Fund. This reservation includes \$95,583,035 reserved for low and moderate housing projects.
6. **Reserve for Pension Obligations** – This fund balance is reserved for the City's obligations under its pension plans.

Designations of portions of the General Fund unreserved fund balance have been made to indicate those portions of the fund balances which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures. See Note 13 for specific designations.

Restricted Net Assets

Restricted net assets are those assets, net of their related liabilities that have constraints placed on their use by laws, regulations, creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Special Item - OBRA

The dissolution of OBRA and its absorption by the Agency on August 7, 2006 resulted in substantial revenue for the Agency of \$59,020,242 mainly due to the transfer of real property at the former Oakland Army Base. The dissolution involved the distribution of real property between the Agency and the Port. The Agency's portion of the OBRA properties had a total historical value of \$46,534,025. In addition to the real property received, the Agency also received OBRA's other assets and liabilities in the net amount of \$67,217 and the \$12,419,000 payment by the Port for one of the parcels of land included in the agreed property transfers.

Effects of New Pronouncements

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. The requirements of this Statement are effective for financial statement periods beginning after December 15, 2006.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of this Statement are effective for financial statements periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in reporting, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

The City maintains a cash and investment pool consisting of City funds and cash held for OMERS, PFRS, and Port. The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio that may be invested in:

- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;
- negotiable certificates of deposit;
- certificates of deposit;
- State of California Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- repurchase agreements; and
- reverse repurchase agreements.

The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers, and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Other deposits and investments are invested pursuant to the governing bond covenants, deferred compensation plans, or retirement systems' investment policies. Under the investment policies, the investment counsel is given the full authority to accomplish the objectives of the bond covenants or retirement systems subject to the discretionary limits set forth in the policies.

The retirement systems' investment policies authorize investment in the domestic stocks and bonds, U.S. equities, international equities, U.S. fixed income, mortgage loans and real estate. The systems' investment portfolios are managed by external investment managers. During the year ended June 30, 2007, the number of external investment managers was nine for the PFRS and one for the OMERS.

Total City deposits and investments at fair value are as follows (in thousands):

	Primary Government			Total	Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds		Port
Cash and investments	\$ 418,276	\$ 3,936	\$ 9,571	\$ 431,783	\$ 84,346
Restricted cash and investments	712,135	39,160	650,506	1,401,801	193,882
Restricted securities lending collateral	-	-	42,014	42,014	-
TOTAL	\$ 1,130,411*	\$ 43,096	\$ 702,091	\$ 1,875,598	\$ 278,228
Deposits				\$ 19,065	\$ 15,635
Investments				1,856,533	262,593
TOTAL				\$ 1,875,598	\$ 278,228

*\$1,130,411 consists of all governmental funds and the internal service funds.

Investments - Primary Government

Custodial Credit Risk: For investments, custodial risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of the investments or collateral securities in the possession of an outside party. To protect against fraud and potential losses from the financial collapse of securities dealers, all securities owned by the City shall be held in the name of the City for safekeeping by a third party bank trust department, acting as an agent for the City under the terms of the Custody Agreement. The City's investments subject to Custodial Credit Risk Category is very low.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

At June 30, 2007, the carrying amount of the City's deposits was \$19.1 million and the bank balance was \$18.5 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$0.7 million was FDIC insured and \$17.8 million was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

Credit Risk (Financial Risk): Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. The City invests only in securities from highly rated entities. As of June 30, 2007, approximately 66% of the pooled investments was invested in "AAA" quality securities.

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2007 (in thousands):

Pooled Investments

	Rating as of Fiscal Year Ended 06-30-07			
	Fair Value	AAA/Aaa	A1/P1/F1	Not Rated
U.S. Govt. Agency Securities	\$ 232,168	\$ 232,168	\$ -	\$ -
U.S. Govt. Agency Securities (Disc)	38,719	38,719	-	-
Money Market Funds	64,317	64,317	-	-
Local Agency Investment Fund (LAIF)	72,136	-	-	72,136
Commercial Paper	85,263	-	85,263	-
Negotiable CD's	12,000	-	12,000	-
Total Investment Pool	\$ 504,603	\$ 335,204	\$ 97,263	\$ 72,136

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Restricted Investments

	Rating as of Fiscal Year Ended 06-30-07			
	Fair Value	AAA/Aaa	A1/P1/F1	Not Rated
U.S. Govt. Agency Securities	\$ 20,337	\$ 20,337	\$ -	\$ -
U.S. Govt. Agency Securities (Disc)	33,502	33,502	-	-
U.S. Treasury Strips	22,385	-	-	22,385
Money Market Funds	108,738	108,738	-	-
Local Agency Investment Fund (LAIF)	11,612	-	-	11,612
Commercial Paper	131,135	-	131,135	-
Corporate Bonds	2,925	-	2,925	-
Investment Agreement	192,800	-	-	192,800
Local Government Bond	112,084	-	-	112,084
Annuity	115,000	-	-	115,000
Total	\$ 750,518	\$ 162,577	\$ 134,060	\$ 453,881

Concentration of Credit Risk: This risk represents the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by the lack of diversification. The City believes in the importance of a well-diversified portfolio. It is the policy of the City to review the diversity of the portfolio on a regular basis so that reliance on any one issuer will not place an undue financial burden on the City.

Under the City's Investment Policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund and proceeds of or pledged revenues for any tax revenue anticipation notes. The JPFA's investment in the City of Oakland General Obligation Refunding Bonds, Series 2005 in the amount of \$112,084,363 and the guaranteed non-participating annuities in New York Life Insurance Company in the amount of \$115,000,000 represents' 8.93% and 9.16% of the total City portfolio respectively, at June 30, 2007. The City also has U.S. Government Securities with Federal National for \$141,486,171 and Federal Home Loan Bank for \$183,239,085 that represents 11.27% and 14.60% of the total City portfolio respectively, at June 30, 2007. The City also has Investment Agreements with the following; AIG Matching Funding Corporation \$77,764,952, FSA Capital Management \$62,837,230 and Natixis Funding Corp \$ 52,197,930, representing 15.36% of the total City portfolio at June 30, 2007.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The following table shows the diversification of the City's portfolio (in thousands):

Pooled Investments			Restricted Investments		
	<u>Fair Value</u>	<u>% of Portfolio</u>		<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities	\$ 232,168	46.01%	U.S. Govt. Ag. Securities	\$ 20,337	2.71%
U.S. Govt. Ag. Security Disc.	38,719	7.67%	U.S. Govt. Ag. Security Disc.	33,502	4.46%
Money Market Funds	64,317	12.75%	U.S. Treasury Strips	22,385	2.98%
LAIF	72,136	14.30%	Money Market Funds	108,738	14.49%
Commercial Paper	85,263	16.90%	LAIF	11,612	1.55%
Negotiable CD's	12,000	2.38%	Commercial Paper	131,135	17.47%
			Corporate Bond	2,925	0.39%
			Investment Agreement	192,800	25.69%
			Local Government Bonds	112,084	14.93%
			Annuity	115,000	15.32%
TOTAL	<u>\$ 504,603</u>	<u>100.00%</u>	TOTAL	<u>\$ 750,518</u>	<u>100.00%</u>

Interest Rate Risk: This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. In order to manage interest rate risk, it is the City's policy that the maximum maturity for any one investment shall not exceed five (5) years unless authority for such investment is expressly granted in advance by the City Council.

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2007, the City's pooled portfolio had an average day to maturity of 171 days and had the following investments and original maturities (in thousands):

	<u>Fair Value</u>	<u>Maturity</u>			
		<u>Interest Rates (%)</u>	<u>12 Months or Less</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>
U.S. Govt. Agency Securities	\$ 232,168	3.32 - 7.71	\$ 125,989	\$ 103,209	\$ 2,970
U.S. Govt. Agency Securities (Disc)	38,719	4.51 - 5.13	38,719	-	-
Money Market Funds	64,317	5.19 - 5.29	64,317	-	-
Local Agency Investment Fund (LAIF)	72,136	5.25	72,136	-	-
Commercial Paper	85,263	3.72 - 10.59	85,263	-	-
Negotiable CD's	12,000	5.25 - 5.28	12,000	-	-
Total Investment Pool	<u>\$ 504,603</u>		<u>\$ 398,424</u>	<u>\$ 103,209</u>	<u>\$ 2,970</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Restricted Investments

	Fair Value	Interest Rates (%)	Maturity			
			12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years +
U.S. Govt. Agency Securities	\$ 20,337	5.21 - 5.58	\$ 17,343	\$ 2,994	\$ -	\$ -
U.S. Govt. Agency Securities (Disc)	33,502	5.06 - 5.15	33,502	-	-	-
U.S. Treasury Strips	22,385	4.32 - 5.48	2,126	3,938	3,593	12,728
Money Market Funds	108,738	1.14 - 5.17	108,738	-	-	-
Local Agency Investment Fund	11,612	1.00 - 4.92	11,612	-	-	-
Commercial Paper	131,135	4.81 - 8.00	131,135	-	-	-
Corporate Bonds	2,925	7.18	-	-	-	2,925
Investment Agreement	192,800	3.46 - 4.88	77,765	115,035	-	-
Local Government Bond	112,084	4.86	5,551	12,030	13,335	81,168
Annuity	115,000	5.4	-	-	-	115,000
Total	\$ 750,518		\$ 387,772	\$ 133,997	\$ 16,928	\$ 211,821

Foreign Currency Risk: The possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit/investment's fair value. The City only invests in U.S. dollar denominated obligations. This successfully eliminates all risk of principal erosion due to fluctuations in the values of foreign currencies.

Other Disclosures: As of June 30, 2007, the City's investment in LAIF is \$83.7 million (\$72.1 million in pooled investments and \$11.6 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$19.7 billion. Of that amount, over 96.5% is invested in non-derivative financial products and 3.5% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

Pensions Cash and Investments

Oakland Municipal Employee's Retirement System (OMERS)

City's Investment Pool

Cash and cash equivalents are funds held by the City Treasurer as pooled cash or held by the third party custodian as short-term investment funds for the temporary placement of proceeds from the sale or maturity of investments or in anticipation of investment purchases.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

OMERS maintains its operating cash in the City's investment pool. It is not possible to disclose relevant information about the OMERS separate portion of the investment pool. As of June 30, 2007, the OMERS share of the City's investment pool totaled \$155,000.

Investments

OMERS investment policy authorizes investment in domestic common stocks and bonds. During the year ended June 30, 2007, OMERS investment portfolio was managed by one external investment manager.

OMERS investment policy states that the asset allocation of the investment portfolio shall be 70% Domestic Equity and 30% Domestic Fixed Income. As of June 30, 2007, OMERS investment portfolio consists of shares of two commingled fund investments (Funds). OMERS invests in the Western Asset Core Bond Fund and the American Century Equity Fund. Specific guidelines for the Funds are detailed in the prospectus, or declaration of Trust, for each individual fund. OMERS also has \$15,000 in cash equivalents held by trustee.

The following summarizes OMERS investment allocation at June 30, 2007 (in thousands):

Investments	Fair Value	Fund Allocation
Equity Investments		
American Century Equity Mutual Fund	\$ 6,560	71%
Fixed Investments		
Western Asset Core Bond Mutual Fund	2,714	29%
Total Investment	\$ 9,274	100%

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. OMERS investment policy states that the fixed income portfolio shall not exceed 8% below investment grade securities (rated Ba/BB) or below by at least one Nationally Recognized Statistical Rating Organization (NRSRO) at the fair market value. OMERS fixed income portfolio consists of shares of the Western Asset Core Bond Fund. The Western Asset Core Bond Fund has an average credit quality rating of AA.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. As the City holds all cash and certificates of deposit on behalf of OMERS, the collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

The City, on behalf of OMERS, does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. OMERS does not have any investments that are not registered in the name of OMERS and are either held by the counterparty or the counterparty's trust department or agent but not in OMERS's name.

Oakland Police and Fire Retirement System (PFRS)

City's Investment Pool

Cash in treasury is held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. It is not possible to disclose relevant information about PFRS separate portion of the investment pool. As of June 30, 2007, the PFRS share of the City's investment pool totaled \$2,966,000.

Investments

PFRS investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income, instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, yankee bonds and non U.S. issued fixed income securities denominated in foreign currencies. PFRS investment portfolio is managed by external investment managers. During the year ended June 30, 2007, the number of external investment managers was eleven.

The PFRS investments are also restricted by the City Charter. In November 2006, City voters passed Measure M to amend the City Charter to allow the PFRS Board to invest in

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

non-dividend paying stocks and to change the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard.

PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. PFRS investment policy with respect to fixed income investments identifies two standards for credit quality. The policy allows the core style managers to invest in securities rated “BBB” or higher (investment grade using Standard & Poor’s or Moody’s ratings). The policy also allows enhanced core style managers to invest in securities with a minimum rating of B or higher (non investment grade using Standard & Poor’s or Moody’s ratings) as long as the portfolio maintains an average credit quality of BBB.

PFRS investment policy states that investments in derivative securities known as Collateralized Mortgage Obligations (CMOs) shall be limited to a maximum of 20% of an account’s market value with no more than 5% in any one issue. CMOs are mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities. The fair value of CMOs are considered sensitive to interest rate changes because they have embedded options.

The investment policy allows for each fixed income asset manager to have a maximum of 10% of any single security investment in their individual portfolios with the exception of U.S. government securities, which is allowed to have a maximum of 25% in each manager’s portfolio.

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. As of June 30, 2007 the average duration for PFRS fixed income investment portfolio was 5.16 years, excluding the fixed income short-term investments and securities lending investments.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

As of June 30, 2007, PFRS had the following fixed income investments and maturities (in thousands):

<u>Fixed Investments</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
U.S. Government Agencies	\$ 126,367	4.17
U.S. Government Bonds	46,191	5.30
Corporate Bonds	109,194	6.37
Other Government Bonds	2,838	0.71
Total Fixed Income Investments	<u>\$ 284,590</u>	<u>5.16</u>

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following table provides information as of June 30, 2007 concerning credit risk of fixed income securities (in thousands):

<u>S & P or Moody's Rating</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of Total Fixed Maturity Fair Value</u>
AAA	\$ 217,066	76.27%
AA	5,946	2.09%
A	12,887	4.53%
BBB	21,304	7.49%
BB	11,953	4.20%
B	10,897	3.83%
Not Rated	4,537	1.59%
Total Fixed Investments	<u>\$ 284,590</u>	<u>100.0%</u>

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2007, with the exception of mutual funds and United States Government securities, no investment exceeded 5% of PFRS investments.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a failure of depository financial institution or counterparty to a transaction, the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. As the City holds all cash and certificates of deposit on behalf of PFRS, the collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

The City, on behalf of PFRS, does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. PFRS does not have any investments that are not registered in the name of PFRS and are either held by the counterparty or the counterparty's trust department or agent but not in the PFRS name.

Foreign Currency Risk: This risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. The following summarizes PFRS investments that are denominated in foreign currencies as of June 30, 2007:

<u>Foreign Currency</u>	<u>Total</u>
Australian Dollar	\$ 3,532
Canadian Dollar	3,114
Swiss Franc	7,487
Danish Krone	793
Euro	20,522
British Pound Sterling	11,400
Hong Kong Dollar	4,058
Japanese Yen	11,810
Norwegian Krone	672
Philippines Peso	1
Swedish Krona	772
Singapore Dollar	996
Total Foreign Currency	<u>\$ 65,157</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Securities Lending Transactions

PFRS is authorized to enter into securities lending transactions which are short term collateralized loans of PFRS securities to brokers-dealers with a simultaneous agreement allowing PFRS to invest and receive earnings on the loan collateral for a loan rebate fee. All securities loans can be terminated on demand by either PFRS or the borrower, although the average term of such loans is one week.

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% (105% for international) of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

As of June 30, 2007, management believes that PFRS has minimized its credit risk exposure to borrowers because the amounts held by PFRS as collateral exceeded the securities loaned by PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

The following table provides information as of June 30, 2007 concerning securities lending investments and collateral received (in thousands):

Securities Lending	
Investments and Collateral Received (At Fair Value)	
Type of Investment	Amount
Cash Collateral	
U.S. Government and Agencies	38,789
U.S. Equity	3,225
Total Securities Lent	\$ 42,014
Type of Collateral Received	
Cash Collateral	
Cash	11
Corporate bonds	25,000
Repurchase agreement	18,140
Total Collateral Received	\$ 43,151

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Fair Value Highly Sensitive to Change in Interest Rates: The term of a debt investment may cause its fair value to be highly sensitive to interest rates changes. The fair value Collateralized Mortgage Obligation (CMO) are considered sensitive to interest rate changes because they have embedded options.

The following table shows sensitive interest rate analysis as of June 30, 2007:

<u>Securities Name</u>	<u>Coupon Rate</u>	<u>Fair Value (in millions)</u>	<u>Percent of account Market value</u>
Commercial Mortgage Pass-Through, reported as part of U.S. Government Agencies	4.51%	<u>\$17.46</u>	<u>2.58%</u>

Discretely Presented Component Unit

Port of Oakland

The Port's cash, cash equivalents, investments and deposits consisted of the following at June 30, 2007 (in thousands):

Bank Deposit	
Cash on hand	\$ 10
Bank deposit - escrow in-lieu of retentions	15,625
Investments	<u>262,593</u>
Total Cash, Cash Equivalents, Investment and Deposits	<u>\$ 278,228</u>

Bank deposits consist of amounts received from construction contractors that are deposited into an escrow account in-lieu of retention withheld from construction progress billings. Interest on these deposits accrues to the contractor.

Investments

Under the City of Oakland Charter, all income and revenue from the operation of the Port is to be deposited in the City Treasury. Unused bonds proceeds are on deposit with a Trustee for both reserves and construction funds. The investment of funds held by a Trustee is governed by the Amended and Restated Master Trust Indenture, dated as of April 1, 2006, as it may be amended from time to time (the Restated Indenture). Escrow funds are on deposit with an escrow agent.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

At June 30, 2007 the Port had the following investments (in thousands):

	Fair Value	Credit Rating	Maturity		
			Less than 1 Year	1 - 5 Years	5 Years +
Federal Agency Securities	\$ 242	AAA	\$ 133	\$ 109	\$ -
Government Securities Money					
Market Mutual Funds	39,162	AAA	39,162	-	-
Guaranteed Investment Contracts	106,454	Not Rated	48,859	6,059	51,536
Bank Investment Contract	28,996	Not Rated	-	-	28,996
City Investment Pool	87,739	AAA	87,739	-	-
Total Investment	\$ 262,593		\$ 175,893	\$ 6,168	\$ 80,532

Investments Authorized by Debt Agreements

The following are the maximum maturities for each type of investment as allowed under the Trust Indenture and the applicable Supplemental Indenture for each bond issue.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S Government Securities	None
U.S. Treasury & Agency Obligations	None
Obligations of any State in the U.S	None
Prime Commercial Paper	270 days
FDIC Insured Deposits	None
Certificates of Deposits/Banker's Acceptances	365 days
Money Market Mutual Funds	None
State-sponsored Investment pools	None
Investment Contracts	None
Forward Delivery Agreement	None

Interest Rate Risk

Most bond proceeds are invested in investment contracts structured so that the entire amount of the investment is available if the need should arise, regardless of changes in the interest rates.

Credit Risk

Provisions of the Port's Trust Indenture limit the Port's investment to agreements or financial institutions that, at the time of investment, are rated Aaa by Moody's and AAA by Standard & Poor's (S&P). Providers must also maintain ratings of at least Aa3 by Moody's or AA- by S&P and all current providers exceed these minimums.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Concentration of Credit Risk

The Trust Indenture places no limit on the amount the Port may invest in any one issuer. Those that exceed 5% of the total investment are as follows.

<u>Investment</u>	<u>Investment Type</u>	<u>% of Investment</u>
Bayerische LandesBank Girozentrale	Bank Investment Contract	11.04%
AMBAC Capital Funding, Inc	Guaranteed Investment Contract	9.34%
IXIS Funding Corp	Guaranteed Investment Contract	9.27%
XL Asset Funding Company I LLC	Guaranteed Investment Contract	16.01%
City Investment Pool	City Pool	33.41%

Port revenues are deposited in the City Treasury. These and all the City funds are commingled and invested in the City's investment pool. The City's investment portfolio average maturity may not exceed 540 days; the weighted average maturity of the City's investment pool as of June 30, 2007 is 215. The maximum maturity for any one investment may not exceed 5 years. Authorized investments included federal agency obligations, repurchase agreements, reverse repurchase agreements, secured obligations and agreements, state investment pool (Local Agency Investment Fund), bonds of the City or its agencies, State of California bonds, bankers' acceptances, commercial paper, medium-term corporate bonds and notes, negotiable certificates of deposit, certificates of deposit, and money market mutual funds. All investments deposited in the City Treasury are insured or registered, or held by the City or its agent in the City's name. The City's investment pool is rated annually.

Custodial Credit Risk

For investments, custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of the investments or collateral securities in the possession of an outside party. The carrying amount of Port bank investment contracts and deposits with banks was \$44,621,000 at June 30, 2007. Bank balances and escrow deposits of \$622,000 at June 30, 2007 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name. The remaining balance of \$43,999,000 as of June 30, 2007, was exposed to custodial credit risk by not being insured or collateralized.

Cash and Investments with the City of Oakland

Pursuant to the City Charter, Port operating revenues are deposited in the City Treasury. These funds are commingled in the City's investment pool. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Restricted Cash and Investments

Port bond resolutions authorize the investment of restricted cash, including deposits, with fiscal agents for debt service and construction funds. Authorized investment securities are specified in the various bond indentures. Authorized investments are U.S. Treasury obligations, bank certificates of deposit, federal agency obligations, certain state and secured municipal obligations, long-term and medium-term guaranteed corporate debt securities in the two highest rating categories, commercial paper rated prime, repurchase agreements, certain money market mutual funds, and certain guaranteed investment contracts.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency are related to advances and interfund loans made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The composition of interfund balances as of June 30, 2007, is as follows (in thousands):

DUE FROM/DUE TO OTHER FUNDS:

Receivables	Payable Fund	Amount
General Fund	Federal/State Grant Fund	\$ 12,920
	Oakland Redevelopment Agency	96
	Other Governmental Funds	14,373
	Sewer Service Fund	3,416
	Internal Service Funds	39,719
	Pension Trust Fund	<u>4,206</u>
TOTAL		<u><u>74,730</u></u>
Oakland Redevelopment Agency	General Fund	8,228
	Federal/State Grant Fund	3,167
	Other Governmental Funds	<u>3,157</u>
TOTAL		<u><u>14,552</u></u>
Other Governmental Funds	Oakland Redevelopment Agency	<u>2,804</u>
TOTAL GOVERNMENTAL		<u><u>92,086</u></u>
Internal Service Funds	Oakland Redevelopment Agency	55
TOTAL		<u><u>\$ 92,141</u></u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

INTERFUND TRANSFERS:

TRANSFERS OUT	TRANSFERS IN				Total Governmental
	General Fund	Municipal Capital Improvement	Other Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 93,463	\$ -	\$ 93,463
Other Governmental Funds	1,357	899	178	-	2,434
Sewer Service Funds	600	-	-	-	600
Internal Service Fund	900	-	-	2,761	3,661
Total	\$ 2,857	\$ 899	\$ 93,641	\$ 2,761	\$ 100,158

The \$93.5 million transferred from the General Fund consists of transfers made to provide funding for the following:

- \$11.6 million for the Kids' First Children's Program;
- \$4.3 million for special refunding revenue bonds; and
- \$77.1 million for debt service payments.
- \$0.4 million for contract compliance administration fee
- \$0.1 million for City-owned parcels of land in the Wildfire Prevention Assessment District

The \$0.9 million transferred from Other Governmental Funds to Municipal Capital Improvement are for closing capital projects. \$0.2 million was transferred from Debt Service Funds to Special Revenue Funds

The \$1.3 million transferred from Other Governmental Funds to the General Fund are reimbursements from the Development Service Fund to General Fund for repayment of prior year subsidies, recently purchased telephone equipment, and Capital Improvement Program funding for permit and Enforcement and Record Tracking System.

The \$0.6 million transfer from the Sewer Service Fund is to provide funds for City-wide lease payments.

The \$0.9 million transfer from Internal Service Fund is to provide funds for the Police Department In-Car Video Management System. \$2.7 million was transferred from Equipment to Central Stores.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

INTERFUND LOANS:

Certain interfund loans made from the General Fund to the ORA Governmental Fund have been removed as they are not expected to be repaid within a reasonable period of time. The loans continue to be obligations of the ORA, and will be recognized as other financing sources in the General Fund upon receipt. The loan balances are as follows (in thousands):

City Center Garage/Central District	\$ 17,058
Oakland Center Project	<u>13,669</u>
Total	<u><u>\$ 30,727</u></u>

(5) MEMORANDUMS OF UNDERSTANDING

The City and the Port have Memorandums of Understanding (MOUs) relating to: general obligation bonds issued by the City for the benefit of the Port; various administrative, personnel, south airport police security, aircraft rescue and fire fighters, and financial services (Special Services); police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port; and Lake Merritt payments. Payments are made upon execution of appropriate agreements and for some payments periodic findings and authorizations from the Board.

Special Services

Payments for Special Services are treated as a cost of Port operations pursuant to the City Charter Section 717(3) Clause Third and have priority over certain other expenditures of Port revenues. Special Services totaled \$12,043,000 and are included in "Operating Expenses." At June 30, 2007, \$9,724,000 was accrued as a current liability by the Port and as a receivable by the City.

General Services and Lake Merritt

Payments for General Services from the City are payable only to the extent the Port determines annually that surplus monies are available under the Charter for such purposes. As of June 30, 2007, the Port accrued approximately \$1,112,000 of payments for General Services as current liability and by the City as a receivable. Additionally, subject to certain conditions, the Port accrued approximately \$858,000 to reimburse the City for General Services for net City expenditures for Lake Merritt tideland trust properties in 2007. Subject to adequate documentation from the City, and subject to availability of surplus monies, the Port expects that it will continue to reimburse the City annually for General Services and Lake Merritt Tideland Trust purpose costs.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Lease with the Port

The Port has leased property to the City under a 66-year lease, which is expressed in terms of the Amended and Restated Lease between the Port and the City for the development and operation of the public golf course by the City. The lease commenced in 2003 when the Port delivered a completed golf course to the City to replace the City's golf course that was destroyed when the Port used the site as a dredge disposal site.

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2007, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass-through loans	\$ 7,830	\$ 3,167	\$ -	\$ 799	\$ 11,796
Loans to Oakland Hotel Association, LTD	12,038	-	-	-	12,038
Community Development Block Grant	-	62,910	-	-	62,910
Economic Development Loans and Other	1,932	29,580	135,057	18,856	185,425
Less: Allowance for uncollectable accounts	(107)	(3,813)	(37,476)	(168)	(41,564)
TOTAL LOANS, NET	\$ 21,693	\$ 91,844	\$ 97,581	\$ 19,487	\$ 230,605

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(7) CAPITAL ASSETS

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2007, is as follows (in thousands):

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 76,557	\$ 851	\$ -	\$ 77,408
Museum Collections	287	6	-	293
Construction in progress	17,841	27,359	3,522	41,678
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>94,685</u>	<u>28,216</u>	<u>3,522</u>	<u>119,379</u>
Capital assets, being depreciated:				
Facilities and improvements	676,685	14,393	2	691,076
Furniture, machinery and equipment	154,960	4,178	1,112	158,026
Infrastructure	399,085	21,811	110	420,786
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	<u>1,230,730</u>	<u>40,382</u>	<u>1,224</u>	<u>1,269,888</u>
Less accumulated depreciation:				
Facilities and improvements	246,727	20,125	-	266,852
Furniture, machinery and equipment	110,619	13,021	1,105	122,535
Infrastructure	132,078	13,440	11	145,507
TOTAL ACCUMULATED DEPRECIATED	<u>489,424</u>	<u>46,586</u>	<u>1,116</u>	<u>534,894</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>741,306</u>	<u>(6,204)</u>	<u>108</u>	<u>734,994</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 835,991</u>	<u>\$ 22,012</u>	<u>\$ 3,630</u>	<u>\$ 854,373</u>

(continued)

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Business-type activities:				
Sewer fund:				
Capital assets, not being depreciated:				
Land	\$ 4	\$ -	\$ -	\$ 4
Construction in progress	8,561	11,797	13,742	6,616
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	8,565	11,797	13,742	6,620
Capital assets, being depreciated:				
Facilities and improvements	306	-	-	306
Furniture, machinery and equipment	755	23	23	755
Sewer and storm drains	182,144	14,536	-	196,680
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	183,205	14,559	23	197,741
Less accumulated depreciation:				
Facilities and improvements	71	20	-	91
Furniture, machinery and equipment	723	12	23	712
Sewer and storm drains	65,687	3,788	-	69,475
TOTAL ACCUMULATED DEPRECIATED	66,481	3,820	23	70,278
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	116,724	10,739	-	127,463
SEWER FUND CAPITAL ASSETS, NET	125,289	22,536	13,742	134,083
Other Proprietary Funds:				
Capital assets, not being depreciated:				
Land	218	-	-	218
Construction in progress	-	81	-	81
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	218	81	-	299
Capital assets, not being depreciated:				
Facilities and improvements	2,179	85	-	2,264
Furniture, machinery & equipment	453	79	191	341
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,632	164	191	2,605
Less accumulated depreciation:				
Facilities and improvements	482	145	-	627
Furniture, machinery & equipment	436	6	175	267
TOTAL ACCUMULATED DEPRECIATED	918	151	175	894
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,714	13	16	1,711
OTHER PROPRIETARY FUNDS CAPITAL ASSETS, NET	1,932	94	16	2,010
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 127,221	\$ 22,630	\$ 13,758	\$ 136,093

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental Activities:	
General Government	\$ 4,421
Public Safety:	
Police Services	1,244
Fire Services	1,707
Life Enrichment	12,017
Community and Economic Development	2,949
Public Works	17,719
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	<u>6,529</u>
TOTAL	<u><u>\$ 46,586</u></u>
Business-Type Activities:	
Sewer	\$ 3,820
Parks and Recreation	<u>151</u>
	<u><u>\$ 3,971</u></u>

Construction Commitments

The City has active construction projects as of June 30, 2007 totaling \$316,073,158. The projects include street construction, park construction, building improvements and sewer and storm drain improvements.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Discretely Presented Component Units

Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2007, is as follows (in thousands):

	Balance July 1, 2006	Additions	Adjustments & Retirements	Transfers of Completed Construction	Balance June 30, 2007
Capital assets, not being depreciated:					
Land	\$ 331,987	61,025	875	\$ -	393,887
Construction in progress	420,718	230,407	37	(290,475)	360,687
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	752,705	291,432	912	(290,475)	754,574
Capital assets, being depreciated:					
Building and improvements	597,743	(780)	(5,724)	175,352	766,591
Container cranes	170,374	-	-	988	171,362
Systems and structures	1,161,112	-	326	103,862	1,265,300
Other equipment	52,055	1,764	(4,015)	10,273	60,077
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,981,284	984	(9,413)	290,475	2,263,330
Less accumulated depreciation:					
Building and improvements	282,958	28,633	547	-	311,044
Container cranes	58,490	6,788	-	-	65,278
Systems and structures	297,468	40,044	1,711	-	335,801
Other equipment	23,928	5,323	3,872	-	25,379
TOTAL ACCUMULATED DEPRECIATED	662,844	80,788	6,130	-	737,502
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,318,440	79,804	(3,283)	290,475	1,525,828
CAPITAL ASSETS, NET	\$ 2,071,145	\$ 211,628	\$ (2,371)	\$ -	\$ 2,280,402

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Capital Leases

The capital assets leased to others at June 30, 2007, consist of the following (in thousands):

Land	\$ 255,859
Container cranes	171,362
Building and other facilities	<u>1,006,986</u>
Total	1,434,207
Less accumulated depreciation	<u>(341,592)</u>
Capital assets, net, on lease	<u><u>\$ 1,092,615</u></u>

Operating Leases

A major portion of the Port's capital assets is held for lease. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. The majority of the leases are classified as operating leases.

Certain maritime facilities are leased under agreements, which provide the tenants with preferential, but nonexclusive, use of the facilities. Certain leases provide for rentals based on gross revenues of the leased premises or, in the case of marine terminal facilities, on annual usage of the facilities. Such leases generally provide for minimum rentals, and certain preferential assignments provide for both minimum and maximum rentals.

A summary of revenues from long-term leases for the year ended June 30, 2007, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	\$ 120,373
Contingent rentals in excess of minimums	18,876
Secondary use of facilities leased under preferential assignments	<u>2,542</u>
Total	<u><u>\$ 141,791</u></u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Minimum future rental revenues for years ending June 30 under non-cancelable operating leases having an initial term in excess of one year are as follows (in thousands):

<u>Year</u>	<u>Rental Revenues</u>
2008	\$ 136,105
2009	133,998
2010	125,716
2011	116,746
2012	102,727
2013 - 2017	332,366
2018 - 2022	155,779
2023 - 2027	16,681
2028 - 2032	14,376
2033 - 2037	12,985
2038 - 2042	11,903
2043 - 2047	8,774
Thereafter through 2071	30,261
Total	<u>\$ 1,198,417</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The Port turned over the operation of its Marina to a private company through a long-term financing lease and operating agreement on May 1, 2004. Minimum future lease payments to be received for the succeeding years ending June 30 are as follows:

Year	Lease Revenues
2008	\$ 326
2009	336
2010	346
2011	356
2012	367
2013 - 2017	2,008
2018 - 2022	2,327
2023 - 2027	2,698
2028 - 2032	3,128
2033 - 2037	3,626
2038 - 2042	4,204
2043 - 2047	4,874
Thereafter through 2054	13,776
Total	\$ 38,372

(8) PROPERTY HELD FOR RESALE

A summary of changes in Property Held for Resale follows (in thousands):

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Property held for resale	\$ 53,266	\$ 67,320	\$ -	\$ 120,586

The increase in Property Held for Resale represents the transfer of property from OBRA to the Agency of \$46,534,000 plus the capitalization of \$2,077,000 in remediation costs for OBRA and the purchases of land in the amount of \$16,998,000 for the uptown project and \$1,711,000 for 7001 Oakport.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE

Accounts payable and accrued liabilities payable as of June 30, 2007, for the City's individual major funds, non major funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Checks Payable	Accrued Payroll/Employee Benefits	Total
Governmental funds:				
General	\$ 20,408	\$ 9,714	\$ 78,608	\$ 108,730
Federal/State grant fund	4,633	-	921	5,554
Oakland Redevelopment Agency	5,798	-	-	5,798
Municipal Capital Improvement Fund	1,709	-	87	1,796
Other governmental funds	5,300	-	36	5,336
TOTAL	<u>37,848</u>	<u>9,714</u>	<u>79,652</u>	<u>127,214</u>
Governmental activities - Internal service funds	2,978	-	114	3,092
TOTAL	<u>\$ 40,826</u>	<u>\$ 9,714</u>	<u>\$ 79,766</u>	<u>\$ 130,306</u>
Business-type activities - Enterprise Funds:				
Park and Recreation	\$ 10	\$ -	\$ -	\$ 10
Sewer Service	1,039	-	764	1,803
TOTAL	<u>\$ 1,049</u>	<u>\$ -</u>	<u>\$ 764</u>	<u>\$ 1,813</u>

Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2007, are as follows (in thousands):

Accounts payable	\$ 9
Investments payable	109,048
Accrued investment management fees	642
Member benefits payable	<u>5,942</u>
Total Pension Trust Funds Accounts Payable and Accrued Liabilities	115,641
Private Purpose Trust Fund Accounts Payable	<u>5</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 115,646</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(10) DEFERRED REVENUE

Governmental funds report deferred revenue in connection with unearned revenue and receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2007, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>
Major Funds:		
General Fund	\$ 26,709	\$ 9,704
Federal and State Grants Fund	104,965	-
Oakland Redevelopment Agency	113,044	-
Non-major Funds:		
Other Governmental Funds	23,153	-
TOTAL GOVERNMENTAL ACTIVITIES	<u><u>\$ 267,871</u></u>	<u><u>\$ 9,704</u></u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligations and carried an approximate effective interest rate of 4.50%. Principal and interest were paid on June 30, 2007.

The short-term debt activity for the year ended June 30, 2007, is as follows (in thousands):

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
2006-2007 Tax & Revenue Anticipation Notes	\$ -	\$ 75,000	\$ (75,000)	\$ -

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(12) LONG-TERM OBLIGATIONS

Long-term Obligations

The following is a summary of long-term obligations for the year ended June 30, 2007 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
General obligation bonds (A)	2036	2.50 - 5.00%	\$ 345,214
Tax allocation bonds (B)	2037	2.50 - 8.03%	514,475
Certificate of participation (C)	2015	4.00 - 6.55%	45,795
Lease revenue bonds (C)	2026	3.60 - 5.50%	325,105
Pension obligation bonds (D)	2022	6.09 - 7.31%	313,625
Accreted interest (C) & (D)			104,356
City guaranteed special assessment district bonds (D)	2024	4.60 - 6.70%	6,800
Notes payable (C) & (E)	2016	1.70 - 8.27%	17,090
Capital Leases (C) & (E)	2016	3.54 - 5.52%	31,809
Accrued vacation and Sick leave (C)			33,601
Self - Insurance liability for worker's compensation (C)			98,381
Estimated claims payable (C)			43,598
Estimated environmental cost (B) & (C)			11,198
Pledge obligation for Coliseum Authority debt (C)			85,350
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS			1,976,397
DEFERRED AMOUNTS:			
Bond insurance premiums			22,887
Bond refunding loss			(20,035)
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET			\$ 1,979,249

Debt service payments are made from the following sources:

- (A) Property tax recorded in the debt service funds
- (B) Property tax allocated to the Oakland Redevelopment Agency based on increased assessed valuations in the project area
- (C) Revenues recorded in the general fund
- (D) Property tax voter approved debt
- (E) Revenues recorded in the special revenue funds

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Business-Type Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund - Notes payable	2014	3.00 - 3.50%	\$ 4,126
Sewer fund - Bonds	2029	3.00 - 5.25%	59,305
Unamortized Bond Premium			2,593
BUSINESS-TYPE ACTIVITIES - TOTAL LONG-TERM OBLIGATIONS			<u>\$ 66,024</u>

Component Unit - Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Parity bonds	2033	3.00 - 6.00%	\$ 1,370,072
Notes and Loans	2030	3.31 - 5.12%	198,366
Total			1,568,438
Self - Insurance liability for workers' compensation			6,000
General Liability			4,747
Environmental Remediation			11,731
Total			1,590,916
Unamortized bond discount and premium, net			(2,762)
Deferred loss on refunding			(4,493)
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			<u>\$ 1,583,661</u>

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures held by the City and Agency. Management believes that the City and Agency are in compliance.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2007, the City's debt limit (3.75% of valuation subject to taxation) was \$985,017,038. The total amount of debt applicable to the debt limit was \$345,214,363. The resulting legal debt margin was \$639,802,675.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Interest Rate Swaps

Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2
Objective of the interest rate swap. On January 9, 1997, the City entered into a forward-starting synthetic fixed rate swap agreement (the “Swap”) with Goldman Sachs Mitsui Marine Derivatives Products, U.S., L.P. (the “Counterparty”) in connection with the \$187,500,000 Oakland Joint Powers Financing Authority (the “Authority”) Lease Revenue Bonds, 1998 Series A1/A2 (the “1998 Lease Revenue Bonds”). Under the swap agreement, which effectively changed the City’s variable interest rate on the bonds to a synthetic fixed rate, the City would pay the Counterparty a fixed rate of 5.6775% through the end of the swap agreement in 2021 and receive a variable rate based on the Bond Market Association index. The City received an upfront payment from the Counterparty of \$15 million for entering into the Swap.

On March 21, 2003, the City amended the swap agreement to change the index on which the Swap is based from the Bond Market Association index to a rate equal to 65% of the 1-month London Interbank Offer Rate (“LIBOR”). This amendment resulted in an additional upfront payment from the Counterparty to the City of \$5.975 million.

On June 21, 2005, all of the outstanding 1998 Lease Revenue Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B (“Series 2005 A & B Bonds”). However, the Swap associated with the 1998 Lease Revenue Bonds still remains in effect and is set to terminate on July 31, 2021.

Terms. The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2007 of \$110,400,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The City’s payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

Fair Value. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of \$13,069,000 as of June 30, 2007. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated Aaa by Moody’s Investors Service, and AA+ by Standard and Poor’s as of June 30, 2007. To

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's the swap agreement provides the counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

Basis Risk. Another risk associated with the synthetic fixed rate swap is basis risk. This is the risk that as the City receives a floating rate index on the swap to offset the variable rate it pays on its underlying variable rate bonds, these two variable rate cash flows could potentially mismatch. The swap agreement provides that the payment received by the City shall be at 65% of 1-month LIBOR.

Termination Risk. An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the Swap if the counterparty fails to perform under the terms of the contract. The City also may terminate the Swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard and Poor's.

The counterparty may terminate the Swap if both the City and the bond insurer fail to perform under the terms of the contract. The counterparty also may terminate the Swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's; and 2) the City falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. If the Swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the Swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the Swap's fair value.

Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 Series A-1/A-2

Objective of the Interest Rate Swap. On May 21, 2004, the City entered into a synthetic fixed rate swap ("2004 Swap") with Bank of America, N.A. and UBS AG ("Counterparties") in connection with the \$117,200,000 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, 2004 Series A-1 and A-2 (the "2004 Lease Revenue Bonds"). Under the terms of the 2004 Swap, the City pays the Counterparties a fixed rate of 3.533% through the end of the swap agreement in 2026 and receives a variable rate based on 58% of 1-month LIBOR plus 35 basis points.

The 2004 Swap effectively allowed the City to lock in the low long-term interest rates available in the marketplace at that time

Terms. The 2004 Swap terminates on August 1, 2026, and has a notional amount as of June 30, 2007 of \$105,725,000. The notional amount of the swap declines through 2026.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Fair Value. As of June 30, 2007, the interest rate swap with Bank of America, N.A. had an outstanding notional amount of \$52,875,000 and had a positive fair value of \$138,000. As of June 30, 2007, the interest rate swap with UBS AG had an outstanding notional amount of \$52,850,000 and a positive fair value of \$142,000. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The counterparties were rated as follows as of June 30, 2007: Bank of America, N.A. (Aa1 by Moody's Investors Service, AA by Standard and Poor's and AA- by Fitch), and UBS AG (Aa2 by Moody's Investors Service, AA+ by Standard and Poor's, and AA+ by Fitch).

To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's, the swap agreement provides that the counterparty, the City, the bond insurer for the Bonds, and a third party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement.

Basis Risk. Another risk associated with the synthetic fixed rate swap is basis risk. This is the risk that as the City receives a floating rate index on the swap to offset the variable rate it pays on its underlying variable rate bonds, these two variable rate cash flows could potentially mismatch. The swap agreement provides that the payment received by the City shall be at 58% of 1-month LIBOR plus 35 basis points.

Termination Risk. An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the swap if the counterparty fails to perform under the terms of the contract. The City may also terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer if the counterparty's ratings fall below "A3" by Moody's Investors Service or "A-" by Standard and Poor's. The termination events are bilateral agreements between the City and the counterparties. If the swap is terminated, the variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt. The following table presents the estimated debt service requirements for the 2004 Lease Revenue Bonds. It is assumed that the interest rate on the 2004 Lease Revenue Bonds and the variable rate portion of the 2004 Swap (58% of

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

LIBOR) averages 3.750% through the maturity date of both the 2004 Series A Bonds and the Swap (August 21, 2026).

Year Ending June 30	Principal	Interest*	Net Interest Rate Swap Payment*	Total Debt Service
2008	\$ 3,575,000	\$ 4,059,280	\$ 34,814	\$ 7,669,094
2009	3,750,000	3,548,110	33,449	7,331,559
2010	3,875,000	3,762,008	32,390	7,669,398
2011	4,050,000	3,269,193	31,108	7,350,301
2012	4,175,000	3,432,921	29,768	7,637,689
2013	4,375,000	2,955,540	28,176	7,358,716
2014	4,525,000	2,805,999	26,939	7,357,938
2015	4,675,000	2,907,362	25,443	7,607,805
2016	4,875,000	2,459,849	23,896	7,358,745
2017	5,050,000	2,510,767	22,040	7,582,807
2018	5,275,000	2,090,214	20,612	7,385,826
2019	5,450,000	2,090,612	18,868	7,559,480
2020	5,675,000	1,687,532	17,065	7,379,597
2021	5,900,000	1,484,380	14,903	7,399,283
2022	6,125,000	1,401,229	13,235	7,539,464
2023	6,375,000	1,036,978	11,209	7,423,187
2024	6,600,000	886,995	9,100	7,496,095
2025	6,875,000	550,889	6,585	7,432,474
2026	7,125,000	334,431	4,642	7,464,073
2027	7,400,000	28,130	2,285	7,430,415
TOTAL	\$ 105,725,000	\$ 43,302,419	\$ 406,527	\$ 149,433,946

*Numbers of estimates; subject to change based on prevailing market conditions. The calculation above assumes to have a 3.750% interest rate and 3.556% swap rate.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2007, are as follows (in thousands):

Governmental Activities					
	Balance at July 1, 2006	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2007	Amounts due within one year
Bonds Payable:					
General obligation bonds	\$ 358,124	\$ -	\$ 12,910	\$ 345,214	\$ 13,686
Tax allocation bonds	319,115	229,295	33,935	514,475	17,845
Certificate of participation	49,154	-	3,359	45,795	5,300
Lease revenue bonds	346,110	-	21,005	325,105	21,925
Pension obligation bonds	341,475	-	27,850	313,625	30,920
City guaranteed special assessment district bonds	7,085	-	285	6,800	305
Accreted interest on appreciation bonds	85,884	20,019	1,547	104,356	-
Less deferred amounts:					
Bond insurance premiums	22,734	1,963	1,810	22,887	1,834
Bond refunding loss	(22,216)	(834)	(3,015)	(20,035)	(3,028)
TOTAL BONDS PAYABLE	1,507,465	250,443	99,686	1,658,222	88,787
Notes payable	17,940	-	850	17,090	810
Capital Leases	20,218	18,265	6,674	31,809	4,840
TOTAL NOTES & LEASES	38,158	18,265	7,524	48,899	5,650
Other Long-Term Liabilities					
Accrued vacation and Sick leave	33,709	54,517	54,625	33,601	25,563
Pledge obligation for					
Coliseum Authority debt	88,100	-	2,750	85,350	2,900
Estimated environmental cost	2,319	11,173	2,294	11,198	2,691
Self - Insurance worker's compensation	100,493	18,071	20,183	98,381	19,043
Estimated claims payable	44,945	9,663	11,010	43,598	14,178
TOTAL OTHER LONG-TERM LIABILITIES	269,566	93,424	90,862	272,128	64,375
TOTAL GOVERNMENTAL ACTIVITIES - LONG-TERM OBLIGATIONS	\$ 1,815,189	\$ 362,132	\$ 198,072	\$ 1,979,249	\$ 158,812

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At June 30, 2007, \$13,748,203 of capital leases related to the internal service funds are included in the above amounts.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Business-Type Activities

	Balance at July 1, 2006	Current maturities, retirements and net decreases	Balance at June 30, 2007	Amounts due within one year
Sewer fund - Notes payable	\$ 4,925	\$ 799	\$ 4,126	\$ 780
Sewer fund - Bonds	60,840	1,535	59,305	1,585
Unamortized Bond Premium	2,710	117	2,593	118
Total	68,475	2,451	66,024	2,483

Component Unit - Port of Oakland

	Balance at July 1, 2006	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2007	Amounts due within one year
Parity bonds	\$ 1,395,464	\$ -	\$ 25,392	\$ 1,370,072	\$ 32,633
Notes and Loans	156,632	45,000	3,266	198,366	184
Total	1,552,096	45,000	28,658	1,568,438	32,817
Self - Insurance worker's compensation	5,829	1,652	1,481	6,000	6,000
General Liability	3,986	4,620	3,859	4,747	-
Environmental Remediation & Others	6,618	6,717	1,511	11,824	1,311
Unamortized bond discount/ premium, net	(1,838)	715	1,639	(2,762)	843
Deferred loss on refunding	(4,856)	-	(363)	(4,493)	(363)
TOTAL DEBT	1,561,835	58,704	36,785	1,583,754	40,608

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Repayment Schedule

The annual repayment schedules for all long-term debt as of June 30, 2007, are as follows (in thousands):

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	Total
Governmental-type Activities:											
General obligation bonds:											
Principal	\$ 13,686	\$ 14,340	\$ 15,006	\$ 15,762	\$ 16,587	\$ 92,723	\$ 104,747	\$ 29,253	\$ 34,160	\$ 8,950	\$ 345,214
Interest	16,596	16,014	15,398	14,688	13,936	56,946	33,373	15,026	7,384	756	190,117
Certificate of participation:											
Principal	5,300	5,620	5,965	6,415	7,095	15,400	-	-	-	-	45,795
Interest	1,840	1,627	1,377	1,116	833	1,200	-	-	-	-	7,993
Lease revenue bonds:											
Principal	21,925	22,970	23,755	25,225	26,450	124,005	37,325	43,450	-	-	325,105
Interest	13,709	12,332	11,682	10,259	9,423	28,090	12,649	3,891	-	-	102,035
Pension obligation bonds:											
Principal	30,920	34,250	37,860	14,958	20,860	90,463	71,643	12,671	-	-	313,625
Interest	6,091	3,833	1,321	25,347	17,515	119,742	172,037	40,460	-	-	386,346
Special assessments bonds:											
Principal	305	315	340	345	365	1,685	1,980	1,465	-	-	6,800
Interest	360	342	325	307	287	1,153	664	116	-	-	3,554
Tax allocation bonds:											
Principal	17,845	17,230	16,865	18,680	19,665	102,145	132,310	61,470	55,530	72,735	514,475
Interest	22,633	28,774	27,824	26,843	29,561	101,660	72,379	41,776	27,757	10,139	389,346
Notes payable:											
Principal	810	1,435	2,015	2,180	2,355	8,295	-	-	-	-	17,090
Interest	1,051	995	936	871	799	1,572	-	-	-	-	6,224
Capital leases											
Principal	4,840	5,213	4,010	3,184	3,261	8,345	2,956	-	-	-	31,809
Interest	1,346	1,199	990	815	667	1,741	354	-	-	-	7,112
TOTAL PRINCIPAL	\$ 95,631	\$ 101,373	\$ 105,816	\$ 86,749	\$ 96,638	\$ 443,061	\$ 350,961	\$ 148,309	\$ 89,690	\$ 81,685	\$ 1,599,913
TOTAL INTEREST	\$ 63,626	\$ 65,116	\$ 59,853	\$ 80,246	\$ 73,021	\$ 312,104	\$ 291,456	\$ 101,269	\$ 35,141	\$ 10,895	\$ 1,092,727

The specific year for payment of the pledge obligation, environmental costs, estimated vacation, sick leave, workers' compensation, and estimated claims is not practicable to determine.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(continued)

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	Total
Business-type Activities:											
Sewer revenue bonds:											
Principal	\$ 1,585	\$ 1,630	\$ 1,710	\$ 1,800	\$ 1,885	\$ 10,935	\$ 13,815	\$ 17,610	\$ 8,335	\$ -	\$ 59,305
Interest	2,900	2,852	2,771	2,685	2,595	11,479	8,598	4,812	630	-	39,322
Sewer notes payable:											
Principal	780	806	833	860	274	573	-	-	-	-	4,126
Interest	135	109	82	54	25	26	-	-	-	-	431
TOTAL PRINCIPAL	\$ 2,365	\$ 2,436	\$ 2,543	\$ 2,660	\$ 2,159	\$ 11,508	\$ 13,815	\$ 17,610	\$ 8,335	\$ -	\$ 63,431
TOTAL INTEREST	\$ 3,035	\$ 2,961	\$ 2,853	\$ 2,739	\$ 2,620	\$ 11,505	\$ 8,598	\$ 4,812	\$ 630	\$ -	\$ 39,753

Component Unit - Port of Oakland

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2007, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2008	\$ 32,817	\$ 76,233	\$ 109,050
2009	23,655	75,562	99,217
2010	36,583	74,757	111,340
2011	236,101	67,118	303,219
2012	46,393	64,951	111,344
2013 - 2017	265,148	289,071	554,219
2018 - 2022	287,043	207,979	495,022
2023 - 2027	307,750	132,332	440,082
2028 - 2032	290,428	47,381	337,809
2033	42,520	1,063	43,583
SUB TOTAL	1,568,438	1,036,447	2,604,885
Unamortized bond (discount) premium, net	(2,762)	-	(2,762)
Self-insurance workers' compensation	6,000	-	6,000
General Liability	4,747	-	4,747
Environmental Remediation & Others	11,824	-	11,824
Deferred loss on refunding	(4,493)	-	(4,493)
TOTAL	\$ 1,583,754	\$ 1,036,447	\$ 2,620,201

In June 2007, the Port defeased \$5,500,000 of 2002 Series M Bonds due on November 1, 2007 and in August 2007 an additional \$10,000,000 of 2002 Series M Bonds due on November 1, 2008. Sufficient funds were deposited with the trustee and invested in State

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

and Local Government Series (SLGS) securities to pay both interest and principal on their respective due dates. The \$5,500,000 of 2002 Series M Bonds in June 2007 required the Port to increase the applicable reserve fund by \$2,125,000 as required by the Twelfth Supplemental Indenture.

Net interest costs of \$12,260,000 were capitalized in fiscal 2007. These amounts represented capitalized interest expense of \$18,644,000, net of interest revenue of \$6,384,000 for fiscal 2007.

Current Year Long-Term Debt Financings

City of Oakland Capital Lease - 450 Lancaster Building

On July 21, 2006, the City of Oakland closed a lease transaction with Bank of America in the principal amount of \$4,940,000 for the purpose of purchasing a building at 450 Lancaster Street (Oakland, CA). The 450 Lancaster building was financed in order to house the Oakland Museum's collections and artifacts. The financing is tax-exempt with a final maturity of August 1, 2021; the interest rate on this lease transaction is 5.30%.

City of Oakland Capital Lease - Parking Meters

On June 14, 2007, the City of Oakland closed a lease transaction with CitiCapital in the principal amount of \$4,520,000 for the purpose of purchasing multi-space pay and display parking meters ("Meters"). The Meters were financed in order to maximize the efficiency of short-term parking throughout the City of Oakland. The financing is tax-exempt with a final maturity of July 15, 2014; the interest rate on this lease transaction is 3.90%.

The City also entered into other capital leases during the year amounting to \$8,805,000.

Redevelopment Agency of the City of Oakland Central City East Redevelopment Project Tax Allocation Bonds Series 2006A-TE & Series 2006A-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued \$13,780,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE (the "Series 2006A-TE Bonds") and \$62,520,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-T (Federally Taxable) (the "Series 2006A-T Bonds"). The collective Series 2006A-TE Bonds and Series 2006A-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Central City East Redevelopment Project Area. The Series 2006A-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2034; the interest rates of these bonds range from 5.263% to 5.537%.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The Series 2006A-TE Bonds and Series 2006A-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central City East Redevelopment Project Area.

Redevelopment Agency of the City of Oakland
Coliseum Area Redevelopment Project Tax Allocation Bonds
Series 2006B-TE & Series 2006B-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$28,770,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE (the “Series 2006B-TE Bonds”) and \$73,820,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-T (Federally Taxable) (the “Series 2006B-T Bonds”). The collective Series 2006B-TE Bonds and Series 2006B-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Coliseum Area Redevelopment Project Area as well as to refund all of the outstanding Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003. The Series 2006B-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rates of these bonds range from 4.000% to 5.000%. The Series 2006B-T Bonds are federally taxable with a final maturity of September 1, 2035; the interest rates of these bonds range from 5.263% to 5.537%.

The Series 2006B-TE Bonds and Series 2006B-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Coliseum Redevelopment Project Area.

The refunding resulted in a cash flow savings of \$2,797,908. In addition, the Agency obtained a net economic gain on this financing of \$626,658.

Redevelopment Agency of the City of Oakland
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds
Series 2006C-TE & Series 2006C-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland (“Agency”) issued \$4,945,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE (the “Series 2006C-TE Bonds”) and \$12,325,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-T (Federally Taxable) (the “Series 2006C-T Bonds”). The collective Series 2006C-TE Bonds and Series 2006C-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Broadway/MacArthur/San Pablo Redevelopment Project Area. The Series 2006C-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

2006C-T Bonds are federally taxable with a final maturity of September 1, 2032; the interest rates of these bonds range from 5.283% to 5.587%.

The Series 2006C-TE Bonds and Series 2006C-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Broadway/MacArthur/San Pablo Redevelopment Project Area.

Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Bonds
Series 2006T (Federally Taxable)

On November 21, 2006 the Redevelopment Agency of the City of Oakland (“Agency”) issued \$33,135,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2006T (Federally Taxable) (the “Series 2006T Bonds”). The Series 2006T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency’s Central District Redevelopment Project Area. The Series 2006T Bonds are federally taxable with a final maturity of September 1, 2021; the interest rates of these bonds range from 5.252% to 5.411%.

The Series 2006T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central District Redevelopment Project Area.

Prior Year’s Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City’s government-wide financial statements. As of June 30, 2007, the amount of defeased debt outstanding but removed from the City’s government-wide financial statements amounted to \$93.5 million.

Authorized and Unissued Debt

The City has \$126.8 million (Measure DD) General Obligation Bonds authorized and unissued. The voters, in a City election on November 5, 2002, authorized these bonds. The bonds are to be issued by the City in general obligation bonds for the improvement of Lake Merritt, the Estuary, inland creeks, Studio One, and other specifically identified projects in the City.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Conduit Debt

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded. The conduit debt issued and outstanding at June 30, 2007, is (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2007</u>
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	\$ 64,425	01/01/29	\$ 63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/29	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	685
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1998	23,000	07/01/08	4,590
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	17,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc)	5,800	07/01/33	5,600
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
TOTAL			<u>\$ 267,820</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(13) GENERAL FUND UNRESERVED FUND BALANCE

The following designations reflect the City of Oakland's imposition of limitations on the use of the otherwise available expendable financial resources in the General Fund (in thousands).

Designations:

Pension obligations - PFRS	\$ 55,840
Carryforward for continuing projects	18,398
Lighting and Landscaping Assessment District gap funding	3,504
Oakland Convention & Visitors' Bureau	777
General Fund fiscal year 2008 budget allocation	8,419
Total designations	<u>86,938</u>
Unreserved/undesignated fund balance	<u>56,078</u>
Total General Fund unreserved fund balance	<u><u>\$ 143,016</u></u>

(14) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2007 and 2006 are as follows (in thousands):

Workers' Compensation

	<u>2007</u>	<u>2006</u>
Unpaid claim's, beginning of fiscal year	\$ 100,493	\$ 96,166
Current year claims and changes in estimates	18,071	21,039
Claims payments	<u>(20,183)</u>	<u>(16,712)</u>
Unpaid claim's, end of fiscal year (Note 12)	<u><u>\$ 98,381</u></u>	<u><u>\$ 100,493</u></u>

General Liability

	<u>2007</u>	<u>2006</u>
Unpaid claim's, beginning of fiscal year	\$ 44,945	\$ 43,099
Current year claims and changes in estimates	9,663	7,189
Claims payments	<u>(11,010)</u>	<u>(5,343)</u>
Unpaid claim's, end of fiscal year (Note 12)	<u><u>\$ 43,598</u></u>	<u><u>\$ 44,945</u></u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The above estimated undiscounted liability for claims and contingencies is based on the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expenses. The estimated liability is calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

Primary Government

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; employee's injuries; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents.

The City is self-insured for its general liability, workers' compensation, malpractice liability, general, and auto liability and has excess reinsurance with the California State Association of Counties – Excess Insurance Authority as described below.

Property Damage

Property damage risks are covered on an occurrence basis by commercial insurance purchased from independent third parties. All properties are insured at full replacement values after a \$25,000 deductible to be paid by the City. For the past three years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2007, the amount of liability determined to be probable of occurrence is approximately \$43,598,000. Of this amount, claims and litigation approximating \$14,178,000 are estimated to be due within one year. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The City and the Agency are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City, none of these claims are expected to have a significant impact on the financial condition of the City and the Agency or changes in financial position.

The City has not accumulated or segregated assets or reserved fund balance for the payment of estimated claims and judgments.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the \$98,381,000 in claims liabilities as of June 30, 2007, approximately \$19,043,000 is estimated to be due within one year.

Insurance Coverage

On July 15, 2002, the City entered into a contract with the California State Association of Counties - Excess Insurance Authority (CSAC EIA), a joint powers authority, whose purpose is to develop and fund programs of excess insurance for its member counties and cities. Self-insured retention levels and purchased insurance per occurrence are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance Retention</u>	<u>Insurance Authority/Purchase Insurance</u>
General Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence
Automobile Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence
Public Officials Errors and Omissions	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate
Products & Completed Operations	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate
Workers' Compensation	up to \$1,000,000	\$1,000,000 to \$100,000,000 per occurrence/annual aggregate

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of \$750,000 per accident. The Port carries commercial insurance for claims in excess of \$750,000 per accident up to a maximum limit per accident of \$1,000,000. There were no workers' compensation claims paid in fiscal years 2007, 2006, and 2005 above the \$1,000,000 per accident limit. The excess policy provides full statutory limits as established by California law.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on an actuarial

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

valuation performed as of June 30, 2007 and include an estimate of claims that have been incurred but not reported.

Changes in the reported liability resulted from the following (in thousands):

	<u>2007</u>	<u>2006</u>
Workers' compensation liability at beginning of fiscal year	\$ 5,829	\$ 4,600
Current year claims and changes in estimates	1,652	2,263
Claims payments	(1,481)	(1,034)
Workers' compensation liability at end of fiscal year	<u>\$ 6,000</u>	<u>\$ 5,829</u>

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the Airport, coverage is provided in excess of \$250,000 in the aggregate up to a maximum of \$200,000,000. For the harbor area and the Port's real estate holdings, coverage is provided in excess of \$1,000,000 per occurrence up to an aggregate amount of \$150,000,000 per occurrence. Additionally, the Port maintains a Public Officials Errors & Omissions and Employment Practices policy. The policy limits are \$25,000,000 with a \$450,000 per claim deductible. Defense costs are in addition to the policy limits, but are included in the deductible. The Port is uninsured for losses in excess of these amounts. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable.

As of June 30, 2007, the Port was a defendant in various lawsuits arising in the normal course of constructing public improvements or construction related claims for unspecified amounts. The ultimate disposition of these suits and claims is not known. The Port's insurance may cover a portion of any losses. For additional information, please contact the Port of Oakland, 530 Water Street, Oakland, California 94607.

Changes in the reported liabilities, which is included as part of accounts payable and accrued liabilities, follows:

	<u>2007</u>	<u>2006</u>
General liability at beginning of fiscal year	\$ 3,986	\$ 3,539
Current year claims and changes in estimates	4,620	3,544
Vendor payments	(3,859)	(3,097)
General liability at end of fiscal year	<u>\$ 4,747</u>	<u>\$ 3,986</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(15) JOINT VENTURE

Oakland-Alameda County Coliseum

The City is a participant with the County of Alameda (the County) in a joint exercise of powers agreement known as the Oakland-Alameda County Coliseum Authority (the Authority), which was formed on July 1, 1995, to assist the City and County in the financing of public capital improvements in the Oakland-Alameda County Coliseum Complex (Coliseum Complex) pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Oakland-Alameda County Coliseum Financing Corporation (the Corporation) is reported as a blended component unit of the Authority. The eight-member Board of Commissioners of the Authority consists of two council members from the City, two members of the Board of Supervisors from the County, two appointees of the City Council, and two appointees of the Board of Supervisors. The Board of Directors of the Corporation consists of the City Administrator and the County Administrator.

In August 1995, the Authority issued \$9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and \$188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders football franchise to the City.

On May 25, 2000, the Authority issued \$201,300,000 in series 2000 C and D Refunding Bonds to retire \$181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds (\$188,500,000 less \$6,600,000 principal payment). In February 2004, the 1995 Fixed Rate Refunding Lease Revenue Bond was fully repaid from the escrow established in 1995 at the time the Coliseum Authority issued the Stadium Bonds.

The Stadium Bonds are limited obligations of the Authority payable solely from revenues of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. The source of the Coliseum Authority's revenues relating to football games consists primarily of a portion of club dues, concession and parking payments. In the event that such football revenues and other revenues received in connection with the Stadium are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their respective General Funds. The City and the County each have covenanted to appropriate \$11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to \$22 million annually in the event of default by the County.

On August 2, 1996, the Authority issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(the Warriors) to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreements) between the Warriors, the City, the County, Coliseum Inc. and the Authority.

Under the Warriors Agreements, the Arena Bonds were limited obligations of the Authority, payable solely from base rental revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of base rental payments from the City and County and certain payments from the Warriors of up to \$7,428,000 annually from premium seating revenues, and other payments from Arena operations. If the revenues received from the Warriors and from Arena operations are not sufficient to cover the debt service requirements in any fiscal year, the City and County are obligated to make up the shortfall in the base rental payment from their respective General Funds. The City and the County each have covenanted to appropriate up to \$9,500,000 annually to cover such revenue shortfalls; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City could have to pay up to \$19,000,000 annually in the event of default by the County.

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with Oakland Coliseum Joint Venture and reinstated its Operating Agreement with Oakland-Alameda County Coliseum, Inc. Oakland-Alameda County Coliseum, Inc. subcontracted all of the operations of the Coliseum Complex to Oakland Coliseum Joint Venture. The Operating Agreement between the Coliseum Authority and Coliseum Inc. expired, by its terms, on July 31, 2006. The Authority entered into a Termination Agreement whereby, in return for certain consideration, the Authority agreed to perform the duties of Coliseum, Inc. on and after August 1, 2006.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management. The Court resolved the issues in this case in a summary judgment declaring that the Raiders could not terminate the license, among other things. Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. Prior to the trial, the Court dismissed the City, the County and the Coliseum Authority from the Fraud claims on summary judgment and Raider Management agreed to arbitrate all breach of contract claims, leaving Coliseum, Inc. as the only defendant at trial. At the conclusion of the trial, the jury found no liability on the fraud claims, but did award the Raiders damages of \$34,000,000 for negligent misrepresentation. This judgment has been entered only against Coliseum, Inc. Attorneys for the Oakland-Alameda County Coliseum, Inc. filed an appeal of that decision. On

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

November 17, 2006, the Third Appellate District of the California Court of Appeal overturned this entire verdict and ordered the Raiders to pay the Coliseum, Inc costs of the appeal. The Raiders and the Coliseum Inc subsequently agreed that the Raiders would waive all rights to further appeals in return for the Coliseums Inc waving the Raiders paying the costs of appeal.

Debt service requirements for the Coliseum Authority debt are as follows (in thousands):

For the Period Ending June 30,	Stadium Debt		Arena Debt	
	Principal	Interest	Principal	Interest
2008	\$ 5,800	\$ 6,289	3,100	7,575
2009	6,200	5,924	3,300	7,377
2010	6,700	5,563	3,600	7,166
2011	7,100	5,212	3,900	6,936
2012	7,500	4,951	4,100	6,687
2013-2017	43,400	20,458	25,400	29,101
2018-2022	54,500	12,089	35,600	19,738
2023-2026	39,500	2,332	38,900	6,491
Total	<u>\$ 170,700</u>	<u>\$ 62,818</u>	<u>\$ 117,900</u>	<u>\$ 91,071</u>

Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Oakland, CA 94612.

Under the joint exercise of power agreement, which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2007, the City made contributions of \$11,150,000 to fund its share of operating deficits and debt service payments of the Authority.

The Coliseum Authority has anticipated a deficit for operating costs and repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the \$20,500,000 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$10,946,000 for the 2007-08 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future; therefore, the City has established a liability to fund the Authority deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$85,350,000. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(16) PENSION PLANS

The City has three defined benefit retirement plans: Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS) and California Public Employees' Retirement System (PERS). PFRS and OMERS are closed plans that cover employees hired prior to July 1976 and September 1970, respectively. These two plans are considered part of the City's reporting entity and are included in the City's basic financial statements as pension trust funds. City employees hired subsequent to the plans' closure dates are covered by PERS, which is administered by the State of California.

Member and employer contributions are recognized in the period in which the contributions are due pursuant to formal commitments, as well as contractual or statutory requirements, and benefits and refunds are recognized when due and payable, in accordance with the terms of the plans.

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances which approximate the value of future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist.

	<u>PFRS</u>	<u>OMERS</u>	<u>PERS</u>
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 01, 2005	July 01, 2005	June 30, 2006

Significant actuarial assumptions

	<u>PFRS</u>	<u>OMERS</u>	<u>PERS</u>
Investment rate of return	8.0%	8.0%	7.75%
Payroll growth	3.0%	3.0%	3.25%
Inflation rate	3.5%	3.5%	3.00%

Police and Fire Retirement System (PFRS)

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter). The June 30, 2007, stand alone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City's consulting actuary. During the year ended June 30, 2007, these contributions ranged from 5.47% to 6.05%. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from PFRS upon termination of employment with the City.

The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do so, the City makes contributions at rates established by consulting actuaries based upon plan valuations using various assumptions as to salary progression, inflation, and rate of return on investments. The City's contributions are based on a level percentage of all uniformed employees' compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefits. The City issued pension obligation bonds in February 1997 to fund PFRS through 2011. Bond proceeds in the amount of \$417,173,300 were contributed in fiscal year 1997 and, as a result, no employer contributions are required through fiscal year 2011. In fiscal year 2005, the City made an advance contribution of \$17,709,888 to PFRS.

The City's actuaries do not make an allocation of the contribution amount between normal cost and the unfunded actuarial liability because the plan is closed. The actuarial calculations are based on the aggregate cost method and the asset valuation method is on the market value basis. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

The City's annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," for fiscal year ended June 30, 2007, were as follows:

Annual Required Contribution (ARC)	\$ -
Interest on pension asset	30,753,955
Adjustment to the annual required contribution	(39,154,478)
Pension contribution	-
Pension assets, beginning of year	384,424,437
Pension assets, end of year	<u>\$ 376,023,914</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2007 and each of the two preceding years:

Fiscal Year Ended	Annual	Percentage (%)	Net Pension
June 30	Pension Cost	Contributed	Asset
2005	\$ 10,833,004	164%	\$ 392,202,699
2006	7,778,262	-	384,424,437
2007	8,400,523	-	376,023,914

Annual contribution requirement, subsequent to receipt of pension obligation bond proceeds, is zero through the year 2011.

Oakland Municipal Employees Retirement System (OMERS)

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter. The June 30, 2007, stand alone financial statements are available by contacting by the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

All active non-uniformed City employees hired prior to September 1970 have transferred to CalPERS as of July 1, 2004. Accordingly, OMERS did not receive any employee contributions during the year ended June 30, 2007, and will not receive any employee contributions in the future. Because of the Retirement System current funding status, the City is currently not required to make contributions to OMERS. The actuarial calculations are computed using the "aggregate cost method" and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter.

California Public Employees Retirement Systems (PERS)

Plan Description

The City of Oakland contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street, Sacramento, CA 95814. A separate report for the City's plan is not available.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 17.479% for non-safety employees and 27.700% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2006-07, the City's annual pension cost of \$89,304,252 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (3.25% to 14.45%), and (c) payroll growth of 3.25%. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 20 year period.

Three-Year Trend Information for PERS
(in millions)

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 87.4	100%	\$ -
2006	95.0	100	-
2007	89.3	100	-

(17) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The City has three programs in place to partially pay health insurance premiums for certain classes of retirees from City employment.

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan on a pay-as-you-go basis. Approximately \$3,305,251 was paid on behalf of 870 retirees under this program for the year ended June 30, 2007.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

Primary Government

The City has committed to funding in the amount of \$82,483,064 to a number of capital improvement projects for fiscal year 2008 through fiscal year 2010.

Discretely Presented Component Unit

The Port anticipates spending \$855,362,000 commencing fiscal year 2008 through June 2010 for its capital improvement program. The most significant Aviation projects are the terminal renovation and retrofit; perimeter dike seismic upgrades; paving/reconstruction of parking, roadway, ground access, aprons and taxiways; and air cargo relocation. The most significant Maritime projects are the 50-foot channel deepening; 7th Street upgrade separation and relocation; and the modernization, expansion, and renovation of wharves and terminals.

Other major renovation and expansion projects are in the preliminary planning phase for the Aviation and Maritime Divisions. These projects will not be included in the Capital Improvement Program until they are determined to be feasible.

As of June 30, 2007, the Port had contracts for the acquisition and construction of assets as follows (in thousands):

Maritime	\$ 73,752
Aviation	81,958
Commercial real estate	280
Total	<u>\$ 155,990</u>

The most significant projects for which the Port has contractual commitments are airport terminal expansion of \$67,035,000; and modernization of maritime wharfs and terminals new cranes of \$42,427,000.

Power Purchases

The Port purchases electrical power for resale and self-consumption at the Airport, and at Port Maritime facilities located at the former Navy Fleet and Industrial Supply Center Oakland and the former Oakland Army Base. After power requirements are determined, the Port commits and enters into purchase contracts, in advance, with power providers. The price is fixed at the time the Port enters into the contract. At June 30, 2007, the total purchase commitment was approximately \$4,490,000 for 88 megawatts.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

Other Commitments and Contingencies

Primary Government

As of June 30, 2007, the Agency has entered into contractual commitments of approximately \$55,165,978 for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2007, the Agency was committed to fund \$48,842,846 in loans and had issued \$1,648,600 in letters of credit in connection with several low and moderate-income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the government carries commercial insurance. Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City is also liable for environmental remediation cost of about \$1,190,990 as of June 30, 2007 for the Agency's Uptown Project and its Edgewater Service Center.

Environmental Remediation

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA then, and subsequently the Agency and the Port are responsible for the first \$13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of \$13 million to pay for the above-mentioned environmental remediation costs including \$3.5 million insurance premium. Of the \$13.0 million grant, \$9.6 million has been spent of which \$9.0 million has been reimbursed and received as of June 30, 2007. The remaining \$3.4 million of grant expenditures will be shared equally between the Agency and the Port.

The next \$11.5 million of environmental remediation costs are to be shared equally by Agency and the Port. As a result, the Agency will have as its share in the remaining Oakland Army Base remediation costs, a total of \$7.4 million. The next \$9 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to \$30 million in additional environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21 million that are not covered by insurance.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

The Agency management believes that none of the estimated environmental remediation costs will cause the recorded amounts any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

Discretely Presented Component Unit

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health, safety and the environment. In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures.

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources.

The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues for a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods, current estimates of environmental liabilities could materially change, causing expense to the Port.

A summary of the environmental liability accounts, included within the financial statements at June 30, 2007, is as follows (in thousands):

Environmental remediation	\$ 11,731
Miscellaneous compliance	93
Total environmental liabilities	<u>\$ 11,824</u>

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(19) DEFICIT FUND BALANCES/NET ASSETS & EXPENDITURE OVER BUDGET

As of June 30, 2007, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue:	
ORA Projects	\$ (3,399)
State Gas Tax	(1,279)
Landscape & Lighting Assessment District	(2,545)
Debt Service:	
Lease Financing	(481)

The ORA projects fund deficit is expected to be cured by reimbursements from the Agency. The State Gas Tax and the Landscape & Lighting Assessment District will be cleared by transferring sufficient funds from the General Fund. The Lease Financing deficit will be cleared by transferring in sufficient funds to cover debt service payments.

Internal Service:	
Facilities	\$ (20,607)
Equipment	(1,841)
Central Stores	(3,731)

The City's facilities, equipment, central stores and radio funds deficits are expected to be funded through increased user charges for future years.

As of June 30, 2007, the following funds reported expenditures in excess of budgets (in thousands):

Special Revenue:	
Landscape & Lighting Assessment District	\$ (1,622)
Debt Service:	
Civic Improvement	(360)
JPFA Fund	(271)

The Civic Improvement and JPFA Fund had a negative expenditure due to variable interest expense budget on cash basis while the actual amount was calculated on accrual basis. The excess of expenditures of budget in Landscape & Lighting Assessment District is attributed to ongoing project costs that will eventually be distributed to their appropriate funding sources or offset by reimbursements from FEMA for the winter storms disasters.

CITY OF OAKLAND
Notes to Basic Financial Statements, (continued)
Year Ended June 30, 2007

(20) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 12, 2007, the City issued the 2007-2008 Tax and Revenue Anticipation Notes in the principal amount of \$141,880,000. These notes were issued in two series. The Series A Notes, in the principal amount of \$65,000,000, were issued to finance General Fund expenditures; Series A Notes are tax-exempt with an interest rate of 4.50%. The Series B Notes, in the principal amount of \$76,880,000, were issued to prepay the City's annual contribution to the California Public Employees Retirement System for fiscal year 2007-2008; Series B Notes are taxable with an interest rate of 5.38%. Both series of notes will mature on July 11, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OAKLAND
Required Supplementary Information
(unaudited)
June 30 2007

PERS ACTUARIAL VALUATION
SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The required contribution was determined as part of the actuarial valuation using the entry age normal actuarial cost method.

PUBLIC SAFETY RETIREMENT PLAN (POLICE AND FIRE)

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2004	\$ 730,092,603	\$ 529,461,015	\$ 200,631,588	72.5%	\$ 115,452,259	173.8%
2005	820,642,031	602,422,608	218,219,423	73.4%	122,893,613	177.6%
2006	907,421,303	678,599,629	228,821,674	74.8%	124,174,590	184.3%

MISCELLANEOUS RETIREMENT PLAN

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2004	\$ 1,259,667,702	1,066,027,320	193,640,382	84.6%	216,320,251	89.5%
2005	1,397,236,509	1,156,704,781	240,531,728	82.8%	206,261,519	116.6%
2006	1,507,980,747	1,250,681,091	257,299,656	82.9%	217,024,554	118.6%

CITY OF OAKLAND
Notes to Required Supplementary Information
June 30, 2007

(1) BUDGETARY DATA

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. The City Charter prohibits expending funds for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds.

Prior to July 1, the original adopted budget is finalized through the passage of a resolution by the City Council. The level of legal budgetary control by the City Council is established at the fund level. For management purposes, the budget is controlled at the departmental level of expenditure within funds.

In June 2005, the City Council approved the City's two-year budget for fiscal years 2005-07. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The final budgetary data presented in the required supplementary information reflects approved changes to the original 2006-07 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Administrator.

Transfers of appropriations between funds must be approved by the City Council. Supplemental appropriations financed by unanticipated revenues must be approved by the City Council.

Transfers of appropriations between projects within the same fund must be approved by the City Administrator. Final budget amounts reported in the required supplementary information reflect both the appropriation changes approved by the City Council and the transfers approved by the City Administrator.

CITY OF OAKLAND
Notes to Required Supplementary Information
June 30, 2007

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP except as to certain investment earnings.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds that are excluded from budgetary reporting are:

Major Funds

- Federal and State Grants
- Oakland Redevelopment Agency
- Municipal Capital Improvement

Nonmajor Funds

- Special Revenue Funds
 - ORA Projects
 - Parks and Recreation and Cultural

While the City adopts budgets for all funds, the budget to actual comparisons for proprietary and fiduciary funds are not presented because some projects and programs are adopted on a multi-year basis.

CITY OF OAKLAND
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 157,397	\$ 161,821	\$ 170,105	\$ 8,284
State:				
Sales and use	44,412	44,412	46,690	2,278
Motor vehicle in-lieu	2,134	2,134	2,268	134
Local:				
Business license	47,799	47,799	50,339	2,540
Utility consumption	51,457	51,457	51,426	(31)
Real estate transfer	63,231	63,231	61,505	(1,726)
Transient occupancy	10,237	10,237	12,303	2,066
Parking	8,996	8,996	8,892	(104)
Franchise	12,908	12,908	13,010	102
Licenses and permits	1,301	1,301	1,066	(235)
Fines and penalties	25,426	25,426	24,727	(699)
Interest and investment income	-	-	6,469	6,469
Charges for services	57,849	58,031	55,837	(2,194)
Federal and state grants and subventions	1,396	1,969	7,051	5,082
Annuity income	13,500	13,500	9,324	(4,176)
Other	17,090	17,613	15,116	(2,497)
TOTAL REVENUES	<u>515,133</u>	<u>520,835</u>	<u>536,128</u>	<u>15,293</u>
EXPENDITURES				
Current:				
Elected and Appointed Officials-				
Mayor	2,185	2,437	2,745	(308)
Council	4,909	4,660	3,701	959
City Manager	10,428	11,302	11,089	213
City Attorney	8,818	9,325	9,365	(40)
City Auditor	1,361	1,382	1,043	339
City Clerk	2,338	2,807	2,757	50
Agencies/Departments:				
Personnel Resource Management	4,959	5,685	5,232	453
Information Technology	8,888	8,950	9,339	(389)
Financial Services	25,647	26,599	24,631	1,968
Police Services	185,492	190,526	195,206	(4,680)
Fire Services	106,793	107,894	101,184	6,710
Life Enrichment:				
Parks and Recreation	14,766	17,099	15,285	1,814
Library	12,103	12,432	11,799	633
Cultural Arts and Museum	6,269	6,403	6,595	(192)
Aging & Health and Human Services	6,644	8,002	6,336	1,666
Community and Economic Development	3,347	6,615	2,780	3,835
Public Works	41,935	44,038	33,595	10,443
Other	5,008	8,533	9,162	(629)
Capital outlay	19	4,748	14,885	(10,137)
Debt service:				
Principal repayment	832	832	832	-
Bond issuance costs	-	32	172	(140)
Interest charges	411	550	550	-
TOTAL EXPENDITURES	<u>453,152</u>	<u>480,851</u>	<u>468,283</u>	<u>12,568</u>
EXCESS OF REVENUES OVER EXPENDITURES	61,981	39,984	67,845	27,861
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	375	17,283	16,908
Property sale proceeds	147	277	328	51
Transfers in	49,176	50,940	2,857	(48,083)
Transfers out	(96,607)	(108,624)	(93,463)	15,161
TOTAL OTHER FINANCING USES, NET	<u>(47,284)</u>	<u>(57,032)</u>	<u>(72,995)</u>	<u>(15,963)</u>
NET CHANGE IN FUND BALANCE	14,697	(17,048)	(5,150)	11,898
Fund balances - beginning	293,522	293,522	293,522	-
FUND BALANCES - ENDING	<u>\$308,219</u>	<u>\$ 276,474</u>	<u>\$ 288,372</u>	<u>\$ 11,898</u>

The notes to the required supplementary information are an integral part of this schedule.

CITY OF OAKLAND
Notes to Required Supplementary Information
June 30, 2007

(2) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The governmental fund financial statements have been prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The “Budgetary Comparison Schedule – General Fund” has been prepared on a budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget to actual comparison schedule in accordance with the budgetary process (Budgetary Basis) to provide a meaningful comparison with the budget.

The main difference between Budgetary Basis “actual” and GAAP basis is a timing difference:

In October 2001, the City entered into a debt service deposit agreement with a third party whereby the City received approximately \$9.6 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal year 2002 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 21-year life of the agreement. Amortization for the year ended June 30, 2007, was \$538,093.

The following schedule is a reconciliation of the GAAP and budgetary results of operations (in thousands):

	General Fund
Net change in fund balance – budgetary basis	<u>\$ (5,150)</u>
Amortization of debt service deposit agreement	<u>538</u>
Net change in fund balance – GAAP basis	<u><u>\$ (4,612)</u></u>

CITY OF OAKLAND
Notes to Required Supplementary Information
June 30, 2007

The General Fund's fund balance on a Budgetary Basis is reconciled to that on a GAAP basis as of June 30, 2007, which is as follows (in thousands):

	General Fund
Fund Balance, June 30, 2007 - Budgetary Basis	\$ 288,372
Unamortized debt service deposit agreement	(6,465)
Fund Balance, June 30, 2007 – GAAP Basis	\$ 281,907

General Fund Budgetary Basis Fund Balance at June 30, 2007, is composed of the following (in thousands):

	General Fund
Reserved:	
Encumbrances	\$ 7,440
Debt service	16,451
Pension obligations	115,000
Unreserved reported in:	
General fund	143,016
TOTAL FUND BALANCES	\$ 281,907

FEDERAL AWARDS PROGRAMS



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The Honorable Mayor and Members
Of the City Council
City of Oakland, California

**INDEPENDENT AUDITOR'S 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***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 4, 2007. We did not audit the financial statements of the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent 70.1%, 73.7% and 26.8%, respectively, of the assets, net assets/fund balances, and revenues/additions as of and for the year ended June 30, 2007. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-A and 2007-B to be significant deficiencies in internal control over financial reporting.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 4, 2007.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

December 4, 2007



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The Honorable Mayor and Members
of the City Council of Oakland
City of Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Oakland, California (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), which expended \$35,650,444 in federal awards, that are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2007. Our audit of compliance, described below, did not include the operations of the Port because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-01.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-01 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or the passenger facility charges program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described above to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Certified Public Accountants
Walnut Creek, California

December 18, 2007

**CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2007**

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the State of California Department of Education-				
Child and Adult Care Food Program	10.558	01-1135-1J	460,765	-
Summer Food Service Program for Children	10.559	01-80102V	170,208	109,018
TOTAL U.S. DEPARTMENT OF AGRICULTURE			630,973	109,018
U.S. DEPARTMENT OF COMMERCE				
Economic Adjustment Assistance Grant	11.307	27-01-05-253	1,247,442	-
TOTAL U.S. DEPARTMENT OF COMMERCE			1,247,442	-
U.S. DEPARTMENT OF DEFENSE				
Community Economic Adjustment Planning Assistance-				
Military Base Conversion	12.607	C749-03898	3,493	-
Environmental Services Cooperative Agreement	12.UNKNOWN	DASW01-02-2-0004	2,670,956	593,532
TOTAL U.S. DEPARTMENT OF DEFENSE			2,674,449	593,532
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
Community Development Block Grants/ Entitlement Grants	14.218	B-01-MC-06-0013 B-81-AA-06-0038(4)	13,443,103 466,752 13,909,855	5,624,358 - 5,624,358
Emergency Shelter Grants Program	14.231	S02-MC-06-0013 S05-MC-60-0013 S06-MC-03-0013	104,111 85,408 12,320 201,839	103,657 85,027 - 188,684
Supportive Housing Program	14.235	CA01B502027-CA5063 CA01B402025-CA5065 CA-10B4012002 CA-01B202026-CA5089 CA01B402024-CA5089 CA01B502018-CA5080	167,223 2,091,257 276,080 724 95,621 142,943 2,773,848	162,331 2,040,856 238,260 - 95,621 138,063 2,675,131
HOME Investment Partnerships Program	14.239	M01-MC060208 Agreement M99-MC60208	142,327 7,663,917 397,640 8,203,884	- 49,113 - 49,113
Housing Opportunities for Persons with Aids	14.241	CA-H03-F001 CAH04F001 CAH05F001	174,886 442,373 275,907 893,166	155,357 442,373 233,811 831,541
Community Development Block Grants/Brownfield Economic Development Initiative	14.246	B94-MC-06-0013-A/	4,204,755	58,974
Community Development Block Grants/ Section 108 Loan Guarantees	14.248	B93-MC-06-0013	373,698	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALAG0033-95	2,909	2,909
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			30,563,954	9,430,710

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2007**

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF THE INTERIOR				
Urban Park and Recreation Recovery Program	15.919	06CTY24800201	427,800	-
TOTAL U.S. DEPARTMENT OF THE INTERIOR			427,800	-
U.S. DEPARTMENT OF JUSTICE				
Offender Reentry Program	16.202	2002RE-CX-0055	12,294	-
Law Enforcement Assistance	16.220	Agreement	30,128	22,335
Service for Trafficking Victims	16.320	2005-VT-BX0009	146,351	44,000
Title V Delinquency Prevention Program	16.548	NONE	215	-
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	CQ3027503 2004-DN-BX-K077	8 41 49	- - -
Federal Surplus Property Transfer Program-	16.578	CA0010900	223,926	86,077
Local Law Enforcement Block Grants Program	16.592	98-LB-VX-2565	1	-
Community Capacity Development Office	16.595	2002-WS-QX-0091 2005-WS-Q5-0231 2006-WS-Q6-0163 2006-WS-Q6-0063	92,347 22,176 160,666 123,807 398,996	34,900 4,541 60,249 31,642 131,332
BulletProof Vest Partnership Program	16.607	2001BVP NONE	16,343 6,457 22,800	- - -
Public Safety Partnership and Community Policing Grants	16.710			
COPS More 98 Award		2001ULWX0022 2002CKWX0237	650,000 93	- -
COPS Secure in School		98CLWX0160	537,443	426,564
			1,187,536	426,564
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Alameda County Assistance Consortium	42,264	-
Forensic DNA Capacity Enhancement Program	16.741	2005-DA-BX-K024 2006-DN-BX-K159	22,945 136,325 159,270	- - -
Forensic Casework DNA Backlog Reduction	16.743	2004-DN-BX-K051 2005-DN-BX-K066 2006-DN-BX-K122	5,431 28,654 8,170 42,255	- - - -
TOTAL U.S. DEPARTMENT OF JUSTICE			2,266,085	710,308

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2007**

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF LABOR				
Passed Through the Senior Service America, Inc. Senior Community Service Employment Program	17.235	SSAI Agreement	1,120,991	-
Passed Through the State of California Employment Development Department-				
WIA Adult Program	17.258	R069124	1,238,883	11,788
		NONE	140,004	-
		R760339	1,606,471	1,606,471
		R692491	196,619	196,619
			278,233	26,302
			<u>3,460,210</u>	<u>1,841,180</u>
WIA Youth Activities	17.259	R760339	1,468,490	1,468,490
		R292491	17,953	-
			<u>1,486,443</u>	<u>1,468,490</u>
WIA Dislocated Workers	17.260	R760339	1,172,620	1,172,620
		R588740	9,119	9,119
		R692491	618,569	614,872
			<u>1,800,308</u>	<u>1,796,611</u>
Total WIA Cluster			<u>6,746,961</u>	<u>5,106,281</u>
Youth Opportunity Grants	17.263	AF-14153-04-60	125,804	123,221
TOTAL U.S. DEPARTMENT OF LABOR			<u>7,993,756</u>	<u>5,229,502</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the State of California Department of Transportation-				
Highway Planning and Construction:	20.205			
Lake Merritt Canal Bridge		STPL-5012 (037)	330,894	-
Jackson Street Operation		CML- 5012(037)	160,827	-
Mandela Parkway TEA		STPL-5012 (065)	17,882	4,500
Acorn-Presscott		CML-5012 (041)	65,083	-
Sidewalk Repair STPL		STPL-5012(047)	111,970	-
Sidewalk Repair STPL		STPL-5012 (062)	712,896	-
Bridge Prevention Maintenance Plan		BPMP-5012 (079)	12,343	-
Tunnel Rd Haz Mitigation		STPL 5012 (077)	32,352	-
Seismic Retrofit - Three Bridges		BRLZ-5012 (002)	1,006	-
Bridges- Hegenberger Seismic		STPLZ-5012 (025)	75,293	-
Bridges -Park, Leimert Seismic		STPLZ-5012 (025)	25,881	-
Bridges - 4 Seismic Retrofit		STPLZ 5012 (028)	27,412	-
Hegenberger Rd		ALAAAL2 -9800004	14	-
Embarcadero Bike		97ALA16	9	-
7TH St Rehabilitation		STPLDB 5012 (036)	3	-
HESP-Telegraph and 27th		STPLH 5012 (29 &40)	62	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>1,573,927</u>	<u>4,500</u>
ENVIRONMENTAL PROTECTION AGENCY				
Brownfields Training Research and Cleanup Cooperative Agreements	66.811	BP989136-01-0	52	-
		BF 96901010	4,504	-
		BL98968501-0	271,594	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>276,150</u>	<u>-</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2007**

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF EDUCATION				
Passed Through the State of California State Library-				
Even Start: State Educational Agencies	84.213	E-116-02 E-116-03	116 174,934	- -
TOTAL U.S. DEPARTMENT OF EDUCATION			175,050	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Funding:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	6 U79SM56051-02-1 1U79 SM56051-01 6 U79 SM56051-04-01	76 637,062 517,712	- 588,427 467,011
			<u>1,154,850</u>	<u>1,055,438</u>
Head Start	93.600	09CH9006/36 09CH9006/35	13,528,575 938,698	4,735,872 295,928
			<u>14,467,273</u>	<u>5,031,800</u>
Passed Through the State of California Department of Economic Opportunity: National Family Caregiver Support	93.052	Agreement SE05-159	14,825 3,098	- -
			<u>17,923</u>	<u>-</u>
Passed Through the State of California Department of Community Service and Development: Community Services Block Grant	93.569	06F-4790 06F-4703 05F-4629	9,242 692,727 366	- 263,459 -
			<u>702,335</u>	<u>263,459</u>
Passed Through the State of California Department of Aging: Medical Assistance Program (Medicaid)	93.778	MS-0405-01 MS-0506-01 MS-0607-01	182 22,252 1,719,861	- - 331,685
			<u>1,742,295</u>	<u>331,685</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			18,084,676	6,682,382
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
Foster Grandparent Program	94.011	03SFPCA010	31,686	-
Senior Companion Program	94.016	03SCPCA007 06SCPCA05	2,909 299,914	- -
			<u>302,823</u>	<u>-</u>
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			334,509	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Urban Areas Security Initiative	97.008	2004-14 OESID# 001- 53000 2005-15	7,051,112 4,491,814	6,225,018 2,389,702
			<u>11,542,926</u>	<u>8,614,720</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2007**

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (Continue)				
National Urban Search and Rescue (US&R) Response System	97.025	EMW-2003-CA-0300 2005-15	16,835 798,783 <u>815,618</u>	- 235,635 <u>235,635</u>
Disaster Grants - Public Assistance	97.036	FEMA 1628 DR CA OES ID 001-53000 OES 98-01-089	911,287 118,662 <u>1,029,949</u>	- - -
Metropolitan Medical Response System	97.071	EMW 2004-GR-0606 282-99-0033 2003-0167	137,486 94,829 170,293 <u>402,608</u> <u>2,248,175</u>	- - - - <u>235,635</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>13,791,101</u>	<u>8,850,355</u>
TOTAL FEDERAL AWARDS			<u>\$ 80,039,872</u>	<u>\$ 31,610,307</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Note 1 – General

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all federal award programs of the City of Oakland, California (City) for the year ended June 30, 2007, except as described in Note 4 below. The City’s reporting entity is defined in Note 1 to the City’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants as described in Note 2 to the City’s basic financial statements.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City’s basic financial statements as expenditures in the general and special revenue funds.

Note 4 – Federal Expenditures of the Port of Oakland not included in the SEFA

The Port of Oakland’s (Port) federal expenditures are excluded from the SEFA because such expenditures are reported separately. Expenditures for the programs of the Port listed below are taken from the separate single audit report. The programs of the Port are as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Defense		
Oakland Base Reuse Authority	12-UNKNOWN	\$ 21,573,089
Department of Transportation		
Airport Improvement Program	20.106	13,005,310
Port Security Grant	20.401	816,685
Total Department of Transportation		13,821,995
US Department of Homeland Security		
Homeland Security Grant Program	97.056	255,360
Total Federal Expenditures		\$ 35,650,444

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Note 5 – Loans Outstanding

The City participates in certain federal award programs of the U.S. Department of Housing and Urban Development (HUD) that sponsor revolving loan and loan guarantee programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. These repayments are made available for new loans. Of these revolving loan and loan guarantee programs, the HOME Investment Partnerships Program (CFDA No. 14.239) is the only loan program with continuing compliance requirements. The outstanding loans receivable balance at June 30, 2007 for this program is \$33,343,700.

CITY OF OAKLAND
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2007

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number	Program name
11.307	Economic Adjustment Assistance
12-UNKNOWN	Environmental Services Cooperative Agreement
14.235	Supportive Housing Program
14.246	Economic Development Initiative Grant
16.710	Public Safety Partnership and Community
20.205	Policing Grants
	Highway Planning and Construction
93.600	Head Start
97.008	Urban Areas Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,401,196
Auditee qualified as low-risk auditee?	Yes

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section II – Financial Statement Findings

2007-A - Recording Perspective Differences Between the City and the ORA

The City advanced funds to the Oakland Redevelopment Agency (the Agency), which in turn were used to make loans for redevelopment projects. The City decided to record an allowance for uncollectible loans to the Agency since they were determined likely to be uncollectible. The amounts that remain recorded on the books of the Agency represent perspective differences in the financial statements reported by the City compared to the stand-alone financial statements reported by the Agency. The Agency reports the interfund borrowing as a government-wide long-term liability, while the City discloses the loans in the footnotes but does not record them. These differences were not captured accurately in the City's financial statements.

The City has recorded an entry to correct the presentation of the loans made to the Agency and the remaining perspective difference at June 30, 2007 was approximately \$429,000.

We recommend the City establish a process as part of the year-end close for capturing changes in the perspective differences and recording them accurately in the financial statements.

Management Response:

Management acknowledges the finding and the correction was made accordingly. The Accounting Division staff of the Finance and Management Agency will include the reconciliation of the perspective difference between the City and the Agency in its year end closing schedule.

2007-B - Internal Service Funds

The City reports five internal service funds, Equipment, Radio, Facilities, Reproduction and Central Stores. Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles permit the use of internal service funds to be used to report any activity that provides goods or services to the government on a cost reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Therefore, if the City does not intend to recover the full cost of providing goods or services, then the use of internal service funds would not be appropriate.

We are becoming increasingly concerned with the growth in both the deficits of certain internal service funds and the interfund loans used to support those services. The City's General Fund has loaned \$39,719,000 to the Equipment, Facilities and Central Stores internal service funds in order to cover the shortfall of charges to the General Fund, which have not adequately covered the operating and capital costs. The internal service funds have basically borrowed money to cover its full costs, as opposed to charging the departments using the services. The current loan balance from the General Fund represents an increase of \$5,110,000 from a year ago and \$9,583,000 from two years ago, as the amount loaned as of June 30, 2005 was \$30,136,000.

The City has attempted to cure the internal service fund deficits by increasing the charges to the departments; however, those increases have not kept up with the increases in actual costs. The Equipment, Facilities and Central Stores internal service funds have net asset deficits of \$1,841,000, \$20,607,000 and \$3,731,000, respectively.

CITY OF OAKLAND
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2007

We recommend the City review its current budget repayment plan and revise it to cure the deficit over a reasonable period of time, such as three to five years.

Management Response:

The City adopted FY 2007-09 policy budget which includes a rebalancing plan for internal service funds to be achieved by FY 2014-15. Management will review the rebalancing plan during the Mid-Cycle budget review and recommend appropriate adjustments for City Council's consideration.

Section III Federal Award Findings and Questioned Costs

2007-01 Negative Expenditure Balances
 Highway Planning and Construction (CFDA # 20.205)
 U.S. Department of Transportation
 Pass through the State of California, Department of Transportation

In the process of reconciling the federal expenditures reported in the SEFA to the City's general ledger, we noted projects that had negative expenditures. These negative amounts relate to recording of 100% of project costs as federal expenditures rather than splitting costs between federal and other funding sources, such as local matching. This method of recording project costs causes the federal portion of expenditures to be overstated until the matching calculation is made and recorded. Total negative expenditures for FY2007 amounted to \$1,509,748 and corresponded to the following projects:

PROJECT	DESCRIPTION	CFDA No.	AMOUNT
H954XX	3RD ST EXTENSION	20.205	(204,322)
H95510	PANORAMIC WAY SLIDE	20.205	(489,410)
H95610	MONTEREY BLVD	20.205	(666,552)
H9811X	ADA/TRAFFIC (ISTEA)-MEDIA	20.205	(149,464)
			(1,509,748)

Questioned Costs:

None. The City properly calculates the federal portion of the project costs before submitting reimbursement requests to the Department of Transportation.

Recommendation:

The departments with programs and grants that have matching requirements should use a separate account or project code to record the local match at the time of the transaction, rather than recording the matching during the closing of the projects.

Management Response:

The management of these grants has been transferred from the Public Works Agency to the Community and Economic Development Agency (CEDA) as a result of an organizational restructuring approved by City Council in the FY 2007-08 policy budget. CEDA plans to allocate the grant expenditures between grant funds and local matching funds as well as grant revenues on a monthly basis to prevent these negative balances.

CITY OF OAKLAND
Summary Schedule of Prior Audit Finding
For the Year Ended June 30, 2007

Reference Number: 2006-01

Federal Catalog Number: 20.205

Audit Finding: The schedule of expenditures of federal awards provided to the auditors, reported a net negative balance of \$836,226 as current year expenditures for the Highway Planning and Construction grant

Status of Corrective Action: See current year finding number 2007-01

Reference Number: 2006-02

Federal Catalog Number: 93.600

Audit Finding: During our testing of internal controls over payroll, we noted that, out of a sample size of 42, 2 employees did not have an approving signature from the department supervisor on the time cards

Status of Corrective Action: The City implemented a new system in May 2006 which will electronically require supervisor review and approval of timecard reporting before any payroll disbursements can be made. This program was tested in the current year and no findings were noted.

Reference Number: 2006-03

Federal Catalog Number: 93.600

Audit Finding: During our eligibility testing, we noted that, out of the sample size of 40, 2 enrollment applications do not have the "Parent/Guardian Signature", which is required as part of the enrollment application

Status of Corrective Action: The Recruitment Coordinator conducted a desk-top audit to ensure that proper signatures are on each application. This program was tested in the current year and no findings were noted.

Reference Number: 2006-04

Federal Catalog Number: 15.919

Audit Finding: During our review of contracts between the City and its primary contractors, we noted that the prevailing wage rate clause in the agreements only pertain to the primary contractor and its employees and does not include any representation on the primary contractor's subcontractors.

Status of Corrective Action: Corrected

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) - CFDA NO. 93.569
CONTRACT NO. 06F-4703, PROJECT NO. G265020
For the Period January 1, 2007 to June 30, 2007

	<u>Actual</u>	<u>Total Reported ¹</u>	<u>Total Budget</u>
Revenue			
Grant Amount	\$ 250,292	\$ 250,292	\$ 333,735
Interest Income	-	-	-
Total Revenue	<u>\$ 250,292</u>	<u>\$ 250,292</u>	<u>\$ 333,735</u>
Expenditures			
Personnel Costs:			
Salaries and Wages	\$ 91,907	\$ 119,168	\$ 93,652
Fringe Benefits	46,298	49,634	47,656
Subtotal Personnel Costs	<u>138,205</u>	<u>168,802</u>	<u>141,308</u>
Non-Personnel Costs:			
Travel	8,536	8,647	7,500
Consumable Supplies	1,042	9,058	1,750
Equipment Lease/Purchase	-	-	-
Consultant Services	-	-	10,000
Sub-Contractors	77,804	88,626	155,439
Other Costs	48,881	6,628	17,738
Subtotal Non-Personnel Costs	<u>136,263</u>	<u>112,959</u>	<u>192,427</u>
Total Expenditures	<u>\$ 274,468</u>	<u>\$ 281,761</u>	<u>\$ 333,735</u>

¹ - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2007 to June 30, 2007.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) - CFDA NO. 93.569
CONTRACT NO. 06F-4703, PROJECT NO. G265010
For the Period January 1, 2006 to June 30, 2007

	<u>Jan. 1, 2006 through June 30, 2006</u>	<u>July 1, 2006 through Dec. 31, 2006</u>	<u>Jan. 1, 2007 through June 30, 2007</u>	<u>Total Actual</u>	<u>Total Reported ¹</u>	<u>Total Budget</u>
Revenue:						
Grant Amount	\$ 216,545	\$ 172,043	\$ 263,870	\$ 652,458	\$ 674,640	\$ 674,640
Interest Income	-	-	-	-	-	-
Total Revenue	<u>\$ 216,545</u>	<u>\$ 172,043</u>	<u>\$ 263,870</u>	<u>\$ 652,458</u>	<u>\$ 674,640</u>	<u>\$ 674,640</u>
Expenditures:						
Personnel Costs:						
Salaries and Wages	\$ 91,895	\$ 101,017	\$ 22,597	\$ 215,509	\$ 199,523	\$ 187,302
Fringe Benefits	45,057	46,560	5,572	97,190	88,201	95,312
Subtotal Personnel Costs	<u>136,952</u>	<u>147,577</u>	<u>28,169</u>	<u>312,699</u>	<u>287,724</u>	<u>282,614</u>
Non-Personnel Costs:						
Travel	3,055	5,920	15	8,990	11,997	15,000
Consumable Supplies	104	798	771	1,673	-	3,500
Equipment Lease/Purchase	-	-	-	-	-	-
Consultant Services	-	-	-	-	9,050	10,000
Sub-Contractors	99,111	121,264	72,534	292,909	327,300	328,051
Other Costs	17,486	30,914	10,297	58,697	38,569	35,475
Subtotal Non-Personnel Costs	<u>119,756</u>	<u>158,896</u>	<u>83,617</u>	<u>362,269</u>	<u>386,916</u>	<u>392,026</u>
Total Expenditures	<u>\$ 256,708</u>	<u>\$ 306,473</u>	<u>\$ 111,786</u>	<u>\$ 674,968</u>	<u>\$ 674,640</u>	<u>\$ 674,640</u>

1 -The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2006 to June 30, 2007.

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF
ALAMEDA COUNTY AWARDS
For the year ended June 30, 2007**

<u>ALAMEDA COUNTY AWARD/PROGRAM TITLE</u>	<u>CONTRACT NUMBER</u>	<u>EXHIBIT/PO NUMBER</u>	<u>EXPENDITURES</u>
DEPARTMENT OF ADULT & AGING SERVICES			
Information and Assistance	C-93-1058	SE06-170	\$ 43,609
Linkages/Respite	C-93-1058	SE06-206	225,186
	C-93-1058	SE06-206	(35,801)
Senior Companion Program - FY04-05	C-93-1057	SE05-157	3,394
Senior Companion Program - FY05-06	C-93-1058	SE06-207	356
Senior Companion Program - FY06-07	C-93-1058	SE06-207	<u>21,742</u>
TOTAL DEPARTMENT OF ADULT & AGING SERVICES			<u>258,486</u>
HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT			
Winter Shelter Program	C2004-799	N/A	16,130
	C2007-854	N/A	<u>157,250</u>
TOTAL HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT			<u>173,380</u>
DEPARTMENT OF PUBLIC WORKS			
CNG Fueling Station, Oakland Program	CONTRACT	03-ALA-08	<u>225,569</u>
TOTAL DEPARTMENT OF PUBLIC WORKS			<u>225,569</u>
PUBLIC HEALTH DEPARTMENT			
Tobacco Control Program - FY 2006-06	CONTRACT	PHSVC-2917	<u>8,426</u>
TOTAL DEPARTMENT OF PUBLIC HEALTH			<u>8,426</u>
DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION			
Henry J. Robinson Multi-Service Center	C2002-552	SE06-MO44	<u>178,327</u>
TOTAL DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION			<u>178,327</u>
TOTAL ALAMEDA COUNTY AWARDS			<u>\$ 844,188</u>