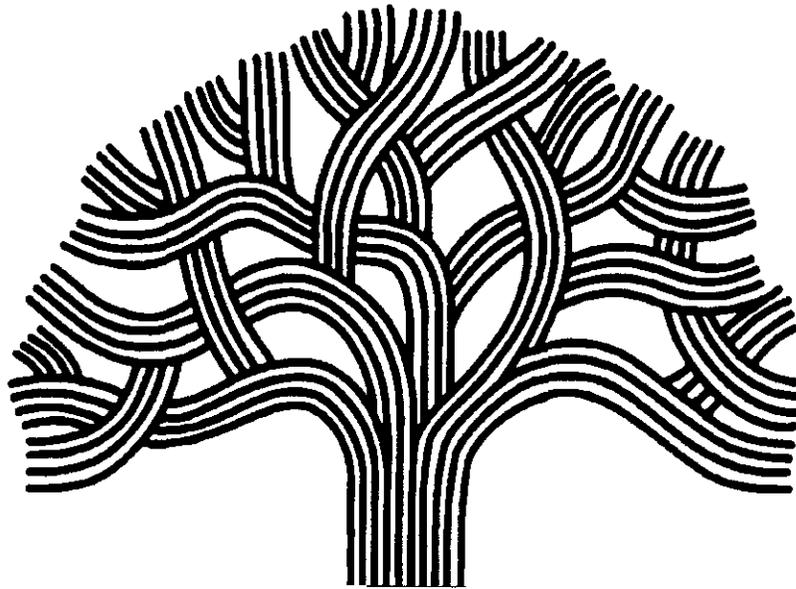


# CITY OF OAKLAND CALIFORNIA



SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2004

**CITY OF OAKLAND  
SINGLE AUDIT REPORT**

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City Manager's Office

City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

Department of Human Services

Public Works Agency

Oakland Police Department

Oakland Fire Department

# SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2004

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# FINANCIAL SECTION



## MACIAS GINI & COMPANY<sup>LLP</sup>

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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, 2004, 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 Base Reuse Authority (OBRA), which represent 4%, 11%, and 22%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. 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 OBRA, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, 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 February 4, 2005, 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 did not audit the information and express no opinion on it.

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

*Macias, Gini & Company LLP*  
Certified Public Accountants

Walnut Creek, California  
February 4, 2005

## **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, 2004. 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. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### **FINANCIAL HIGHLIGHTS**

- The City's total assets exceeded its total liabilities by \$552.7 million as of June 30, 2004, compared to \$519.9 million at June 30, 2003. This represents an increase of 6.3% (\$32.9 million) compared to the previous year.
- The City's cumulative fund balances grew by 6.5% (\$41.8 million) to \$687.3 million compared to \$645.5 million as restated, for last year. This growth is primarily attributed to the remaining bond proceeds from Measure DD and the Administration Building bond issues for City authorized projects that have yet to be implemented.
- At June 30, 2004, the unreserved fund balance for the general fund was \$222.5 million. Of this amount, \$39.8 million is undesignated and represents 8% of general fund expenditures, which is in excess of the City Council's unreserved fund balance policy of 7.5%.
- As of June 30, 2004, the City had total long-term obligations outstanding of \$1.68 billion compared to \$1.63 billion outstanding for the prior fiscal year, an increase of 3%. Of this amount, \$232.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.45 billion is comprised of various long term debt instruments including accruals of year-end estimates for other long term liabilities.

### **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 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 comparative schedules.

## **Government-wide Financial Analysis**

This is the third year that the City has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements-and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. As such, this year's MD&A provides a comparative analysis of government-wide data for two fiscal years.

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, 2004 by \$552.7 million compared to \$519.9 million as of June 30, 2003, an increase of \$32.9 million. The largest portion of the City's net assets (91%) reflects its \$503.0 million of investments in capital assets for governmental activities and business type activities net of related debt. The remaining (9%) reflects \$49.7 million in funding for debt service and other continuing development projects for the City.

**City of Oakland's Net Assets**  
**June 30, 2004**  
*(In Thousands)*

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2004 Total</b>	<b>2003 Total</b>
<b>Assets:</b>				
Current and other assets	\$1,448,705	\$ (5,047)	\$1,443,658	\$1,354,894
Capital assets	<u>826,032</u>	<u>119,972</u>	<u>946,004</u>	<u>946,626</u>
<b>TOTAL SSETS</b>	<u>2,274,737</u>	<u>114,925</u>	<u>2,389,662</u>	<u>2,301,520</u>
<b>Liabilities:</b>				
Long-term liabilities outstanding	1,670,833	6,362	1,677,195	1,630,600
Other liabilities	<u>158,607</u>	<u>1,138</u>	<u>159,745</u>	<u>151,060</u>
<b>TOTAL LIABILITIES</b>	<u>1,829,440</u>	<u>7,500</u>	<u>1,836,940</u>	<u>1,781,660</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	389,345	113,610	502,955	495,036
Restricted net assets:				
Debt service	70,562		70,562	70,562
Capital projects funds	31,048		31,048	95,743
Urban redevelopment and housing	189,555		189,555	238,187
Other purposes	24,861		24,861	24,861
Unrestricted	<u>(260,074)</u>	<u>(6,185)</u>	<u>(266,259)</u>	<u>(404,529)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 519,860</u>

The City's investment in capital assets of \$503.0 million, increased by \$7.9 million compared to the previous fiscal year, is attributed to the reduction of long term debt related to capital assets. The City's restricted net assets totaling \$316.0 million represents resources that are subject to external restrictions on how they may be used. The unrestricted deficit is primarily caused by the ORA, which issues bonds and other indebtedness to fund urban development and housing projects that are not capitalized as assets.

**Governmental activities.** The City's change in net assets of \$32.9 million for the year ended June 30, 2004 represents an increase of \$7 million compared to \$25.9 million for the prior fiscal year. The key elements of this increase are listed below.

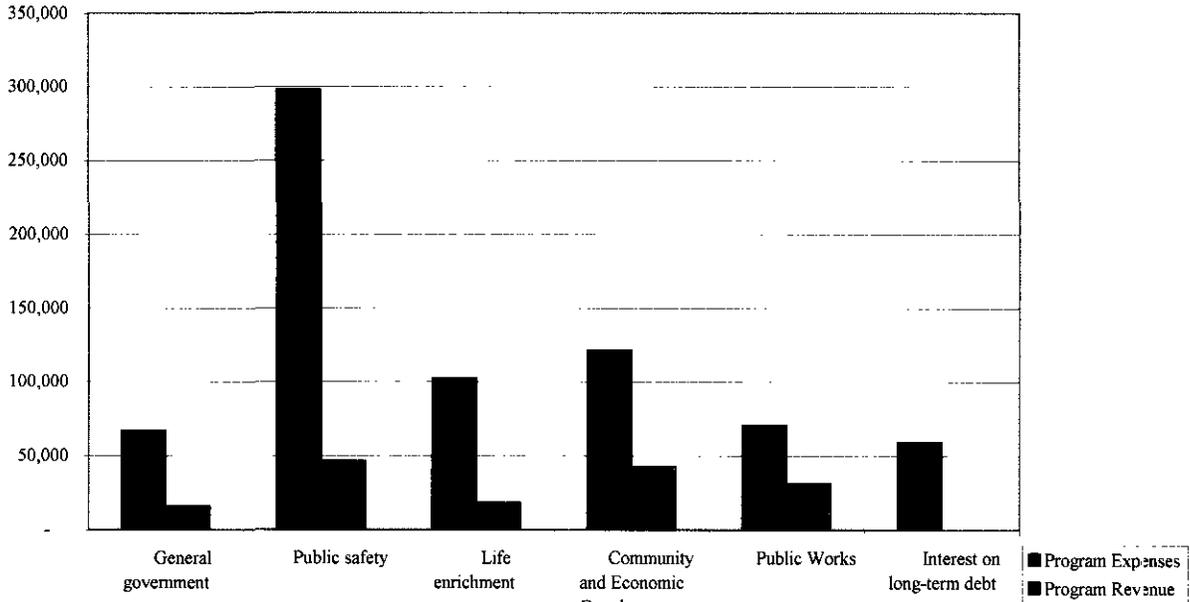
**Changes in Net Assets**  
**June 30, 2004**  
*(In Thousands)*

	Governmental Activities	Business-type Activities	2004 Total	2003 * Total
<b>Revenues:</b>				
<b>Program revenues:</b>				
Charges for services	\$ 64,832	\$ 22,648	\$ 87,480	\$ 115,773
Operating grants and contributions	78,965		78,965	79,803
Capital grants and contributions	10,366		10,366	9,262
<b>General revenues:</b>				
Property taxes	200,731		200,731	202,297
State taxes	72,906		72,906	79,444
Local taxes	197,873		197,873	199,720
Interest and investment income	5,566	94	5,660	33,375
Other	<u>117,238</u>	<u>          </u>	<u>117,238</u>	<u>77,363</u>
<b>TOTAL REVENUES</b>	<u>748,477</u>	<u>22,742</u>	<u>771,219</u>	<u>797,037</u>
<b>Expenses:</b>				
General government	67,069		67,069	95,671
Public safety	297,869		297,869	302,273
Life enrichment	102,314		102,314	105,133
Community & economic development	121,160		121,160	110,400
Public works	70,369		70,369	83,548
Interest on long-term debt	58,020		58,020	56,072
Sewer		20,597	20,597	17,960
Parks and recreation	<u>          </u>	<u>159</u>	<u>159</u>	<u>68</u>
<b>TOTAL EXPENSES</b>	<u>717,601</u>	<u>20,756</u>	<u>738,357</u>	<u>771,125</u>
Change in net assets before transfers	30,876	1,986	32,862	25,912
Transfers	<u>600</u>	<u>(600)</u>	<u>          </u>	<u>          </u>
Change in net assets	31,476	1,386	32,862	25,912
Net assets at beginning of year	<u>413,821</u>	<u>106,039</u>	<u>519,860</u>	<u>493,948</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 519,860</u>

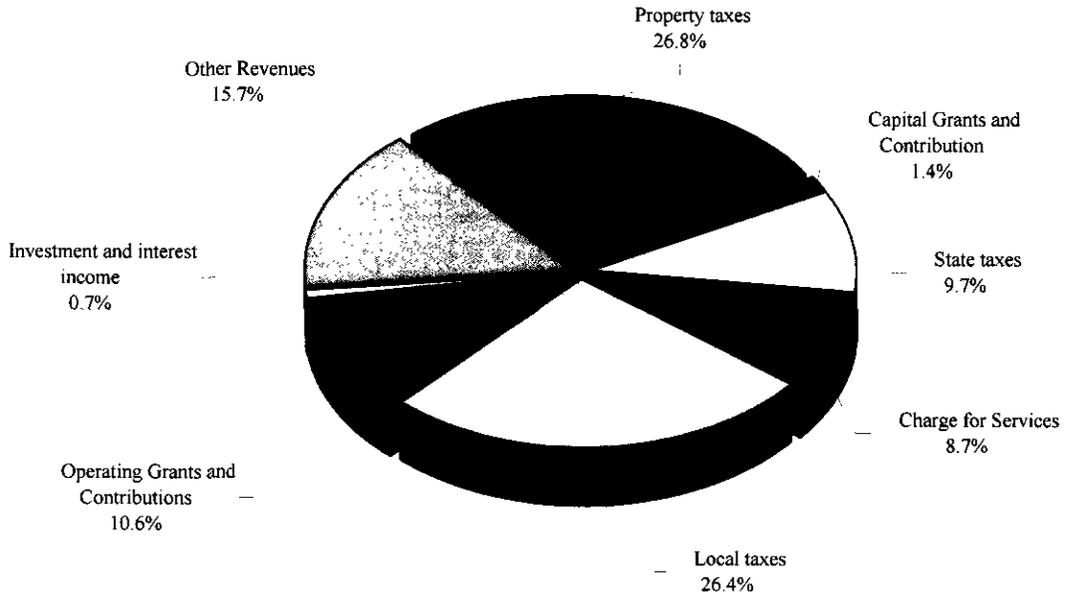
\* Certain amounts have been reclassified to conform with current year presentation.

- The City's net assets increased by \$7.0 million to \$32.9 million for the year ended June 30, 2004 compared to \$25.9 million as of June 30, 2003. The increase of \$7.0 million is attributed primarily to the City's employees assuming 6% of their retirement contributions and other cost saving measures.
- State taxes declined by \$6.5 million primarily due to the reduction in motor vehicle in lieu taxes from the State.

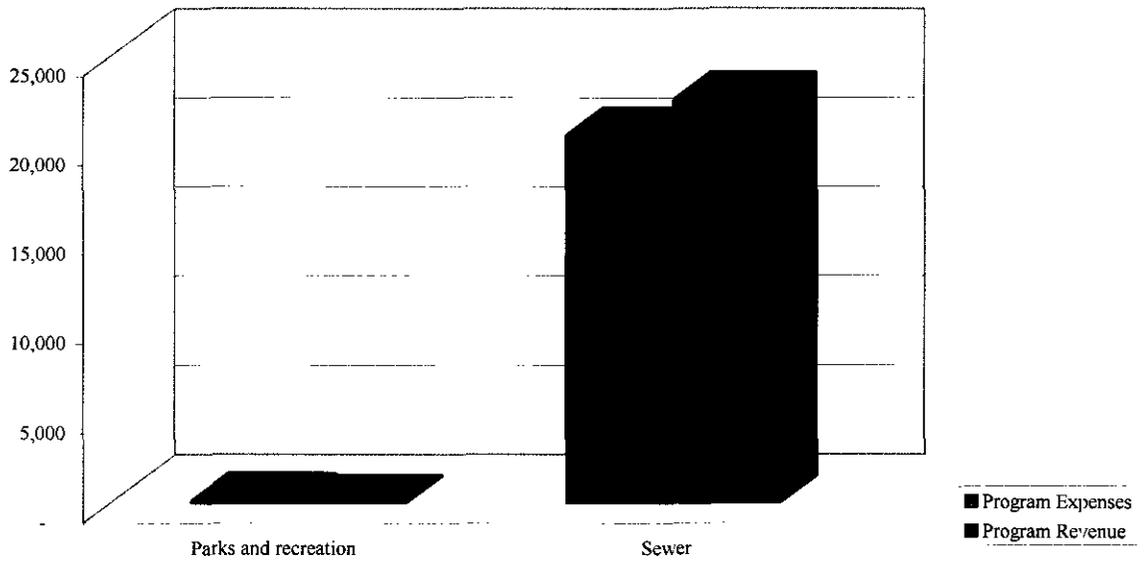
**Expenses and Program Revenues  
Governmental Activities**



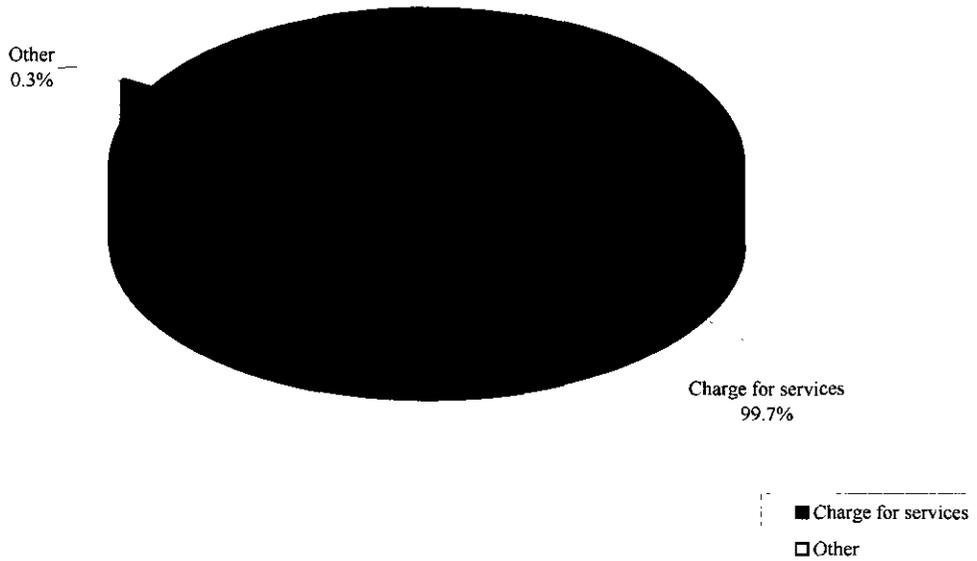
**Revenues by Sources  
Governmental Activities**



**Expenses and Program Revenues  
Business-type Activities**



**Revenues by Source  
Business-type Activities**



- The reduction in interest and investment income of \$27.7 million is attributable to the decline in interest rates for the City's pension annuity and the reduction in fair value of investments.
- The increase of \$39.9 million in other revenues is attributed primarily to a revision of the City's allowance for doubtful accounts, as the City re-evaluated the collectibility of its long term notes receivables.
- The \$13.0 million reduction in public works expenditures reflects a backlog of work orders and capital improvement projects which are scheduled to be completed in the new fiscal year
- The increase of \$10.8 million in community and economic development expenditures is attributable to the completion of projects that were carried forward from the previous fiscal year.

**Business-type activities.** Business-type activities increased the change in its net assets by \$1.4 million for the year ended June 30, 2004. A key element of the increase for Business-type activities is attributed primarily to an 11% annual rate increase and the volume of billings for sewer services as a result of the surge in downtown housing development under the Mayor's 10 K Program. The 10K Program's goal is to develop housing to attract 10,000 new residents to downtown Oakland.

### **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.

As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$687.3 million compared to \$645.5 for the previous fiscal year, as restated. The majority of the \$41.8 million increase is attributed to the remaining bond proceeds from the Administration Building refunding and the partial issuance of Measure DD bonds for improvements to the Lake Merritt Project Area.

At June 30, 2004, the Federal/State Grant Fund ended with a negative fund balance of \$23.1 million compared to a negative fund balance of \$22.1 million for the previous fiscal year. The negative fund balance is due to City advances to pay for grant activities for which the City had recognized grants receivables but deferred revenues for billings to be reimbursed by the grantor agencies.

The Oakland Redevelopment Agency had a fund balance of \$209.6 million as of June 30, 2004 which represents an increase of .8% over the prior fiscal year. The net increase of

\$1.6 million was primarily related to the improvement in property tax revenues in the project areas.

**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 \$113.6 million as of June 30, 2004, compared to \$110.5 for the previous fiscal year. During the fiscal year, the City capitalized \$3.1 million in sewer system completed projects, net of depreciation.

### **General Fund Budgetary Highlights**

Differences between the original and the final amended expenditure budget totaling \$8.5 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 \$3.6 million for the year ended June 30, 2004, compared to \$21.1 million in savings for the previous fiscal year. The net savings is attributed to the assumption of the 6% contribution towards retirement by the City employees.

Actual revenues compared to the final amended general fund revenue budget fell below projections by \$3.2 million, compared to \$38.9 million for the previous fiscal year. While state taxes, real estate transfer taxes, fines and penalties, and other income accounted for an increase of \$31.5 million in revenues, this increase was offset by the shortfall in utility consumption tax of \$5.5 million driven by high energy prices, a reduction of \$7.6 million in interest and investment income due to the decline in interest rates for pension annuity, and \$8.4 million below projections for charges for services.

### **Capital Assets**

The City's capital assets, net of depreciation, totaled \$946.0 million as of June 30, 2004 compared to \$946.6 million as of June 30, 2003, a decrease of .07%. Governmental activities additions of \$44.7 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 a reduction of \$3.9 million in capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by \$3.2 million net of retirements and depreciation.

During its mid-cycle review of the fiscal year 2004-05 budget, the City Council committed funding in the amount of \$64.1 million for a number of capital improvement projects. These projects are summarized below (in thousands).

Sewer projects	\$ 40,158
Transportation projects	11,647
Parks improvement projects	1,219
Multi-purpose reserve	7,783
Other projects	<u>3,309</u>
Total Commitments	<u>\$ 64,116</u>

### Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75% of \$23.0 billion property valuation net of exemptions subject to taxation) was \$860.8 million. The total amount of debt applicable to the debt limit was \$232.0 million. The resulting legal debt margin was \$628.8 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2004, were as follows:

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

As of June 30, 2004, the City had total long-term obligations outstanding of \$1.67 billion compared to \$1.63 billion outstanding for the prior fiscal year, an increase of 3%. Of this amount, \$232.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.4 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, 2004 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 232,045	\$ 167,350	\$ —	\$ —	\$ 232,045	\$ 167,350
Tax allocation bonds	235,555	246,660	—	—	235,555	246,660
Certificates of participation	54,780	59,115	—	—	54,780	59,115
Lease revenue bonds	386,200	382,645	—	—	386,200	382,645
Pension obligation bonds	388,824	408,849	—	—	388,824	408,849
Special assessment debt with government commitment	7,940	8,463	—	—	7,940	8,463
Accreted interest on appreciation bonds	52,863	38,259	—	—	52,863	38,259
Sewer-notes payable	—	—	6,362	7,045	6,362	7,045

Less: Deferred amounts						
Bond issuance premiums	11,830	12,366		—	11,830	12,366
Bond refunding loss	<u>(20,333)</u>	<u>(19,924)</u>		<u>—</u>	<u>(20,333)</u>	<u>(19,924)</u>
Total bonds payable	1,349,704	1,303,783	6,362	7,045	1,356,066	1,310,823
Notes payable	46,153	49,448			46,153	49,443
Other long-term obligations	<u>274,976</u>	<u>270,324</u>			<u>274,976</u>	<u>270,324</u>
TOTAL OUTSTANDING DEBT	<u>\$1,670,833</u>	<u>\$1,623,555</u>	<u>\$ 6,362</u>	<u>\$ 7,045</u>	<u>\$1,677,195</u>	<u>\$1,630,600</u>

The City's overall total long term obligations increased by \$46.6 million compared to fiscal year 2003. The net increase is primarily attributable to the defeasance of the City's Administration Building issue and new bonds issued for Measure DD as detailed below offset by scheduled principal payments. The notes payable and other long-term obligations increased basically because of the additional amounts provided for compensated absences, workers' compensation, and estimated claims payable for fiscal year 2004.

**Summary of New Debt:**

Administration Building Interest Rate Swap: The decline in interest rates in recent years provided the City an opportunity to lock in long-term interest rates. On May 21, 2004, the City entered into a floating-to-fixed rate ("fixed-payer") interest rate swap with the Bank of America, N.A. and UBS AG ("Counterparties"). The swap became effective on June 10, 2004, in conjunction with the issuance of the \$58,600,000 Series A-1 and \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, Oakland Administration Buildings (Auction Rate Securities).

The executed transaction consisted of a \$117,200,000, 22-year interest rate swap under which the City will pay the Counterparties a fixed rate of 3.533% and receive 58% of 1-month London Interbank Offer Rate (LIBOR) plus 35 basis points (100 basis points equals 1%).

The City was able to take advantage of current market conditions and create synthetic fixed-rate debt at a very favorable rate. In addition to the decline in the general level of interest rates and after careful review, the City elected to utilize percentage (58%) of LIBOR plus a margin (35 basis points) versus a straight percentage of LIBOR to reduce the basis risk in a lower rate environment (current environment).

General Obligation Bonds, Series 2003A (Measure DD): On August 6, 2003, the City issued \$71,450,000 of General Obligation Bonds, Series 2003A, Measure DD. The bonds have interest rates of 2.50% to 5.00% and mature in 2032. These bonds constitute a portion of the total authorized amount of \$198,250,000 bonds duly approved by at least two-thirds of the voters voting on Measure DD at the City election held on November 2, 2002.

These bonds provided funds to acquire and construct water quality improvements for and related to Lake Merritt, Lake Merritt Channel, the Estuary and creeks in Oakland; improve, renovate and construct youth and public recreational facilities; rehabilitate and

acquire parks, open space and other recreational, safety and maintenance facilities; and provide safe public access to Lake Merritt, Lake Merritt Channel and the Estuary.

GE Capital: On March 22, 2004, the City executed a note with a stated interest rate of 3.75% with GE Capital in the amount of \$3.9 million to fund the acquisition of a computer server. The General Fund and the Municipal Improvement Capital Fund will repay the note. The final payment will be made on April 7, 2009.

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 2004-05.

- The City of Oakland's unemployment rate was 5.9% in January 2004, up from a revised 5.7% in December 2003. This compares with an unemployment rate of 6.1% for California and 5.6% for the nation during the same period.
- The increase in the Consumer Price Index for the Bay Area was 1.9% in 2004 compared to 1.8% in 2003.
- Oakland's vacancy rate for class A and B office space has dropped to 10.2% for the 2004 third quarter compared to 10.9% for the 2003 third quarter. By comparison, the 2004 third quarter Class A vacancy rates for the City of San Francisco and the Silicon Valley were 19.7% and 19.7%, respectively.
- For the 2003 fourth quarter, the average rental rate range per square foot for the City ranged from \$1.05 to \$2.66 compared to \$2.25 for San Francisco and \$2.52 for the Silicon Valley.
- Increases in expenditures due to new union contracts, CalPers pension rates, and healthcare costs have been factored into the City's Fiscal Year 2004-05 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, 2004**  
*(In Thousands)*

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Port of Oakland	Oakland Base Reuse Authority
<b>ASSETS</b>					
Cash and investments	\$ 236,448	\$ 4,570	\$ 241,018	\$ 97,616	\$ 5,936
Receivables (net of allowance for uncollectibles of \$11,417)					
Accrued interest	1,199	-	1,199	619	-
Property taxes	10,225	-	10,225	-	-
Accounts receivable	57,974	3,061	61,035	42,113	544
Grants receivable	24,270	-	24,270	-	92
Due from component unit	25,769	-	25,769	-	-
Internal balances	12,678	(12,678)	-	-	-
Due from other governments	6	-	6	-	-
Due from pension trust fund	2,376	-	2,376	-	-
Notes and loans receivable (net of allowance for uncollectibles of \$5,615)	174,201	-	174,201	-	-
Restricted assets:					
Cash and investments	430,214	-	430,214	501,515	10,690
Receivables				6,285	
Inventories	1,206	-	1,206	-	-
Capital assets:					
Land and other assets not being depreciated	83,687	3,104	86,791	499,486	-
Facilities, infrastructure, and equipment, net of depreciation	742,345	116,868	859,213	1,271,713	977
Property held for resale	71,501	-	71,501	-	79,778
Unamortized bond issuance costs	19,209	-	19,209	-	-
Net pension asset	381,370	-	381,370	-	-
Other	59	-	59	116,366	-
<b>TOTAL ASSETS</b>	<u>2,274,737</u>	<u>114,925</u>	<u>2,389,662</u>	<u>2,535,713</u>	<u>98,017</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	130,494	1,058	131,552	41,386	532
Accrued interest payable	10,747	-	10,747	36,238	-
Due to other governments	2,548	-	2,548	-	5,400
Due to primary government	-	-	-	23,697	2,072
Unearned revenue	9,113	80	9,193	75,913	1,054
Matured bonds and interest payable	520	-	520	-	-
Other	5,185	-	5,185	38,780	697
Noncurrent liabilities:					
Due within one year	142,680	706	143,386	49,432	-
Due in more than one year	1,528,153	5,656	1,533,809	1,561,454	-
<b>TOTAL LIABILITIES</b>	<u>1,829,440</u>	<u>7,500</u>	<u>1,836,940</u>	<u>1,826,900</u>	<u>9,755</u>
<b>NET ASSETS (deficit)</b>					
Invested in capital assets, net of related debt	389,345	113,610	502,955	483,659	977
Restricted net assets					
Debt Service	70,562	-	70,562	175,229	-
Capital projects	31,048	-	31,048	-	-
Urban redevelopment and housing	189,555	-	189,555	-	81,349
Other purposes	24,861	-	24,861	-	-
Unrestricted net assets (deficit)	(260,074)	(6,185)	(266,259)	49,925	5,936
<b>TOTAL NET ASSETS</b>	<u>\$ 445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 708,813</u>	<u>\$ 88,262</u>

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

City of Oakland  
Statement of Activities  
For the Year Ended June 30, 2004  
(In Thousands)

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Port of Oakland	Oakland Base Reuse Authority
						Business-type Activities	Total		
<b>Primary government:</b>									
Governmental activities:									
General government	\$ 67,069	\$ 14,913	\$ 952	\$ -	\$ (51,204)	\$ -	\$ (51,204)		
Public safety	297,869	38,959	7,316	-	(251,594)	-	(251,594)		
Life enrichment	102,314	73	18,145	-	(84,096)	-	(84,096)		
Community and economic development	121,160	7,287	25,047	10,366	(78,460)	-	(78,460)		
Public works	70,369	3,600	27,505	-	(39,264)	-	(39,264)		
Interest on long-term debt	58,820	-	-	-	(58,820)	-	(58,820)		
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>717,601</b>	<b>64,832</b>	<b>78,965</b>	<b>10,366</b>	<b>(563,438)</b>	<b>-</b>	<b>(563,438)</b>		
Business-type activities:									
Sewer	20,597	22,590	-	-	-	1,993	1,993		
Park and recreation	159	58	-	-	-	(101)	(101)		
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>20,756</b>	<b>22,648</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,892</b>	<b>1,892</b>		
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 738,357</b>	<b>\$ 87,480</b>	<b>\$ 78,965</b>	<b>\$ 10,366</b>	<b>(563,438)</b>	<b>1,892</b>	<b>(561,546)</b>		
<b>Component units:</b>									
Port of Oakland	\$ 310,030	\$ 232,535	\$ 5,936	\$ 44,795				\$ (26,764)	
Oakland Base Reuse Authority	\$ 13,152	\$ 7,206	\$ -	\$ 77,624					\$ 71,678
General revenues:									
Property taxes					200,731	-	200,731	-	-
State taxes					72,906	-	72,906	-	-
Local taxes					197,873	-	197,873	-	-
Interest and investment income					5,566	94	5,660	3,653	213
Other					117,238	-	117,238	12,874	-
Transfers					600	(600)	-	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>594,914</b>	<b>(506)</b>	<b>594,408</b>	<b>16,527</b>	<b>213</b>
Changes in net assets					31,476	1,386	32,862	(10,237)	71,891
<b>NET ASSETS - BEGINNING</b>					<b>413,821</b>	<b>106,039</b>	<b>519,860</b>	<b>719,050</b>	<b>16,371</b>
<b>NET ASSETS - ENDING</b>					<b>\$ 445,297</b>	<b>\$ 107,425</b>	<b>\$ 552,722</b>	<b>\$ 708,813</b>	<b>\$ 88,262</b>

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

CITY OF OAKLAND  
Balance Sheet  
Governmental funds  
June 30, 2004  
(In Thousands)

	General	Federal/State Grant Funds	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 51,902	\$ -	\$ 99,485	\$ 24,297	\$ 57,264	\$ 232,948
Receivables (net of allowance for uncollectibles of \$10,033):						
Accrued interest	429	-	232	173	365	1,199
Property taxes	3,161	531	2,731	21	3,781	10,225
Accounts receivable	49,669	2,951	201	1	5,032	57,854
Grants receivable	-	24,248	-	-	22	24,270
Due from component unit	24,527	-	-	-	1,242	25,769
Due from other funds	67,378	3,151	29,449	-	4,679	104,657
Due from other governments	-	-	6	-	-	6
Notes and loans receivable (net of allowance for uncollectibles of \$5,615)	37,059	76,814	45,851	-	14,477	174,201
Restricted cash and investments	172,468	2,576	46,081	129,512	64,897	415,534
Property held for resale	-	-	71,501	-	-	71,501
Other	35	24	-	-	-	59
<b>TOTAL ASSETS</b>	<b>\$406,628</b>	<b>\$ 110,295</b>	<b>\$ 295,537</b>	<b>\$ 154,004</b>	<b>\$ 151,759</b>	<b>\$1,118,223</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$114,151	\$ 4,212	\$ 5,607	\$ 1,195	\$ 5,299	\$ 130,464
Due to other funds	23,571	22,702	9,197	-	12,169	67,639
Due to other governments	-	-	213	-	2,335	2,548
Deferred revenue	31,633	106,504	70,526	21	15,908	224,592
Matured bonds and interest payable	-	-	-	520	-	520
Other	3,965	-	389	612	219	5,185
<b>TOTAL LIABILITIES</b>	<b>173,320</b>	<b>133,418</b>	<b>85,932</b>	<b>2,348</b>	<b>35,930</b>	<b>430,948</b>
<b>Fund balances (deficit)</b>						
<b>Reserved:</b>						
Encumbrances	4,779	12,362	-	1,967	2,694	21,802
Long term receivables	6,000	-	-	-	2,659	8,659
Debt service	-	-	-	-	56,652	56,652
Property held for resale	-	-	71,501	-	-	71,501
Capital project	-	-	136,640	-	-	136,640
<b>Unreserved/(deficit) reported in:</b>						
General fund	222,529	-	-	-	-	222,529
Special revenue funds	-	(35,485)	-	-	40,189	4,704
Capital project funds	-	-	1,464	149,689	13,635	164,788
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>233,308</b>	<b>(23,123)</b>	<b>209,605</b>	<b>151,656</b>	<b>115,829</b>	<b>687,275</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$406,628</b>	<b>\$ 110,295</b>	<b>\$ 295,537</b>	<b>\$ 154,004</b>	<b>\$ 151,759</b>	<b>\$1,118,223</b>

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, 2004**  
*(In Thousands)*

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Fund balances - total governmental funds	\$ 687,275
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	799,589
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.	19,209
Net pension asset is recognized in 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.	381,370
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(9,354)
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.	215,479
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,648,521)
Internal service funds are used by the City to charge the costs of providing supplies and services such as printing, reproduction, and mailing 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>250</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 445,297</u></u>

The notes 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, 2004**  
*(In Thousands)*

	General	Federal/State Grant Funds	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes:						
Property	\$ 109,927	\$ -	\$ 53,330	\$ -	\$ 37,389	\$ 200,646
State:						
Sales and use	36,464	-	-	-	11,296	47,760
Motor vehicle in-lieu	18,178	-	-	-	-	18,178
Gas	-	-	-	-	6,968	6,968
Local:						
Business license	44,223	-	-	-	-	44,223
Utility consumption	48,056	-	-	-	-	48,056
Real estate transfer	55,665	-	-	-	-	55,665
Transient occupancy	9,857	-	-	-	-	9,857
Parking	9,799	-	-	-	-	9,799
Voter approved special tax	-	5,205	-	-	-	5,205
Franchise	11,592	-	-	-	-	11,592
Licenses and permits	13,453	-	-	-	23	13,476
Fines and penalties	26,817	201	-	-	1,171	28,189
Interest and investment income (loss)	(5,100)	1,558	3,754	2,482	4,978	7,672
Charges for services	56,883	207	5,750	55	4,281	67,176
Federal and state grants and subventions	2,147	63,169	-	113	14,489	79,918
Other	23,276	6,828	4,312	4,657	9,535	48,608
<b>TOTAL REVENUES</b>	<b>461,237</b>	<b>77,168</b>	<b>67,146</b>	<b>7,307</b>	<b>90,130</b>	<b>702,988</b>
<b>EXPENDITURES</b>						
Current:						
Elected and Appointed Officials						
Mayor	1,767	-	-	9	204	1,980
Council	2,265	7	-	313	1,021	3,606
City Manager	6,117	36	-	669	1,772	8,594
City Attorney	7,518	320	-	7	2,524	10,369
City Auditor	984	-	-	-	32	1,016
City Clerk	1,959	-	-	6	59	2,024
Agencies/Departments						
Personnel Resource Management	3,783	-	-	-	-	3,783
Information Technology	9,033	-	-	1,812	8	10,853
Financial Services	18,247	231	-	40	3,821	22,339
Police Services	160,114	4,989	-	-	1,072	166,175
Fire Services	87,516	693	-	885	2,448	91,542
Life Enrichment:						
Administration	1	-	-	-	-	1
Parks and Recreation	15,841	149	-	-	13,455	29,445
Library	10,497	7,454	-	116	393	18,460
Museum	7,822	-	-	263	242	8,327
Marketing	1,516	25	-	-	826	2,367
Aging & Health and Human Services	5,668	24,775	-	-	2,795	33,238
Cultural Arts	14	4	-	23	-	41
Community and Economic Development	20,152	22,467	38,813	155	11,201	92,788
Public Works	27,475	5,084	-	4,972	22,797	60,328
Other	20,103	945	-	1,500	7,824	30,372
Capital outlay	4,060	9,386	-	8,447	2,886	24,779
Debt service:						
Principal repayment	390	961	11,105	495	48,880	61,831
Bond issuance costs	-	-	-	12,874	-	12,874
Interest charges	349	687	15,634	3	46,224	62,897
<b>TOTAL EXPENDITURES</b>	<b>413,191</b>	<b>78,213</b>	<b>65,552</b>	<b>32,589</b>	<b>170,484</b>	<b>760,029</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>48,046</b>	<b>(1,045)</b>	<b>1,594</b>	<b>(25,282)</b>	<b>(80,354)</b>	<b>(57,041)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of refunding bonds	-	-	-	188,650	-	188,650
Proceeds from notes issuance	3,927	-	-	-	-	3,927
Premiums on issuance of bonds	-	-	-	587	-	587
Payment to refunding bond escrow agent	-	-	-	(96,395)	-	(96,395)
Property sale proceeds	1,497	-	-	-	-	1,497
Transfers in	6,300	-	-	8,781	80,323	95,404
Transfers out	(79,580)	-	-	(6,443)	(8,781)	(94,804)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(67,856)</b>	<b>-</b>	<b>-</b>	<b>95,180</b>	<b>71,542</b>	<b>98,866</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(19,810)</b>	<b>(1,045)</b>	<b>1,594</b>	<b>69,898</b>	<b>(8,812)</b>	<b>41,825</b>
Fund balances (deficit) - beginning, as originally reported	253,118	(22,078)	189,425	81,758	124,641	626,864
Restatement	-	-	18,586	-	-	18,586
Fund balances (deficit) - beginning, as restated	253,118	(22,078)	208,011	81,758	124,641	645,450
<b>FUND BALANCES (DEFICIT) - ENDING</b>	<b>\$ 233,308</b>	<b>\$ (23,123)</b>	<b>\$ 209,605</b>	<b>\$ 151,656</b>	<b>\$ 115,829</b>	<b>\$ 687,275</b>

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 Balances of Governmental Funds to the**  
**Statement of Activities of Governmental Activities**  
**Year Ended June 30, 2004**  
*(In Thousands)*

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Net change in fund balances - total governmental funds	\$ 41,825
Amounts reported for governmental activities in the statement of activities are different because:	
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 exceeded depreciation in the current period.	86
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	85
Revenues that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred amounts during the current period.	43,285
Some expenses such as claims and vacation and sick leave 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.	(13,336)
Amortization of the net pension asset reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.	(6,367)
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	5,414
Bond issuance costs are expended in governmental funds when paid, and are deferred and amortized over the life of the corresponding 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.	12,120
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 financial resources of 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.	
Principal payments	61,831
Payment to escrow agent for refunded debt	96,395
Issuance of bonds and notes	(191,990)
Premium on bond proceeds	(587)
Difference	<u>(34,351)</u>
Amortization of bond premiums	1,123
Amortization of refunding loss	(2,551)
Additional accrued and accreted interest calculated on bonds and notes payable	(8,932)
The net loss of activities of internal service funds is reported with governmental activities	<u>(6,925)</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 31,476</u></b>

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

**CITY OF OAKLAND**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**  
*(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>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and investments	\$ -	\$ 4,570	\$ 4,570	\$ 3,500
Accounts receivables (net of uncollectibles of \$874 and \$510 for the enterprise funds and internal service funds, respectively)	3,032	29	3,061	120
Inventories	-	-	-	1,206
Restricted cash and investments	-	-	-	14,680
<b>Total current assets</b>	<u>3,032</u>	<u>4,599</u>	<u>7,631</u>	<u>19,506</u>
<b>Noncurrent Assets:</b>				
<b>Capital assets:</b>				
Land and other assets not being depreciated	2,886	218	3,104	310
Facilities and equipment, net of depreciation	114,851	2,017	116,868	26,133
<b>Total noncurrent assets</b>	<u>117,737</u>	<u>2,235</u>	<u>119,972</u>	<u>26,443</u>
<b>TOTAL ASSETS</b>	<u>120,769</u>	<u>6,834</u>	<u>127,603</u>	<u>45,949</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	1,037	21	1,058	1,423
Due to other funds	12,678	-	12,678	21,964
Deferred revenue	80	-	80	-
Bonds, notes and other payables	706	-	706	5,597
<b>Total current liabilities</b>	<u>14,501</u>	<u>21</u>	<u>14,522</u>	<u>28,984</u>
<b>Noncurrent Liabilities:</b>				
Bonds, notes and other payables	5,656	-	5,656	16,715
<b>Total noncurrent liabilities</b>	<u>5,656</u>	<u>-</u>	<u>5,656</u>	<u>16,715</u>
<b>TOTAL LIABILITIES</b>	<u>20,157</u>	<u>21</u>	<u>20,178</u>	<u>45,699</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	111,375	2,235	113,610	4,131
Unrestricted (deficit)	(10,763)	4,578	(6,185)	(3,881)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>\$ 100,612</u>	<u>\$ 6,813</u>	<u>\$ 107,425</u>	<u>\$ 250</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, 2004**  
*(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>
<b>OPERATING REVENUES</b>				
Rental	\$ -	\$ 58	\$ 58	\$ -
Sewer services	21,079	-	21,079	-
Charges for services	-	-	-	31,781
Other	<u>1,511</u>	<u>-</u>	<u>1,511</u>	<u>104</u>
<b>TOTAL OPERATING REVENUES</b>	<u>22,590</u>	<u>58</u>	<u>22,648</u>	<u>31,885</u>
<b>OPERATING EXPENSES</b>				
Personnel	11,008	11	11,019	14,319
Supplies	398	-	398	4,633
Depreciation and amortization	3,429	141	3,570	5,444
Contractual services and supplies	1,473	-	1,473	285
Repairs and maintenance	96	-	96	2,130
General and administrative	3,080	1	3,081	3,872
Rental	744	6	750	1,425
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,783</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>20,228</u>	<u>159</u>	<u>20,387</u>	<u>37,891</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,362</u>	<u>(101)</u>	<u>2,261</u>	<u>(6,006)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest and investment income	-	94	94	116
Interest expense	(369)	-	(369)	(1,199)
Other, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>164</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(369)</u>	<u>94</u>	<u>(275)</u>	<u>(919)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	1,993	(7)	1,986	(6,925)
Transfers out	<u>(600)</u>	<u>-</u>	<u>(600)</u>	<u>-</u>
Change in net assets	1,393	(7)	1,386	(6,925)
Net Assets - Beginning	<u>99,219</u>	<u>6,820</u>	<u>106,039</u>	<u>7,175</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 100,612</u>	<u>\$ 6,813</u>	<u>\$ 107,425</u>	<u>\$ 250</u>

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

**CITY OF OAKLAND**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2004**  
*(In Thousands)*

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers, including other funds and cash deposits	\$ 20,905	\$ (1)	\$ 20,904	\$ 31,904
Cash received from tenants for rents	-	58	58	
Cash paid to employees for services	(11,008)	(11)	(11,019)	(14,319)
Cash paid to suppliers for goods & services	(1,585)	14	(1,571)	(10,455)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>8,312</u>	<u>60</u>	<u>8,372</u>	<u>7,130</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers out	(600)	-	(600)	-
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(6,660)	(155)	(6,815)	(1,491)
Repayment of long-term debt	(683)	-	(683)	(5,383)
Interest paid on long-term debt	(369)	-	(369)	(1,199)
<b>NET CASH USED IN CAPITAL FINANCING ACTIVITIES</b>	<u>(7,712)</u>	<u>(155)</u>	<u>(7,867)</u>	<u>(8,073)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income received	-	94	94	116
Other investing activities	-	-	-	164
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>-</u>	<u>94</u>	<u>94</u>	<u>280</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>(663)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>-</u>	<u>4,571</u>	<u>4,571</u>	<u>18,843</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ 4,570</u>	<u>\$ 4,570</u>	<u>\$ 18,180</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 2,362	\$ (101)	\$ 2,261	\$ (6,006)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Depreciation and amortization	3,429	141	3,570	5,444
Changes in assets and liabilities:				
Receivables	(1,565)	(1)	(1,566)	19
Inventories	-	-	-	(186)
Accounts payable and accrued liabilities	(4)	21	17	136
Deferred revenue	(120)	-	(120)	-
Due to other funds	4,210	-	4,210	7,723
Total adjustments	<u>5,950</u>	<u>161</u>	<u>6,111</u>	<u>13,136</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 8,312</u>	<u>\$ 60</u>	<u>\$ 8,372</u>	<u>\$ 7,130</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>				
Cash and investments	\$ -	\$ 4,570	\$ 4,570	\$ 3,500
Restricted cash and investments	-	-	-	14,680
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ 4,570</u>	<u>\$ 4,570</u>	<u>\$ 18,180</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, 2004  
(In Thousands)

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	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
<b>ASSETS</b>		
Cash and investments	\$ 22,664	\$ 4,873
Receivables:		
Accrued interest and dividends	2,274	23
Investments and contributions	71,683	-
Restricted:		
Cash and investments	659,955	-
Securities lending collateral	43,556	-
<b>TOTAL ASSETS</b>	<u>800,132</u>	<u>4,896</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	124,630	5
Due to other funds	2,376	-
Securities lending collateral	43,556	-
Other	-	7
<b>TOTAL LIABILITIES</b>	<u>170,562</u>	<u>12</u>
<b>NET ASSETS</b>		
Net assets held in trust	<u>\$ 629,570</u>	<u>\$ 4,884</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, 2004**  
*(In Thousands)*

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS:</b>		
Contributions:		
Member contributions	\$ 29	\$ -
City contributions	<u>-</u>	<u>5,765</u>
Total contributions	<u>29</u>	<u>5,765</u>
Trust receipts	<u>-</u>	<u>547</u>
Investment income:		
Net appreciation in fair value of investments	64,622	-
Interest	11,742	12
Dividends	4,669	-
Securities lending	<u>633</u>	<u>-</u>
TOTAL INVESTMENT INCOME	81,666	12
Less investment expenses:		
Investment expenses	(1,779)	-
Borrowers rebates and other agent fees on securities lending transactions	<u>(450)</u>	<u>-</u>
Total investment expenses	<u>(2,229)</u>	<u>-</u>
NET INVESTMENT INCOME	<u>79,437</u>	<u>12</u>
TOTAL ADDITIONS	<u>79,466</u>	<u>6,324</u>
<b>DEDUCTIONS:</b>		
Benefits to members and beneficiaries:		
Retirement	44,669	-
Disability	24,588	-
Death	<u>2,119</u>	<u>-</u>
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	71,376	-
Administrative expenses	1,242	1
Change in payable to City	(522)	-
Transfer to CALPERS	1,494	-
Termination refunds of employees' contributions	180	-
Police services	<u>-</u>	<u>1,862</u>
TOTAL DEDUCTIONS	<u>73,770</u>	<u>1,863</u>
Change in net assets	5,696	4,461
NET ASSETS - BEGINNING	<u>623,874</u>	<u>423</u>
NET ASSETS - ENDING	<u>\$ 629,570</u>	<u>\$ 4,884</u>

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

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# NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2004**

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**(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) and the Oakland Base Reuse Authority (OBRA) are the City's discretely presented component units and are reported in separate columns in the government-wide financial statements to emphasize that they possess characteristics that they are legally separate from the City. Although the Port and OBRA have a significant relationship with the City, the entities are fiscally independent and do not provide services solely to the City and, therefore, are 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. It is 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, 2004**

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**Discretely Presented Component Units**

The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport; the Port of Oakland Marine Terminal Facilities; and commercial real estate which includes Oakland Portside Associates (OPA), a California limited partnership, and the Port of Oakland Public Benefit Corporation (Port-PBC), a nonprofit benefit corporation. OPA and Port-PBC were dissolved effective June 30, 2004, and all assets were transferred to the Port. 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.

The Oakland Base Reuse Authority ("OBRA") was established in 1995 as a Joint Powers Authority ("JPA") by the City; the Agency; and the County of Alameda (County). OBRA was established to assure the effective transition of military facilities in Oakland that have been or may be selected for closure. OBRA currently is assuming the effective transition of the Oakland Army Base ("OARB") to the Agency and the Port. Effective July 1, 2003, the governing body amended the JPA agreement, which among other things, changed the composition of the governing body, reducing it to a five-member board consisting of the Mayor of Oakland and four other members of the Oakland City Council (which does not represent the majority of the City Council and therefore the Board is not substantively the same as the City Council).

The votes of a majority of the Governing Body are required to take action on most matters. The revised Joint Powers Assessment requires OBRA to deposit its revenues in the City treasury. The City is responsible for investing and managing such funds. The OBRA is presented in a separate column in the government-wide financial statements.

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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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 potential component units were individually significant to the City's reporting entity.

**(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 instead 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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 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, 2004.

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 revenue relating to redevelopment projects. Expenditures are comprised

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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of land acquisitions and improvements and all other costs inherent in redevelopment activities.

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, payment of retiree medical benefits, and certain gifts that are not related to ORA 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 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, the Port, and the OBRA are not eliminated because the elimination of these charges would distort the direct costs and revenues reported.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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Proprietary funds distinguish operating revenues and expenses from non-operating 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 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 non-operating 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-

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Net receivables and 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, 2004**

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**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, 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, ORA, 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. The collection is not capitalized as part of the capital assets of the City.

*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

**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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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### **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 15 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). 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 15 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.

### **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.

**Reserve for Encumbrances** – Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

**Reserve for Debt Service** – This fund balance is reserved for the payment of debt service requirements in subsequent years.

**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.

Portions of unreserved fund balances have been designated to indicate those portions of fund balances, which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures.

### **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.

### **Effects of New Pronouncements**

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement No.1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

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.

### **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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(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, Port, and OBRA. 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.

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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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, 2004, the number of external investment managers was six for the PFRs and one for the OMERS.

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

	<u>Primary Government</u>			<u>Total</u>	<u>Port</u>	<u>OBRA</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>			
Cash and investments	\$ 236,448	\$ 4,570	\$ 27,537	\$ 268,555	\$ 97,616	\$ 5,936
Restricted cash and investments	430,214	—	659,955	1,090,169	501,515	10,690
Restricted securities lending collateral	—	—	43,556	43,556	—	—
<b>TOTAL</b>	<b><u>\$ 666,662*</u></b>	<b><u>\$ 4,570</u></b>	<b><u>\$ 731,048</u></b>	<b><u>\$1,402,280</u></b>	<b><u>\$ 599,131</u></b>	<b><u>\$ 16,626</u></b>
Deposits	\$ 75,029	\$ 4,570	\$ 38,414	\$ 118,013	\$ 143,255	\$ 2,386
Investments	<u>591,633</u>	—	<u>692,634</u>	<u>1,284,267</u>	<u>455,876</u>	<u>14,240</u>
<b>TOTAL</b>	<b><u>\$ 666,662*</u></b>	<b><u>\$ 4,570</u></b>	<b><u>\$ 731,048</u></b>	<b><u>\$1,402,280</u></b>	<b><u>\$ 599,131</u></b>	<b><u>\$ 16,626</u></b>

\*\$666,662 consists of all governmental funds and the internal service funds.

***Deposits - Primary Government***

At June 30, 2004, the carrying amount of the City's deposits was \$118,012,555 and the bank balance was \$117,526,555. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$3,125,122 was FDIC insured and \$114,401,433 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.

***Investments - Primary Government***

The City's investments are categorized to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes uninsured and

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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unregistered investments, with the securities held by the counter-party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counter-party or by its trust department or agent but not in the City's name. There were no investments classified as Category 2 or 3 at June 30, 2004.

At June 30, 2004, investments included the following (in thousands):

	<u>Category 1</u>
<b>Subject to Custodial Credit Risk Categorization</b>	
Federal agency issues	\$ 371,228
Commercial paper	23,715
Corporate stocks and bonds	607,503
Investments made with securities lending cash collateral:	
Cash	3,556
Repurchase agreement	<u>40,000</u>
Total	<u>\$1,046,002</u>
 <b>Investments Not Subject to Custodial Credit Risk Categorization</b>	
Real estate mortgage loans/investments	\$ 72
Local Agency Investment Fund (LAIF)	192,407
Life Insurance Annuity Contracts	138,000
Mutual Funds	2,015
Investments lent to broker-dealers with cash collateral:	
Bonds	31,860
Corporate stocks	<u>10,623</u>
Total	<u>\$ 374,977</u>
TOTAL INVESTMENTS	\$1,420,979
Less: Port of Oakland cash and investments in the City Treasury	<u>(136,712)</u>
TOTAL PRIMARY GOVERNMENT INVESTMENTS	<u>\$1,284,267</u>

As of June 30, 2004, the City's investment in LAIF is \$192.4 million. The total amount invested by all public agencies in LAIF at that date is approximately \$57.6 billion. Of that amount, over 98.4% is invested in non-derivative financial products and 1.6% 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.

***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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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.

At year-end, PFRS had no credit risk exposure to securities borrowers because the amounts PFRS owed to borrowers exceeded the amounts the borrowers owed to 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.

There are no restrictions on the amount of securities that may be lent.

At present, the custodians are investing the cash collateral received for securities lent for periods averaging one week or less which generally matches the term of the period of the security loans.

As of June 30, 2004, PFRS had securities on loan with a market value of approximately \$42,482,919 for cash collateral of \$43,555,666.

***Derivatives***

The City's investment policy permits investments in certain derivatives. There were no derivatives included in the investment pool during the year ended June 30, 2004.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**Discretely Presented Component Units**

*Port of Oakland*

The Port's cash and investments are reported as follows at June 30, 2004 (in thousands):

Cash and investments:	
Cash and investments with the City	\$ 93,920
Cash on hand	3
Cash in bank accounts	<u>3,693</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<u><b>97,616</b></u>
Restricted cash and investments:	
Unexpended bond proceeds restricted for construction	220,346
Unexpended bond proceeds and reserve deposits with fiscal agents	199,840
Deposits in escrow	3,026
Cash and investments with City:	
Passenger and customer facility charges	41,860
Other	933
Restricted deposits with fiscal agents for current debt service	<u>35,510</u>
<b>TOTAL RESTRICTED CASH AND INVESTMENTS</b>	<u><b>501,515</b></u>
<b>TOTAL</b>	<u><b>\$599,131</b></u>

The carrying amount of Port cash and investments is as follows at June 30, 2004 (in thousands):

Cash on hand and at bank	\$ 3,696
Government securities money market mutual funds	37,107
U.S. Treasury obligations	11,833
Guaranteed investment contracts	406,936
Cash and investments with the City of Oakland	136,712
Escrow in-lieu of retentions	<u>2,847</u>
<b>TOTAL</b>	<u><b>\$599,131</b></u>

*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 cash and 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, 2004**

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***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.

***Deposits and Investments***

The carrying amount of Port deposits with banks and fiscal agents was \$5,248,000 at June 30, 2004. Bank balances of \$3,931,000 at June 30, 2004, are insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name. The difference between the carrying amount and the bank balance was primarily due to deposits in transit and outstanding checks.

The California Government Code requires governmental securities or first trust deed mortgage notes 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 Port's name.

All investments subject to custodial credit risk categorization are Category 1 investments.

***Oakland Base Reuse Authority***

**Deposits**

At June 30, 2004, the carrying amount of OBRA's deposits was \$2,385,761 and the bank balance was \$2,440,458. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$100,000 was FDIC insured and \$2,340,458 was collateralized with securities held by the pledging financial institution in OBRA'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 OBRA's name.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**Investments**

OBRA's Governing Body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy. The Authority had no investments subject to categorization at June 30, 2004.

Investments consisted of the following at June 30, 2004:

	<u>Amounts</u>
Investments not subject to custodial credit risk categorization:	
Unrestricted, money market mutual funds	\$ 5,936
Restricted, Local Agency Investment Fund	<u>8,304</u>
	<u>\$14,240</u>

**(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 (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, 2004, is as follows (in thousands):

**DUE FROM/DUE TO OTHER FUNDS:**

Receivable Fund	Payable Fund	Amount
General Fund	Federal/State Grant Fund	\$ 19,808
	Oakland Redevelopment Agency	1,367
	Other Governmental Funds	9,185
	Sewer Service Fund	12,678
	Internal Service Funds	21,964
	Pension Trust Funds	2,376
Federal/State Grant Fund	Oakland Redevelopment Agency	3,151
Oakland Redevelopment Agency	General Fund	23,571
	Federal/State Grant Fund	2,894
	Other Governmental Funds	2,984
Other Governmental Funds	Oakland Redevelopment Agency	<u>4,679</u>
<b>TOTAL</b>		<u><b>\$104,657</b></u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**INTERFUND TRANSFERS:**

	TRANSFERS IN			Total
	General Fund	Municipal Capital Improvement Fund	Other Governmental Funds	
<b>TRANSFERS OUT</b>				
General Fund	\$ —	\$ —	\$ 79,580	\$ 79,580
Municipal Capital Improvement Fund	5,700	—	743	6,443
Other Governmental Funds	—	8,781	—	8,781
Sewer Service Fund	600	—	—	600
<b>TOTAL</b>	<u>\$ 6,300</u>	<u>\$ 8,781</u>	<u>\$ 80,323</u>	<u>\$ 95,404</u>

The \$79.5 million transfer from the general fund consists of transfers made to provide funding for the following:

- \$ 8.6 million for the Kids' First Children's Program
- \$15.3 million for special refunding revenue bonds
- \$55.6 million for debt service payments

The \$5.7 million transfer from the capital projects fund to the general fund is for the Oakland Convention Center operations while \$.7 million to other governmental funds is for debt service payments.

The \$8.8 million transfer from the other governmental funds is to provide funding for the Convention Center surety bond.

The \$.6 million transfer from the sewer service fund is to provide funds for City-wide lease payments.

**INTERFUND LOANS:**

Certain interfund loans made from the general fund to the Oakland Redevelopment Agency (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:

Oak Center Project	\$ 13,038,000
City Center Garage	<u>18,586,000</u>
Total	<u>\$ 31,624,000</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(5) MEMORANDUMS OF UNDERSTANDING**

The City and the Port have Memorandums of Understanding (MOUs) relating to: (a) general obligation bonds issued by the City for the benefit of the Port; (b) various administrative, personnel, data processing, and financial services (Special Services); and (c) police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port.

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 2004, \$23,697,000 in Special Services expenses has been accrued as a current liability by the Port and as a receivable by the City.

The Port's legal counsel advised the Port that payments to the City for General Services and Lake Merritt tideland trust purposes are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 2004, \$1,048,000 and \$560,000 have been accrued by the Port as a current liability and by Oakland as a receivable for General Services and Lake Merritt tideland trust properties, respectively.

The City and Port are in the process of negotiating an MOU for payments to be made by the Port to the City in consideration for services provided by the City on Tidelands Trust properties. Such payments are expected to amount to \$3,000,000 per year, and represent a portion of the total expenses incurred by the City in the provision of services within the Lake Merritt Tidelands boundaries. Included in the amount recorded as a receivable from the Port of Oakland is \$2,500,000 for fiscal year 1997, which the Port has also recorded as an obligation due to the City. Any additional amount due to the City will be recorded when an MOU has been executed.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(6) NOTES AND LOANS RECEIVABLE**

The composition of the City's notes and loans receivable as of June 30, 2004, is as follows (in thousands):

<u>Type of Loan</u>	<u>General Fund</u>	<u>Federal/State Grant Fund</u>	<u>Oakland Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds/ Governmental Activities</u>
Pass-through loans	\$ 23,196	\$ 2,894	\$ —	\$ 799	\$ 26,889
Loans to Oakland Hotel Assoc. Ltd	12,038	—	—	—	12,038
Community Development Block Grant	—	66,329	—	—	66,329
Economic Development loans and other	1,932	12,357	46,425	13,846	74,560
Less: Allowance for uncollectible accounts	<u>(107)</u>	<u>(4,766)</u>	<u>(574)</u>	<u>(168)</u>	<u>(5,615)</u>
<b>TOTAL LOANS, NET</b>	<u><b>\$ 37,059</b></u>	<u><b>\$ 76,814</b></u>	<u><b>\$ 45,851</b></u>	<u><b>\$ 14,477</b></u>	<u><b>\$ 174,201</b></u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

**(7) CAPITAL ASSETS**

**Primary Government**

Capital assets activity of the primary government for the year ended June 30, 2004, is as follows (in thousands):

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 75,206	\$ 1,398	\$ —	\$ 76,604
Construction in progress	<u>2,576</u>	<u>8,464</u>	<u>3,957</u>	<u>7,083</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>77,782</u>	<u>9,862</u>	<u>3,957</u>	<u>83,687</u>
Capital assets, being depreciated:				
Facilities and improvements	638,514	7,067	—	645,581
Furniture, machinery and equipment	153,101	9,047	1,861	160,287
Infrastructure	<u>335,128</u>	<u>18,801</u>	<u>—</u>	<u>353,929</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>1,126,743</u>	<u>34,915</u>	<u>1,861</u>	<u>1,159,797</u>
Less accumulated depreciation:				
Facilities and improvements	187,234	20,007	—	207,241
Furniture, machinery and equipment	90,722	12,715	858	102,579
Infrastructure	<u>96,670</u>	<u>10,962</u>	<u>—</u>	<u>107,632</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>374,626</u>	<u>43,684</u>	<u>858</u>	<u>417,452</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>752,117</u>	<u>(8,769)</u>	<u>1,003</u>	<u>742,345</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$ 829,899</u>	<u>\$ 1,093</u>	<u>\$ 4,960</u>	<u>\$ 826,032</u>

(continued)

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<b>Business-type activities:</b>				
<b>Sewer fund:</b>				
Capital assets, not being depreciated:				
Land	\$ 4	\$ —	\$ —	\$ 4
Construction in progress	<u>2,041</u>	<u>5,201</u>	<u>4,360</u>	<u>2,882</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>2,045</u>	<u>5,201</u>	<u>4,360</u>	<u>2,886</u>
Capital assets, being depreciated:				
Facilities and improvements	305	1	—	306
Furniture, machinery and equipment	749	—	—	749
Sewers and storm drains	<u>167,313</u>	<u>5,818</u>	—	<u>173,131</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>168,367</u>	<u>5,819</u>	—	<u>174,186</u>
Less accumulated depreciation:				
Facilities and improvements	10	20	—	30
Furniture, machinery and equipment	697	4	—	701
Sewers and storm drains	<u>55,199</u>	<u>3,405</u>	—	<u>58,604</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>55,906</u>	<u>3,429</u>	—	<u>59,335</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<u>112,461</u>	<u>2,390</u>	—	<u>114,851</u>
<b>SEWER FUND CAPITAL ASSETS, NET</b>	<u>114,506</u>	<u>7,591</u>	<u>4,360</u>	<u>117,737</u>
<b>Other proprietary funds:</b>				
Capital assets, not being depreciated:				
Land	<u>218</u>	—	—	<u>218</u>
Capital assets, being depreciated:				
Facilities and improvements	2,043	136	—	2,179
Furniture, machinery and equipment	<u>434</u>	<u>19</u>	—	<u>453</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>2,477</u>	<u>155</u>	—	<u>2,632</u>
Less accumulated depreciation:				
Facilities and improvements	50	141	—	191
Furniture, machinery and equipment	<u>424</u>	—	—	<u>424</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>474</u>	<u>141</u>	—	<u>615</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>2,003</u>	<u>14</u>	—	<u>2,017</u>
<b>OTHER PROPRIETARY FUND CAPITAL ASSETS, NET</b>	<u>2,221</u>	<u>14</u>	—	<u>2,235</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$ 116,727</u>	<u>\$ 7,605</u>	<u>\$ 4,360</u>	<u>\$ 119,972</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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

<b>Governmental activities:</b>	
General government	\$ 3,819
Public safety:	
Police services	989
Fire services	2,698
Life enrichment	11,973
Community and economic development	2,470
Public works	16,291
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	<u>5,444</u>
<b>TOTAL</b>	<b><u>\$43,684</u></b>
<b>Business-type activities:</b>	
Sewer	\$ 3,429
Golf	<u>141</u>
<b>TOTAL</b>	<b><u>\$ 3,570</u></b>

### **Construction Commitments**

The City has active construction projects as of June 30, 2004. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	<u>Spent to date</u>	<u>Remaining Commitment</u>
Infrastructure – streets	\$ 19,026	\$ 56,423
Infrastructure – parks	4,231	—
Facility improvements	6,036	19,000
Sewers and storm drains	<u>6,837</u>	<u>20,341</u>
<b>TOTAL</b>	<b><u>\$ 36,130</u></b>	<b><u>\$ 95,764</u></b>

**CITY OF OAKLAND**  
Notes to Basic Financial Statements, (continued)  
Year Ended June 30, 2004

**Discretely Presented Component Units**

*Port of Oakland*

Capital assets activity for the Port for the year ended June 30, 2004, is as follows (in thousands):

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfer of Completed Construction</u>	<u>Balance June 30, 2004</u>
Capital assets, not being depreciated:					
Land	\$ 226,823	\$ 36,127	\$ 1,624	\$ —	\$ 261,326
Construction in progress	<u>302,559</u>	<u>139,239</u>	<u>56,644</u>	<u>(146,994)</u>	<u>238,160</u>
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<u>529,382</u>	<u>175,366</u>	<u>58,268</u>	<u>(146,994)</u>	<u>499,486</u>
Capital assets, being depreciated:					
Facilities and improvements	524,731	—	20,046	42,852	547,537
Container cranes	160,959	—	10,607	1,869	152,221
Systems and structures	976,935	—	14,080	101,769	1,064,624
Other equipment	<u>35,629</u>	<u>2,270</u>	<u>(357)</u>	<u>504</u>	<u>38,760</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<u>1,698,254</u>	<u>2,270</u>	<u>44,376</u>	<u>146,994</u>	<u>1,803,142</u>
Less accumulated depreciation:					
Facilities and improvements	225,062	21,523	9,100	—	237,485
Container cranes	48,858	6,195	8,703	—	46,350
Systems and structures	195,928	34,696	6,118	—	224,506
Other equipment	<u>20,672</u>	<u>2,755</u>	<u>339</u>	<u>—</u>	<u>23,088</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>490,520</u>	<u>65,169</u>	<u>24,260</u>	<u>—</u>	<u>531,429</u>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<u>1,207,734</u>	<u>(62,899)</u>	<u>20,116</u>	<u>146,994</u>	<u>1,271,713</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$1,737,116</u>	<u>\$ 112,467</u>	<u>\$ 78,384</u>	<u>\$ —</u>	<u>\$1,771,199</u>

The capital assets, net on lease at June 30, 2004, consist of the following (in thousands):

Land	\$ 107,174
Container cranes	158,715
Facilities and improvements	<u>689,556</u>
Total	955,445
Less accumulated depreciation	<u>(179,732)</u>
Capital assets, net on lease	<u>\$ 775,713</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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Construction in progress decreased in fiscal 2004 as a result of a decision made by the Port to abandon further design and development of the Airport parking garage and certain other design work at the Airport. Advanced planning, engineering and development costs incurred to date for the terminal and parking garage projects and other capital projects were written down, by approximately \$58 million in fiscal year 2004 and are reported as abandoned projects and impaired assets.

### **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. All 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, 2004, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	\$ 93,711
Contingent rentals in excess of minimums	10,456
Secondary use of facilities leased under preferential assignments	<u>3,922</u>
	<u>\$108,089</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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):

2005	\$107,953
2006	110,851
2007	113,164
2008	112,829
2009	108,350
2010-2014	466,113
2015-2019	346,528
2020-2024	13,051
2025-2029	12,728
2030-2034	11,487
Thereafter	<u>38,181</u>
	<u>\$1,441,235</u>

*Oakland Base Reuse Authority*

Capital asset activity for OBRA during the year ended June 30, 2004 consisted of the following (in thousands):

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Capital assets, being depreciated:				
Facilities and structures	\$ —	\$ 1,000	\$ —	\$ 1,000
Leasehold improvements	<u>249</u>	<u>207</u>	<u>—</u>	<u>456</u>
Total capital assets, being depreciated	<u>249</u>	<u>1,207</u>	<u>—</u>	<u>1,456</u>
Less accumulated depreciation for:				
Facilities and structures	—	314	—	314
Leasehold improvements	<u>25</u>	<u>140</u>	<u>—</u>	<u>165</u>
Total accumulated depreciation	<u>25</u>	<u>454</u>	<u>—</u>	<u>479</u>
Total capital assets, being depreciated, net	<u>\$ 224</u>	<u>\$ 753</u>	<u>\$ —</u>	<u>\$ 977</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(8) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE**

Accounts payable and accrued liabilities payable as of June 30, 2004, for the City's individual major funds, nonmajor funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	<u>Accounts Payable</u>	<u>Checks Payable</u>	<u>Accrued Payroll/ Employee Benefits</u>	<u>Total</u>
<b>Governmental funds:</b>				
General	\$ 19,592	\$ 3,449	\$ 91,110	\$ 114,151
Federal/state grant fund	3,150	—	1,062	4,212
Oakland Redevelopment Agency	4,214	—	—	4,214
Municipal Capital Improvement Fund	924	—	271	1,195
Other governmental funds	5,039	—	260	5,299
Governmental activities-				
Internal service funds	<u>1,356</u>	<u>—</u>	<u>67</u>	<u>1,423</u>
<b>TOTAL</b>	<b><u>\$ 34,275</u></b>	<b><u>\$ 3,449</u></b>	<b><u>\$ 92,770</u></b>	<b><u>\$ 130,494</u></b>
<b>Business-type activities – Enterprise Funds:</b>				
Parks and Recreation	\$ 21	\$ —	\$ —	\$ 21
Sewer service	<u>355</u>	<u>—</u>	<u>682</u>	<u>1,037</u>
<b>TOTAL</b>	<b><u>\$ 376</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 682</u></b>	<b><u>\$ 1,058</u></b>

Accounts payable and accrued liabilities for the pension trust funds at June 30, 2004, are as follows (in thousands):

Accounts payable	\$ 6
Investment payable	118,342
Accrued investment management fees	386
Member benefits payable	<u>5,896</u>
<b>TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b>	<b><u>\$ 124,630</u></b>

**(9) 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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At June 30, 2004, the various components of deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Major funds:		
General Fund	\$ 23,473	\$ 8,160
Federal and State Grants Funds	105,551	953
Oakland Redevelopment Agency	70,526	—
Municipal Capital Improvement Fund	21	
Non-major Funds:		
Other Governmental Funds	<u>15,908</u>	<u>—</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 215,479</u></b>	<b><u>\$ 9,113</u></b>

**(10) PROPERTY HELD FOR RESALE**

A summary of changes in property held for resale follows (in thousands):

	<u>July 1, 2003</u>	<u>Purchases</u>	<u>Sales</u>	<u>June 30, 2004</u>
Property held for resale	\$ 71,925	\$ 1,898	\$ 2,322	\$ 71,501

**Discretely Presented Component Unit**

***Oakland Base Reuse Authority***

A summary of changes in property held for resale follows (in thousands):

	<u>July 1, 2003</u>	<u>Conveyance</u>	<u>Transfer</u>	<u>June 30, 2004</u>
Property held for resale	\$ —	\$ 85,028	\$ 5,250	\$ 79,778

On August 7, 2003, the Army conveyed approximately 366 acres of Oakland Army Base (the EDC property), plus certain buildings and improvements, to OBRA. The conveyance from the Army is treated as a donation; accordingly, the land conveyed to OBRA was recorded at its total estimated fair market value of \$81,775,000. As part of the conveyance agreement, OBRA agreed to pay the Oakland Army Base Workforce Development Collaborative (Workforce Collaborative) an amount to be negotiated. OBRA and the Workforce Collaborative finalized an agreement on December 14, 2004, which provided that OBRA, ORA and the Port would

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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pay a total of \$10,800,000 to the Workforce Collaborative. Under a separate agreement between OBRA and the Port dated July 31, 2003, the two parties agreed to each pay 50 percent of the \$10,800,000 liability.

OBRA recorded capital contributions of \$74,407,184 and payable of \$5,400,000 to the Workforce Collaborative during the year ended June 30, 2004 to reflect the conveyance of the land. All expenditures directly associated with the conveyance of the EDC property incurred prior to August 7, 2003 were included in other assets, and transferred to property held for resale on this date. OBRA incurred property-related expenditures between August 7, 2003 and June 30, 2004 that have been recorded in property held for resale.

Immediately after OBRA obtained title to the EDC property, 70 acres (including 50 acres of submerged property) were conveyed to the Port at a fair value of \$5,250,000

**(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 .92%. Principal and interest were paid on June 30, 2004.

The short-term debt activity for the year ended June 30, 2004, is as follows (in thousands):

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax and Revenue Anticipation Notes	\$—	\$76,325	\$(76,325)	\$—

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(12) LONG-TERM OBLIGATIONS**

**Long-term Obligations**

The following is a summary of long-term obligations for the year ended June 30, 2004 (in thousands):

<b>Governmental Activities</b>			
<b>Type of Obligation</b>	<b>Final Maturity Date</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
General obligation bonds (A)	2032	4.25-8.50%	\$ 232,045
Tax allocation bonds (B)	2033	4.00-8.03%	235,555
Certificates of participation (C)	2015	2.25-6.45%	59,594
Lease revenue bonds (C) (includes accreted interest)	2026	2.25-5.90%	386,200
Pension obligation bonds (D) (includes accreted interest)	2022	5.63-7.31%	436,873
City guaranteed special assessment district bonds (D)	2024	3.70-6.70%	7,940
Notes payable (C) & (E)	2016	4.11-14.48%	46,153
Accrued vacation and sick leave (C)			37,436
Self-insurance liability for workers' compensation (C)			94,874
Estimated claims payable (C)			48,716
Pledge obligation for authority debt (C)			<u>93,950</u>
<b>GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS</b>			<u><b>1,679,336</b></u>
<b>DEFERRED AMOUNTS:</b>			
Bond issuance premiums			\$ 11,830
Bond refunding loss			<u>(20,333)</u>
<b>GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET</b>			<u><b>\$1,670,833</b></u>

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, 2004**

<b>Business-Type Activities</b>			
<b>Entity and Type of Obligation</b>	<b>Final Maturity Date</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
Sewer fund – notes payable	2014	3.0-3.5%	<u>\$ 6,362</u>
BUSINESS-TYPE ACTIVITIES – TOTAL LONG-TERM OBLIGATIONS			<u>\$ 6,362</u>

<b>Component Unit - Port of Oakland</b>			
<b>Type of Obligation</b>	<b>Final Maturity Date</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
Parity bonds	2032	2.75-8.00%	\$ 1,418,586
Notes and loans	2029	1.25-6.80%	<u>194,983</u>
			1,613,569
Self-insurance liability for workers' compensation			<u>3,000</u>
Total			1,616,569
Unamortized bond discount and premium, net			(99)
Deferred loss on refunding			<u>(5,584)</u>
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			<u>\$ 1,610,886</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, 2004, the City's debt limit (3.75% of valuation subject to taxation) was \$860,823,608. The total amount of debt applicable to the debt limit was \$232,045,000. The resulting legal debt margin was \$628,778,608.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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## **Interest Rate Swaps**

### **Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2**

*Objective of the interest rate swap.* As a means to lowering its borrowing costs, the City of Oakland (the "City") entered into a Forward Swap (the "Swap") in connection with its \$187,500,000 Oakland Joint Powers Financing Authority (the "Authority") Lease Revenue Bonds, 1998 Series A1/A2. The intent of the interest rate swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 5.6775% through the end of the swap agreement in 2021. On April 25, 2000, the Swap was assigned to Goldman Sachs Mitsui Marine Derivative Products, U.S., L.P (the "Counterparty") in the notional amount of \$170,000,000. 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 (the "65% of LIBOR Rate"). This amendment resulted in the City receiving approximately \$5,975,000 from Goldman Sachs reflecting the change in market value. Furthermore, the funds received and the change in the Swap index should result in a lower cost of borrowing when used in combination with the Bonds, and will enhance the relationship between risk and return with respect to the City's overall bond program. As of June 30, 2004, the notional amount to be amortized was \$137,500,000 and the amount of outstanding bonds was \$152,100,000. A third party bond insurer insures the interest and principal payments on the bonds.

*Terms.* The bonds mature on July 31, 2021, and are subject to mandatory tender on August 1, 2008. The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2004 of \$137,500,000. The notional amount of the swap and the par amount of the Bonds each decline according to the same schedule through 2021. The Swap was entered into at the same time the Bonds were issued (January 1997). Under the Swap, the Authority 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 Authority then pays the bondholder a tax-exempt variable rate of interest. The Authority'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 \$23,909,103 as of June 30, 2004. As the coupons on the Bonds adjust as LIBOR adjusts, the Bonds do not have a corresponding fair value increase. 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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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, 2004. 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 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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*Swap Payments and Associated Debt.* Under rates as of June 30, 2004, debt service requirements of the variable-rate Bonds and net swap payments, *assuming current interest rates remain the same* through the July 2021 termination date of the Swap and the mandatory tender date on the Bonds, are as follows (in thousands):

Year ending June 30	Principal	Interest	Interest Rate Swap, Net	Total Debt Service*
2005	\$ 9,200,000	\$ 3,318,750	\$ 4,555,148	\$ 17,073,898
2006	9,000,000	3,114,000	4,243,245	16,357,245
2007	8,900,000	2,912,625	3,936,484	15,749,109
2008	8,700,000	2,714,625	3,634,864	15,049,489
2009	8,500,000	2,521,125	3,340,099	14,361,224
2010	8,300,000	2,332,125	3,052,189	13,684,314
2011	8,100,000	2,147,625	2,771,134	13,018,759
2012	7,900,000	1,967,625	2,496,934	12,364,559
2013	7,700,000	1,792,125	2,229,589	11,721,714
2014	7,500,000	1,621,125	1,969,099	11,090,224
2015	7,300,000	1,454,625	1,715,464	10,470,089
2016	7,100,000	1,292,625	1,468,684	9,861,309
2017	6,800,000	1,136,250	1,230,473	9,166,723
2018	6,700,000	984,375	999,116	8,683,491
2019	6,500,000	835,875	772,901	8,108,776
2020	6,500,000	689,625	550,114	7,739,739
2021	6,400,000	544,500	329,040	7,273,540
2022	<u>21,000,000</u>	<u>40,688</u>	<u>109,680</u>	<u>21,150,368</u>
<b>TOTALS</b>	<b><u>\$ 152,100,000</u></b>	<b><u>\$ 31,420,313</u></b>	<b><u>\$ 39,404,257</u></b>	<b><u>\$222,924,570</u></b>

\* Calculated at a fixed swap interest rate of 5.677% and using 2.25% as the variable rate on the Series 1998 A/1 & A/2 Bonds.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**Administration Building**

*Objective of the Interest Rate Swap.* The decline in interest rates in recent years provided the City an opportunity to lock in long-term interest rates. On May 21, 2004, the City entered into a floating-to-fixed rate ("fixed-payer") interest rate swap with Bank of America, N.A. and UBS AG ("Counterparties"). The swap became effective on June 10, 2004, in conjunction with the issuance of the \$58,600,000 Series A-1 and \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, Oakland Administration Buildings (Auction Rate Securities).

The executed transaction consisted of a \$117,200,000, 22-year interest rate swap under which the City will pay the Counterparties a fixed rate of 3.533% and receive 58% of 1-month London Interbank Offer Rate (LIBOR) plus 35 basis points (100 basis points equals 1%).

The City was able to take advantage of current market conditions and create synthetic fixed-rate debt at a very favorable rate. In addition to the decline in the general level of interest rates and after careful review, the City elected to utilize percentage of LIBOR (58%) plus a margin (35 basis points) versus a straight percentage of LIBOR to reduce the basis risk in a lower rate environment (current environment).

*Terms.* The bonds mature on August 1, 2026, and are subject to optional redemption while any Auction Rate is in effect with respect to a Series of the 2004 Series A Bonds equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The swaps terminate on August 1, 2026, and have a total notional amount of \$117,200,000 as of June 30, 2004. The trade date of the swap was May 21, 2004, and became effective on June 10, 2004, at which time the bonds were issued. Under the swap, the City pays the counterparties a fixed rate of 3.533% and receives a variable payment computed at 58% of 1-month LIBOR plus 35 basis points. The Authority then pays the bondholder a tax-exempt variable rate of interest.

*Fair Value.* As of June 30, 2004, the interest rate swap with Bank of America, N.A. (notional amount of \$58,600,000) had a negative fair value of \$942,013 and the interest rate swap with UBS AG (notional amount of \$58,600,000) had a negative fair value of \$951,381. 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, 2004: Bank of America, N.A. (Aa1 by Moody's Investors Service and AA- by Standard and Poor's), and UBS AG (Aa2 by Moody's Investors Service and AA+ by Standard and Poor's).

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

*Swap Payments and Associated Debt.* The following table presents the estimated debt service requirements for the 2004 Series A Bonds. Under rates as of June 30, 2004, debt service requirements of the variable-rate bonds and net swap payments, assuming current interest rates remain the same through the August 21, 2026, maturity date.

Year Ending June 30	Principal	Interest	Interest Rate Swap, Net	Total Debt Service*
2005	\$ 4,650,000	\$ 910,979	\$ 1,663,812	\$ 7,224,791
2006	3,350,000	1,385,937	2,531,276	7,267,213
2007	3,475,000	1,343,281	2,453,368	7,271,650
2008	3,575,000	1,299,218	2,372,893	7,247,111
2009	3,750,000	1,253,437	2,289,278	7,292,715
2010	3,875,000	1,205,781	2,202,238	7,283,020
2011	4,050,000	1,156,250	2,111,775	7,318,025
2012	4,175,000	1,104,843	2,017,886	7,297,730
2013	4,375,000	1,051,406	1,920,288	7,346,694
2014	4,525,000	995,781	1,818,694	7,339,476
2015	4,675,000	938,281	1,713,676	7,326,958
2016	4,875,000	878,593	1,604,663	7,358,257
2017	5,050,000	816,562	1,491,369	7,357,932
2018	5,275,000	752,031	1,373,509	7,400,541
2019	5,450,000	685,000	1,251,084	7,386,084
2020	5,675,000	615,468	1,124,092	7,414,560
2021	5,900,000	543,125	991,963	7,435,088
2022	6,125,000	467,968	854,698	7,447,666
2023	6,375,000	389,843	712,010	7,476,854
2024	6,600,000	308,750	563,901	7,472,651
2025	6,875,000	224,531	410,083	7,509,615
2026	7,125,000	137,031	250,273	7,512,305
2027	<u>7,400,000</u>	<u>46,250</u>	<u>84,471</u>	<u>7,530,721</u>
<b>TOTALS</b>	<b><u>\$117,200,000</u></b>	<b><u>\$ 18,510,346</u></b>	<b><u>\$33,807,300</u></b>	<b><u>\$169,517,646</u></b>

\*Calculated at a fixed swap interest of 3.533% and using 1.25% as the variable rate on the Series 2004A Bonds. Actual debt service may be higher or lower than the synthetic rate.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

**Changes in Long-term Obligations**

The changes in long-term obligations for the year ended June 30, 2004, are as follows (in thousands):

<b>Governmental Activities</b>					
	<u>Balance at July 1, 2003</u>	<u>Additional Obligations, Interest Accretion and Net Increases</u>	<u>Current Maturities Retirements and Net Decreases</u>	<u>Balance at June 30, 2004</u>	<u>Amounts Due Within One Year</u>
<b>Bonds Payable</b>					
General obligation bonds	\$ 167,350	\$ 71,450	\$ 6,755	\$ 232,045	\$ 6,320
Tax allocation bonds	246,660	—	11,105	235,555	9,830
Certificates of participation	59,115	—	4,335	54,780	4,585
Lease revenue bonds	382,645	117,200	113,645	386,200	22,005
Pension obligation bonds	408,849	—	20,025	388,824	22,420
City guaranteed special assessment district bonds	8,463	—	523	7,940	530
Accreted interest on appreciation bonds	38,259	14,604	—	52,863	—
Less deferred amounts:					
Bond issuance premiums	12,366	587	1,123	11,830	1,095
Bond refunding loss	<u>(19,924)</u>	<u>(2,960)</u>	<u>(2,551)</u>	<u>(20,333)</u>	<u>(2,672)</u>
<b>TOTAL BONDS PAYABLE</b>	<u>1,303,783</u>	<u>200,881</u>	<u>154,960</u>	<u>1,349,704</u>	<u>64,113</u>
Notes payable	<u>49,448</u>	<u>3,927</u>	<u>7,222</u>	<u>46,153</u>	<u>7,662</u>
<b>Other Long Term Liabilities</b>					
Accrued vacation and sick leave	32,798	30,502	25,864	37,436	26,525
Self-insurance workers' compensation	91,367	21,181	17,674	94,874	24,384
Pledge obligation for authority debt	96,590	—	2,640	93,950	2,800
Estimated claims payable	<u>49,569</u>	<u>7,452</u>	<u>8,305</u>	<u>48,716</u>	<u>17,196</u>
<b>TOTAL OTHER LONG TERM LIABILITIES</b>	<u>270,324</u>	<u>59,135</u>	<u>54,483</u>	<u>274,976</u>	<u>70,905</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES – LONG TERM OBLIGATIONS</b>	<u>\$1,623,555</u>	<u>\$ 263,943</u>	<u>\$ 216,665</u>	<u>\$1,670,833</u>	<u>\$ 142,680</u>

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, 2004, \$22.3 million of notes payable 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, 2004**

**Business-Type Activities**

	Balance at July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2004	Amounts Due Within One Year
Sewer fund – notes payable	<u>\$ 7,045</u>	<u>\$—</u>	<u>\$683</u>	<u>\$6,362</u>	<u>\$706</u>

**Component Unit - Port of Oakland**

	Balance at July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2004	Amounts Due Within One Year
Parity bonds	\$1,427,827	\$ —	\$ 9,241	\$1,418,586	\$ 8,155
Notes and loans	197,879	1,307	4,203	194,983	37,852
Self-insurance workers' compensation	<u>3,000</u>	<u>1,184</u>	<u>1,184</u>	<u>3,000</u>	<u>3,000</u>
<b>TOTAL</b>	1,628,706	2,491	14,628	1,616,569	49,007
Unamortized bond discount/premium, net	796	(34)	861	(99)	789
Deferred loss on refunding	<u>(5,948)</u>	<u>—</u>	<u>(364)</u>	<u>(5,584)</u>	<u>(364)</u>
<b>TOTAL DEBT</b>	<u>\$1,623,554</u>	<u>\$ 2,457</u>	<u>\$ 15,125</u>	<u>\$1,610,886</u>	<u>\$49,432</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

**Repayment Schedule**

The annual requirements to amortize all long-term debt as of June 30, 2004, are as follows (in thousands):

	2005	2006	2007	2008	2009	2010- 2014	2015- 2019	2020- 2024	2025- 2029	2030- 2034	2035- 2038	Total
<b>Government-type</b>												
<b>Activities:</b>												
<b>General obligation</b>												
<b>bonds:</b>												
Principal	\$ 6,320	\$ 6,540	\$ 6,770	\$ 7,095	\$ 7,450	\$ 43,755	\$ 54,340	\$ 50,275	\$ 26,830	\$ 22,670	\$ —	\$ 232,045
Interest	11,981	11,689	11,384	11,068	10,723	47,502	34,654	19,185	9,674	2,718	—	170,578
<b>Certificates of</b>												
<b>participation:</b>												
Principal	4,585	4,465	4,749	5,300	5,620	26,675	8,200	—	—	—	—	59,594
Interest	1,898	1,718	3,068	3,007	1,693	4,423	332	—	—	—	—	16,139
<b>Lease revenue</b>												
<b>bonds:</b>												
Principal	22,005	20,885	21,305	21,625	22,070	118,915	73,420	64,575	21,400	—	—	386,200
Interest	16,382	16,818	15,772	14,831	13,736	51,067	24,879	9,380	1,153	—	—	164,018
<b>Pension obligation</b>												
<b>bonds:</b>												
Principal	22,420	25,020	27,850	30,920	34,250	133,550	97,879	64,984	—	—	—	436,873
Interest	11,534	9,928	8,118	6,091	3,833	54,344	125,226	138,606	—	—	—	357,680
<b>City guaranteed</b>												
<b>special assessment</b>												
<b>bonds:</b>												
Principal	530	285	285	305	320	1,745	1,745	2,170	555	—	—	7,940
Interest	411	390	377	361	345	1,447	981	449	13	—	—	4,774
<b>Tax allocation bonds:</b>												
Principal	9,830	10,325	10,920	11,165	11,775	67,915	82,155	19,815	5,065	6,590	—	235,555
Interest	13,396	12,876	12,301	11,674	11,038	44,423	22,146	4,022	2,422	901	—	135,199
<b>Notes payable:</b>												
Principal	7,662	6,335	6,958	4,111	4,155	16,932	—	—	—	—	—	46,153
Interest	1,473	1,168	1,228	469	284	3,557	—	—	—	—	—	8,179
<b>TOTAL PRINCIPAL</b>	<b>\$ 73,352</b>	<b>\$ 73,855</b>	<b>\$ 78,837</b>	<b>\$ 80,521</b>	<b>\$ 85,640</b>	<b>\$409,487</b>	<b>\$317,739</b>	<b>\$201,819</b>	<b>\$ 53,850</b>	<b>\$ 29,260</b>	<b>\$ —</b>	<b>\$1,404,360</b>
<b>TOTAL INTEREST</b>	<b>\$ 57,075</b>	<b>\$ 54,587</b>	<b>\$ 52,248</b>	<b>\$ 47,501</b>	<b>\$ 41,652</b>	<b>\$206,763</b>	<b>\$208,218</b>	<b>\$171,642</b>	<b>\$ 13,262</b>	<b>\$ 3,619</b>	<b>\$ —</b>	<b>\$ 856,567</b>

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

	2005	2006	2007	2008	2009	2010- 2014	2015- 2019	2020- 2024	2025- 2029	2030- 2034	2035- 2038	Total
<b>Business-type</b>												
<b>Activities:</b>												
<b>Sewer Notes</b>												
Principal	\$ 706	\$ 730	\$ 755	\$ 780	\$ 806	\$ 2,585	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,362
Interest	223	185	160	135	109	188	—	—	—	—	—	1,000

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**Component Unit - Port of Oakland**

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2004, are as follows (in thousands):

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 46,005	\$ 79,566	\$ 125,571
2006	165,424	77,083	242,507
2007	20,052	76,779	96,831
2008	28,301	76,504	104,805
2009	33,656	75,714	109,370
2010-2014	227,486	329,242	556,728
2015-2019	288,111	255,545	543,656
2020-2024	274,998	177,958	452,956
2025-2029	315,115	98,252	413,367
2030-2033	<u>214,421</u>	<u>19,634</u>	<u>234,055</u>
SUBTOTAL	1,613,569	1,266,277	2,879,846
Unamortized bond (discount) premium, net	(99)	—	(99)
Current maturities of long term debt and amortization	(46,432)	—	(46,432)
Deferred loss on refunding	<u>(5,584)</u>	<u>—</u>	<u>(5,584)</u>
TOTAL	<u>\$1,561,454</u>	<u>\$1,266,277</u>	<u>\$2,827,731</u>

Net interest costs of \$16,307 were capitalized in fiscal 2004, following the capitalization of interest revenue of \$13,574. Total capitalized interest expense amounted to \$29,881 for fiscal 2004.

**General Obligation Bonds, Series 2003A (Measure DD)**

On August 6, 2003, the City issued \$71,450,000 of General Obligation Bonds, Series 2003A, Measure DD. The bonds have interest rates of 2.50% to 5.00% and mature in 2032. These bonds constitute a portion of the total authorized amount of \$198,250,000 bonds duly approved by at least two-thirds of the voters voting on Measure DD at the City election held on November 5, 2002.

These bonds provided funds to acquire and construct water quality improvements for and related to Lake Merritt, Lake Merritt Channel, the Estuary and creeks in Oakland; improve, renovate and construct youth and public recreational facilities; rehabilitate and acquire parks,

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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open space and other recreational, safety and maintenance facilities; and provide safe public access to Lake Merritt, Lake Merritt Channel and the Estuary.

### **GE Capital**

On March 22, 2004, the City executed a note with a stated interest rate of 3.75% with GE Capital in the amount of \$3.9 million to fund the acquisition of a computer server. The General Fund and the Municipal Improvement Capital Fund will repay the note. The final payment will be made on April 7, 2009.

### **Current Year Refunding**

\$58,600,000 Series A-1 & \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 (Auction Rate Securities). The 2004 Bonds were issued by the Oakland Joint Powers Financing Authority on June 10, 2004, to refund and defease all of the Authority's outstanding Lease Revenue Bonds (Oakland Administration Buildings) Series 1996 which were issued to finance a portion of the design, construction, rehabilitation, and equipping of two buildings that are part of the administrative center of the City of Oakland, finance certain public capital projects of the City, pay the premium for a financial guaranty insurance policy and a debt service reserve surety bond, and pay certain of the costs of issuance.

The refunding resulted in the recognition of a deferred accounting loss of \$2,960,000 for the fiscal year ended June 30, 2004. The City in effect reduced its aggregate debt service payments by approximately \$4,114,150 over the next 22 years and obtained a net economic gain (difference between the present value of the old and the new debt service payments) of \$2,959,649.

The bonds, insured by AMBAC Assurance Corporation, and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor.

### **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, 2004, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to \$56.5 million.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**Authorized and Unissued Debt**

The net amount of authorized and unissued governmental activities – general obligation bonds as of June 30, 2004, was \$21 million (Measure G). These bonds were authorized by the voters, in a City election, on March 5, 2002. The bonds are to be issued by the City to acquire, renovate, improve, construct, and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo, and the Chabot Space and Science Center.

Also, 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.

**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 debt issued and outstanding at June 30, 2004, follows (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2004</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	1,245
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1988	23,000	07/01/08	9,970
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	5,115
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	19,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc.)	5,800	07/01/33	<u>5,800</u>
<b>TOTAL</b>			<b><u>\$121,075</u></b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(13) SELF-INSURANCE**

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2004 and 2003, are as follows (in thousands):

	<b>2004</b>	<b>2003</b>
<b>Workers' Compensation</b>		
Unpaid claims, beginning of fiscal year	\$ 91,367	\$ 90,694
Current year claims and changes in estimates	21,181	15,598
Claim payments	<u>(17,674)</u>	<u>(14,925)</u>
Unpaid claims, end of fiscal year (see Note 12)	<u>\$ 94,874</u>	<u>\$ 91,367</u>
<b>General Liability</b>		
Unpaid claims, beginning of fiscal year	\$ 49,569	\$ 45,242
Current year claims and changes in estimates	7,452	13,395
Claims payments	<u>(8,305)</u>	<u>(9,068)</u>
Unpaid claims, end of fiscal year (Note 12)	<u>\$ 48,716</u>	<u>\$ 49,569</u>

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; injuries of employees; 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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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, 2004, the amount of liability determined to be probable of occurrence is approximately \$48,716,000. Of this amount, claims and litigation approximating \$17,196,000 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 of Oakland, 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.

### **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 \$94,874,000 in accrued liabilities, approximately \$24,384,000 is estimated to be due within one year.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**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:

<b>Type of Coverage</b>	<b>Self-Insurance Retention</b>	<b>Insurance Authority/Purchase Insurance</b>
General Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence
Automobile Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence
Public Officials Errors and Omissions	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual aggregate
Products & Completed Operations	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to \$2,000,000	\$2,000,000 to \$20,000,000 per occurrence/annual aggregate
Workers' Compensation	unlimited	

**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 \$1 million per accident. Effective February 7, 1997, the Port carries commercial insurance for claims in excess of \$1 million. The statutory limit on the Port's commercial insurance policy is \$25 million.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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 actuarial estimates and include an estimate of claims that have been incurred but not reported, including allocated loss adjustment expenses. Changes in the reported liability resulted from the following (in thousands):

	<u>2004</u>	<u>2003</u>
Workers' compensation liability at beginning of fiscal year	\$ 3,000	\$ 3,000
Current year claims and changes in estimates	1,184	1,018
Claim payments	<u>(1,184)</u>	<u>(1,018)</u>
Workers' compensation liability at end of fiscal year	<u>\$ 3,000</u>	<u>\$ 3,000</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. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable. Amounts have been accrued as other liabilities.

**(14) 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 Manager 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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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. In February 2004, the 1995 Fixed Rate Refunding Lease Revenue Bond was fully repaid by the Authority.

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. Certain revenues collected from Raiders football operations consisting of revenues from the sale of seat rights, as well as annual seat maintenance fees, a portion of net parking and concession revenues and concessionaires' initial fees may be used toward meeting this liability. In the event that such football revenues 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 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).

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 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 are 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.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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.

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, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. 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. In a series of decisions, the court has ruled that (1) the Raiders Management cannot rescind or terminate its lease; and (2) the East Bay Entities do not have claims for damages. Raider Management increased their claim against the East Bay Entities to \$1.1 billion for damages; and (3) Coliseum, Inc. was the only East Bay entity against which the fraud claims could be tried related to claims of fraudulent inducement. Prior to the trial, Raider Management agreed to arbitrate all breach of contract claims. At the conclusion of the trial, the jury found no liability on the fraud claims, but did award the Raiders damages of \$35 million for negligent misrepresentation. This judgment has been entered only against Coliseum, Inc. Attorneys for the Oakland-Alameda County Coliseum, Inc. have filed an appeal of that decision. The judgment has been fully stayed pending the outcome of the appeal. The decision on the appeal is not expected until mid-2005.

In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors (the Warriors) to collect: (1) past due rents for use of the arena; (2) past due amounts of revenue sharing required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also sought damages for the Warriors breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitrator found on October 6, 1999, that the Warriors owed more than \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. A second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be quantified. On March 22, 2001, the Superior Court

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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confirmed the arbitrator's awards and entered a judgment against the Warriors for the full amount of the award. The Warriors appealed the judgment. Subsequent to June 30, 2002, the Warriors lost the appeal and the judgment was settled in favor of the Authority for the above-mentioned \$17 million plus interest. A subsequent arbitration proceeding resulted in an award in favor of the Authority of approximately \$3 million. In addition, additional arbitration claims had been filed by the Warriors and the Authority and the Warriors had made various other claims that had not yet been filed with an arbitrator. On September 25, 2003, the Authority approved a settlement that reconciled the various claims for back payments by both parties and settled outstanding claims. This settlement resulted in a net payment of approximately \$5 million from the Authority to the Warriors.

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

<u>For the period ending June 30,</u>	<u>Stadium Debt</u>		<u>Arena Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 5,600	\$ 7,276	\$ 2,500	\$ 8,097
2006	6,100	6,949	2,700	7,938
2007	5,500	6,606	3,000	7,766
2008	5,800	6,289	3,100	7,575
2009	6,200	5,924	3,300	7,377
2010-2014	37,500	24,794	20,700	33,360
2015-2019	47,400	17,340	29,100	25,729
2020-2024	60,000	8,151	40,900	14,991
2025-2026	<u>13,800</u>	<u>320</u>	<u>20,800</u>	<u>2,039</u>
TOTAL	<u>\$187,900</u>	<u>\$83,649</u>	<u>\$126,100</u>	<u>\$114,872</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, 2004, the City made contributions of \$10,000,000 to fund its share of operating deficits and debt service payments of the Authority.

The 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 \$20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$9,650,000 for the 2004-05 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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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amount of \$93,950,000. 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.

**(15) 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.

As of June 30, 2004 and 2003, the investment portfolio contained the following concentration of investments in an organization (other than those issued or guaranteed by the U.S. government) that represented 5 percent or more of total System net assets:

<u>Investments</u>	<u>2004</u>
Collective Short-term Investment Fund	\$1,925,620
PIMCO FDS Low Duration Funds	1,009,981
Vanguard Bond Index Funds	<u>1,004,671</u>
TOTAL	<u>\$3,940,272</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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No investments in any one non-federal organization represented 5% or more of PFRS net assets for pension benefits as of June 30, 2004.

	<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, 2003	July 01, 2002	June 30, 2003

**Significant actuarial assumptions**

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the City's actuarial accrued liability.

	<u>PFRS</u>	<u>OMERS</u>	<u>PERS</u>
General wage increase:			
Inflation rate	3.5%	3.5%	3.0%
Average salary increases	4.5%	3.0%	3.2%
Investment rate of return	8.0%	8.0%	7.75%
Cost-of-living adjustments	—	—	2.0%

**Police and Fire Retirement System**

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 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, 2004, stand alone financial statements are available by contacting the City Manager'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. 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 the 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 OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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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 the PFRS through 2011. Bond proceeds in the amount of \$417,173,300 were contributed in fiscal 1997 and, as a result, no employer contributions are required through fiscal year 2011.

For the year ended June 30, 2004, employee contributions to PFRS totaling \$21,581 were made in accordance with actuarially determined contribution requirements.

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 27, "Accounting for Pensions by State and Local Governmental Employers," for fiscal year ended June 30, 2004, were as follows:

Pension asset, beginning of year		<u>\$387,737,180</u>
Interest on pension asset	\$ 31,018,975	
Adjustment to the annual required contribution	<u>(37,386,460)</u>	<u>(6,367,485)</u>
Pension asset, end of year		<u>\$381,369,695</u>

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2004 and each of the two preceding years:

Fiscal Year Ended June 30,	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset
2002	\$5,459,093	—	\$393,633,000
2003	5,895,820	—	387,737,180
2004	6,367,485	—	381,369,695

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

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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## **Oakland Municipal Employees Retirement System**

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, 2004, stand alone financial statements are available by contacting by the City Manager's Office, One Frank Ogawa Plaza, Oakland, California 94612.

Employee contributions to OMERS totaling \$6,857 were made during 2004 in accordance with actuarially determined contribution requirements. Employee contributions are refundable with interest at 4.5% per annum if an employee elects to withdraw from the plan upon termination of employment with the City. Because of the Retirement System's 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 System**

### **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 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 7% (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 7.438% for non-safety employees and 29.118% for police and fire employees, of annual

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

**Annual Pension Cost**

For 2003-04, the City's annual pension cost of \$48,433,902 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (average is 3.8%), and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. 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 on a closed basis. The amortization period of the unfunded actuarial liability ends June 30, 2011.

**Three-Year Trend Information for PERS**  
**(in millions)**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$26.9	100	—
2003	37.0	100	—
2004	48.4	100	—

OMERS had one active member transfer to PERS during 2004. As part of the transfer, \$1,494,000 of assets were transferred to PERS to cover the liabilities that were assumed.

**(16) 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 \$2,375,499 was paid on behalf of 936 retirees under this program for the year ended June 30, 2004.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(17) COMMITMENTS AND CONTINGENT LIABILITIES**

**Construction Commitments**

*Primary Government*

The City has committed to funding in the amount of \$64,115,918 to a number of capital improvement projects for fiscal years 2004-05 to 2005-06.

*Discretely Presented Component Unit*

The Port anticipates spending \$763,300,000 through June 2007 for its capital improvement program. The most significant projects include expansion and improvements of the Airport's terminal, parking, roadway and security; construction of a shoreline park, the modernization of wharves and terminals, 50-foot deepening of the channel, and roadway improvements.

As of June 30, 2004, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	\$ 69,004
Aviation	281,390
Commercial real estate	<u>316</u>
Total	<u>\$350,710</u>

The most significant projects for which the Port has contractual commitments are airport terminal expansion of \$253,000,000; and modernization of maritime wharves and terminals: new cranes and infrastructure of \$48,000,000.

*Power Purchases*

The Port of Oakland purchases electrical power for resale and self-consumption at the Airport. The Port determines needs and commits to purchase contracts with power providers in advance. The total purchase commitment at June 30, 2004 is approximately \$3.34 million.

**Other Commitments**

*Primary Government*

As of June 30, 2004, the Agency has entered into contractual commitments of \$2,007,812 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources. The State of California adopted legislation mandating that local government shifts a portion of their

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal year 2004-05, the Agency included in its Adopted Budget an ERAF shift of \$4,780,419.

At June 30, 2004, the Agency was committed to fund \$17,373,456 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.

***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, 2004, is as follows (in thousands):

Environmental remediation	\$ 7,941
Miscellaneous compliance	<u>311</u>
Total environmental liabilities	<u>\$ 8,252</u>

**CITY OF OAKLAND**  
Notes to Basic Financial Statements, (continued)  
Year Ended June 30, 2004

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## **Oakland Base Reuse Authority**

### ***Commitments and Contingencies***

#### **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 is responsible for the first \$13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, \$5.0 million has been received.

The next \$11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. The next \$9.0 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. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance.

OBRA 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.

#### **Oakland Army Base Workforce Development Collaborative**

OBRA and the Port have agreed to share equally in certain expenses related to the conveyance of the EDC property. As of December 20, 2004, OBRA and the Port have paid a total of \$5.7 million to the Workforce Collaborative. OBRA could incur liabilities of up to \$2.55 million if the Port does not pay its share of the remaining \$5.1 million due to the Workforce Collaborative. No provisions have been made to reflect any contingent liabilities should the Port not pay its share of post-conveyance liabilities.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(18) DEFICIT FUND BALANCES/NET ASSETS**

As of June 30, 2004, the following funds reported deficits in fund balance/net assets (in thousands):

Federal/State Grant Fund	\$ (23,123)
Special Revenue - ORA Projects	(3,481)

The City's federal/state grant fund deficit is expected to be cured through more timely drawdown and collection of federal/state funds. The ORA projects fund deficit is expected to be cured by reimbursements from the Agency.

Internal Service:	
Facilities	\$ (10,783)
Central Stores	(5,101)

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

**(19) SUBSEQUENT EVENTS**

**Tax and Revenue Anticipation Notes**

On July 28, 2004, the City issued tax and revenue anticipation notes payable of \$65,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 1.44 %. Principal and interest are due and payable on July 27, 2005.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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**(20) RESTATEMENT OF NET ASSETS**

The City's beginning fund balance for the Oakland Redevelopment Agency Governmental Fund (ORA Fund) reported on the statement of revenues, expenditures and changes in fund balances of the fund financial statements has been restated to reflect changes in interfund loans. During fiscal year 1998/99, the City determined that the City Center Garage Loan made from the City's General Fund to the ORA Fund was not expected to be repaid within a reasonable time, and decided to charge the loan balance to community and economic development expenditures in the General Fund and set up a corresponding deferred revenue balance to offset the interfund loan. Because of the uncertainties surrounding the repayment, it has been determined that it would be prudent to remove the interfund loan altogether in order to provide symmetry between the General Fund and the ORA Fund and restate beginning fund balance for the ORA Fund. Therefore, the following restatement of beginning fund balance has been made in the ORA Fund:

Fund Balance, as of beginning of the year	\$ 189,425,000
Restatement to remove the interfund loan payable to the City	<u>18,586,000</u>
Fund Balance, as of beginning of the year, as restated	<u>\$ 208,011,000</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2004**

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# REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF OAKLAND**  
**Required Supplementary Information**  
(unaudited)  
June 30 2004

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**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.

**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]
2001	\$432,051,707	\$363,660,265	\$68,391,442	84.2%	\$92,125,191	74.2%
2002	563,199,567	373,263,858	189,935,709	66.3%	104,070,500	182.5%
2003	631,484,014	454,728,659	176,755,355	72.0%	111,041,143	159.2%

**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]
2001	\$ 883,320,455	\$1,059,605,539	\$(176,285,084)	120.0%	\$171,872,368	(102.6%)
2002	952,399,380	1,003,318,723	(50,919,343)	105.3%	197,383,330	(25.8%)
2003	1,197,321,821	1,010,654,872	186,666,949	84.4%	207,930,860	89.8%

**CITY OF OAKLAND**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2004**  
*(In Thousands)*

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$110,454	\$ 110,454	\$109,927	\$ (527)
State:				
Sales and use	37,010	37,028	36,464	(564)
Motor vehicle in-lieu	7,683	16,166	18,178	2,012
Local:				
Business license	42,835	42,835	44,223	1,388
Utility consumption	53,550	53,550	48,056	(5,494)
Real estate transfer	38,000	38,000	55,665	17,665
Transient occupancy	10,463	10,463	9,857	(606)
Parking	7,944	7,944	9,799	1,855
Franchise	11,188	11,188	11,592	404
Licenses and permits	14,030	14,030	13,453	(577)
Fines and penalties	23,585	23,702	26,817	3,115
Interest and investment income	1,898	1,898	(5,722)	(7,620)
Charges for services	63,854	65,240	56,883	(8,357)
Federal and state grants and subventions	1,468	1,468	2,147	679
Other	38,545	29,884	23,276	(6,608)
<b>TOTAL REVENUES</b>	<u>462,507</u>	<u>463,850</u>	<u>460,615</u>	<u>(3,235)</u>
<b>EXPENDITURES</b>				
Current:				
Elected and Appointed Officials-				
Mayor	1,671	1,671	1,767	(96)
Council	2,162	2,216	2,265	(49)
City Manager	13,185	11,362	6,117	5,245
City Attorney	7,181	7,205	7,518	(313)
City Auditor	1,049	1,049	984	65
City Clerk	2,132	2,285	1,959	326
Agencies/Departments:				
Personnel Resource Management	3,860	3,594	3,783	(189)
Information Technology	7,675	9,416	9,033	383
Financial Services	18,537	19,050	18,247	803
Police Services	150,845	150,842	160,114	(9,272)
Fire Services	90,107	90,916	87,516	3,400
Life Enrichment:				
Administration	-	13	1	12
Parks and Recreation	17,016	17,989	15,841	2,148
Library	10,528	10,730	10,497	233
Museum	6,937	7,372	7,822	(450)
Marketing	1,648	1,711	1,516	195
Aging & Health and Human Services	6,575	7,268	5,668	1,600
Cultural Arts	200	4	14	(10)
Community and Economic Development	22,209	24,207	20,152	4,055
Public Works	26,256	28,005	27,475	530
Other	18,294	18,429	20,103	(1,674)
Capital outlay	68	713	4,060	(3,347)
Debt service:				
Principal repayment	214	722	390	332
Interest charges	-	31	349	(318)
<b>TOTAL EXPENDITURES</b>	<u>408,349</u>	<u>416,800</u>	<u>413,191</u>	<u>3,609</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>54,158</u>	<u>47,050</u>	<u>47,424</u>	<u>374</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of refunding bonds	-	-	3,927	3,927
Property sale proceeds	61	61	1,497	1,436
Transfers in	13,488	13,488	83,547	70,059
Transfers out	(73,807)	(73,972)	(156,827)	(82,855)
<b>TOTAL OTHER FINANCING USES, NET</b>	<u>(60,258)</u>	<u>(60,423)</u>	<u>(67,856)</u>	<u>(7,433)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(6,100)</u>	<u>(13,373)</u>	<u>(20,432)</u>	<u>(7,059)</u>
Fund balances - beginning	172,346	115,196	261,900	146,704
<b>FUND BALANCES - ENDING</b>	<u>\$166,246</u>	<u>\$ 101,823</u>	<u>\$241,468</u>	<u>\$ 139,645</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, 2004**

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**(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 2003, the City Council approved the City's fourth two-year budget for fiscal years 2003-04 and 2004-05. 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 2003-04 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, 2004**

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**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

**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**  
**Notes to Required Supplementary Information**  
**June 30, 2004**

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**(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, 2004, was \$621,606.

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

	<u>General Fund</u>
Net change in fund balance - budgetary basis	\$ (20,432)
Amortization of debt service deposit agreement	<u>622</u>
Net change in fund balance - GAAP basis	<u><u>\$ (19,810)</u></u>

**CITY OF OAKLAND**  
**Notes to Required Supplementary Information**  
**June 30, 2004**

---

The General Fund Balance on a Budgetary Basis reconciled to that on a GAAP basis as of June 30, 2004, is as follows (in thousands):

	<b>General Fund</b>
Fund Balance, June 30, 2004 - Budgetary Basis	\$241,468
Unamortized debt service deposit agreement	<u>(8,160)</u>
Fund Balance, June 30, 2004 – GAAP Basis	<u><b>\$233,308</b></u>

General Fund Budgetary Basis Fund Balance at June 30, 2004, is composed of the following (in thousands):

	<b>General Fund</b>
Reserved:	
Encumbrances	\$ 4,779
Unreserved reported in:	
General fund	<u>228,529</u>
<b>TOTAL FUND BALANCES</b>	<u><b>\$233,308</b></u>

# FEDERAL AWARDS PROGRAMS



## MACIAS GINI & COMPANY<sup>LLP</sup>

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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 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 4, 2005. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), which represent 4%, 11%, and 22%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. 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 OBRA, 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated February 4, 2005.

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*.

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.

Macias, Gini & Company LLP  
Certified Public Accountants

Walnut Creek, California  
February 4, 2005



## MACIAS GINI & COMPANY<sup>LLP</sup>

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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 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, 2004. 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), and the Oakland Base Reuse Authority (OBRA) that expended \$16,165,310 and \$3,211,671 in federal awards respectively, that are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2004. Our audit of compliance, described below, did not include the operations of the Port or OBRA because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately, and because OBRA engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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, 2004. However, the results of our auditing procedures disclosed instances 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 items 2004-01, 2004-02 and 2004-03.

#### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board of Supervisors, 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 & Company LLP*  
Certified Public Accountants

Walnut Creek, California  
February 4, 2005

CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
For the fiscal year ended June 30, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through the State of California				
Department of Education-				
Child & Adult Care Food Program	10.558	01-1135-1J	\$ 292,194	\$ -
Summer Food Service Program for Children	10.559	01-80102V	154,312	108,035
Empowerment Zone Program	10.772	C14043	16	-
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b><u>446,522</u></b>	<b><u>108,035</u></b>
<b>U.S. DEPARTMENT OF COMMERCE</b>				
Economic Adjustment Assistance-				
EDA Brownfields Planning Grant	11.307	07-39-02873	263,148	-
Technology Opportunities	11.552	06-60-99001	(230)	(230)
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>			<b><u>262,918</u></b>	<b><u>(230)</u></b>
<b>U.S. DEPARTMENT OF DEFENSE</b>				
Community Economic Adjustment Planning Assistance-				
Military Base Conversion	12.607	C749-03898	(10,238)	-
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			<b><u>(10,238)</u></b>	<b><u>-</u></b>
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>				
Community Development Block Grants/ Entitlement Grants				
	14.218	B-01-MC-06-0013	11,794,635	4,809,218
		B-81-AA-06-0038(4)	46,955	4,850
		Agreement	177,467	177,467
		Agreement	75,000	-
		Agreement	460,600	-
		CA004HG602	990,000	-
		CA004HG702	855,000	-
		CA004HG603	305,414	-
		CA004HG401	360,000	-
			<u>15,065,071</u>	<u>4,991,535</u>
Emergency Shelter Grants Program (ESG)	14.231	S00-MC-06-0013	282,540	267,448
Supportive Housing Program	14.235	CA39B80-2005	241,038	240,884
		CA01B002002	1,453,184	1,412,765
		CA39T91-1026	197,212	181,651
		CA39T90149201	(817)	-
			<u>1,890,617</u>	<u>1,835,300</u>
HOME Investment Partnerships Program	14.239	M96-MC060208	406,126	5,000
		M01-MC060208	817,904	-
			<u>1,224,030</u>	<u>5,000</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, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
Housing Opportunities for Persons with Aids	14.241	CA39H00-F001 CA-H02-F001	345,398 1,454,426 <u>1,799,824</u>	345,398 1,440,343 <u>1,785,741</u>
Community Development Block Grants/ Economic Development Initiative	14.246	B94-MC-06-0013-A/ E95-EZ-06-0001	<u>1,325,586</u>	<u>137,148</u>
Community Development Block Grants: Section 108 Loan Guarantees	14.248	B93-MC-06-0013	<u>847,720</u>	<u>-</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<u><b>22,435,388</b></u>	<u><b>9,022,172</b></u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>				
Urban Park and Recreation Recovery Program	15.919	06CTY24800201 06CTY24800101	1,004 <u>8,707</u>	<u>-</u>
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>			<u><b>9,711</b></u>	<u><b>-</b></u>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
Offender Reentry Program	16.202	2002RE-CX-0055	<u>200,949</u>	<u>1,225</u>
Juvenile Accountability Incentive Block Grant	16.523	IP00017503	<u>20,202</u>	<u>20,202</u>
Gang-Free Schools and Communities: Community-Based Gang Intervention	16.544	ATC020169	<u>21,500</u>	<u>-</u>
Title V: Delinquency Prevention Program	16.548	99-WS-QX-0134	<u>210</u>	<u>-</u>
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	2003-DNBX-0066	<u>123,695</u>	<u>-</u>
Federal Surplus Property Transfer Program- Federal Asset Forfeiture	16.578	CA0010900	<u>225,480</u>	<u>46,517</u>
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	95-CC-WX-0152	<u>(3,613)</u>	<u>-</u>
Local Law Enforcement Block Grants Program	16.592	97-LB-VX-2565 98-LB-VX-2565 99-LB-VX-7889 00-LB-BX-1768 01-LB-BX-2311 02-LB-BX-2019	(37,705) (3,977) 37,705 21 578,276 <u>619,438</u> <u>1,193,758</u>	- - - - 12,192 <u>152,570</u> <u>164,762</u>
Executive Office for Weed and Seed	16.595	96-WS-QX-0064 00-WS-QX-0039 02-WS-QX-0091	(433) (320) <u>229,011</u> <u>228,258</u>	- - <u>25,890</u> <u>25,890</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, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
Bulletproof Vest Partnership Program	16.607	P.L. 105-181	8,075	-
Community Prosecution and Project Safe Neighborhoods	16.609	2003-GPCX0150	129,644	106,254
Public Safety Partnership and Community Policing Grants	16.710			
COPS Universal Hiring Supplemental Award		95CCWX0152	2,861	-
COPS Advancing Community Policing Grant		970CWX0007	779	-
COPS More 98 Award		98CLQX0160	61,670	77,516
COPS More 01 Award		2001CLWX0014	37,301	-
COPS Training and Technical Assistance Award		2001HSWXK039	49,114	26,500
COPS Universal Hiring		2001ULWX0022	397,685	-
Creating Culture		2002HSWX0005	1,361	-
COPS Secure in School		2002CKWX0237	25,225	-
			<u>575,996</u>	<u>104,016</u>
Police Corps	16.712	2001 SHWX0375	555,863	-
Drug Prevention Program-DEA East Bay Task Force	16.728	Agenda Report	22,311	-
Drug Enforcement Administration	16.999	Annual Plan	6,481	-
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<b><u>3,308,809</u></b>	<b><u>468,866</u></b>
<b>U.S. DEPARTMENT OF LABOR</b>				
Senior Community Service Employment Program	17.235	D-6636-8-00-81-55	3,851	-
		D-7516-9-00-81-55	(22,215)	-
		Letter of Proposal	(1,851)	-
Passed Through the Senior Service America, Inc.		SSAI Agreement	1,209,590	-
			<u>1,189,375</u>	<u>-</u>
Passed Through the State of California Employment Development Department- Welfare-to-Work Grants to State and Localities	17.253	Y-6911-8-00-81-60 W965818	1,631 <u>118,693</u>	- <u>90,226</u>
			<u>120,324</u>	<u>90,226</u>
WIA Adult Program	17.258	R069124 R380522 R458294	1,607,974 95,385 <u>1,245,043</u>	623,755 95,385 <u>1,201,811</u>
			<u>2,948,402</u>	<u>1,920,951</u>
WIA Youth Activities	17.259	R485294 R380522	1,164,119 <u>82,506</u>	1,164,119 <u>82,506</u>
			<u>1,246,625</u>	<u>1,246,625</u>
WIA Dislocated Workers	17.260	R275856 R380522 R458294	63,778 338,350 <u>1,309,005</u>	63,778 338,350 <u>1,309,005</u>
			<u>1,711,133</u>	<u>1,711,133</u>
Total WIA Cluster			<u>5,906,160</u>	<u>4,878,709</u>
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<b><u>7,215,859</u></b>	<b><u>4,968,935</u></b>

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, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
Passed through the State of California				
Department of Transportation-				
Highway Planning and Construction:	20.205			
Mandela Parkway Tea		Agenda	30,328	-
Hegenberger Road		ALAALA2-9800004	(365)	-
Seismic Retrofit Three Bridges		BRLZ-5012(002)	911,987	-
RTSOP-Cycle II		CML-5012(021)	(22,028)	-
Acorn-Prescott L/P		CML-5012(041)	49,165	-
Jackson St. Operation		CML-5012(050)	345	-
Grand Avenue Pedestrian/Transit		CML-5012(058)	12,574	-
Snake Road Slide		ER-3629(010)	160	-
Redwood Road Near Mountain		ER-3629(010)	(92,455)	-
High St/Nimitz Freeway Improvement		M-027(1)	(3,050)	-
TS Synchronization		M-027(1)	24,292	-
Bus Stop MacArthur		M-3072(81)	(641)	-
Street Wide Construction 98th		M-A205(2)	351	-
Lower Broadway		None	(1,624)	-
3rd St. Extension		RPSTPO-5012(042)	310,953	-
ADA/Traffic (ISTEA)-Sign		STPL-5012(031)	(223)	-
ADA-Citywide Curb		STPL-5012(033)	(49,078)	-
Lake Merritt Canal Bridge		STPL-5012(037)	66,364	-
Citywide Curb Ramps		STPL-5012(043)	(38,349)	-
35th Avenue Rehabilitation		STPL-5012(045)	(54,565)	-
Sidewalk Repair STPL		STPL-5012(047)	690,777	-
Bancroft Avenue-42		STPL-5012(048)	25,313	-
Rehab of MacArthur Boulevard		STPL-5012(054)	58,489	-
Rehab of Martin Luther King Way		STPL-5012(055)	103,840	-
Citywide Curb Ramps		STPL-5012(060)	635,403	-
RABA Resurfacing STP		STPL-5012(061)	753,189	-
7TH Street Rehabilitation		STPLDB-5012(036)	8,889	-
Broadway 14th		STPLER-5012(040)	(204)	-
Hesperian-Telegraph and 2th Streets		STPLH-5012(29 & 40)	(1,100)	-
ADA/Traffic(ISTEA)-Media		STPLMA-5012(016)	(30,663)	-
San Pablo Avenue-SD063		STPLMA-5012(016)	(235,060)	-
Bridges-E12th/14th Grad.		STPLZ-501(026)	5,891	-
Bridges-Park, Leimert, Hegenberger Seismic		STPLZ-5012(025)	44,737	-
Bridges-4 Seismic Retrofit		STPLZ-5012(028)	68,921	-
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<b><u>3,272,563</u></b>	<b>-</b>
<b>NATIONAL FOUNDATION OF THE ARTS AND THE HUMANITIES</b>				
Promotion of the Arts: Grants to Org. and Individuals	45.024	None	(779)	-
State Library Program	45.310	T2-932	(14,963)	-
<b>TOTAL NATIONAL FOUNDATION OF THE ARTS AND THE HUMANITIES</b>			<b><u>(15,742)</u></b>	<b>-</b>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
Leaking Underground Storage Tank: Trust Fund	66.805	00-174-550-0	621	-
Solid Waste Management Assistance	66.808	X999396-01-2	(37,651)	-
Brownfields Training Research and Cleanup Cooperative Agreements	66.818	BL98968501-0	1,546	-
<b>TOTAL ENVIRONMENTAL PROTECTION AGENCY</b>			<b><u>(35,484)</u></b>	<b>-</b>

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, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through the State of California				
State Library-				
Even Start: State Educational Agencies	84.213	E-116-01	258,722	258,722
		E-116-02	519,437	52,733
		2003-079	13,409	-
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>791,568</b>	<b>291,455</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Direct Funding:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	1 U79SM56051-01	359,654	314,257
Consolidated Knowledge Development and Application (KDA) Program	93.230	SM53889-02-1	320,167	266,196
Head Start	93.600	01-1135-IJ	2,492	-
		09CH9006/28	(24,459)	(507)
		09CH9006/29	24,496	-
		09CH9006/30	76	-
		09CH9006/31	27,306	-
		09CH9006/33	12,705,353	3,710,445
		09YC0200/05	1,788,215	603,480
		282-99-0033	(50,431)	-
			<u>14,473,048</u>	<u>4,313,418</u>
Passed Through the State of California				
Department of Economic Opportunity:				
National Family Caregiver Support	93.052	CMSQC7H	456	-
		CMSXZKYS	14,814	-
		C93-1058	39,327	-
			<u>54,597</u>	<u>-</u>
Community Services Block Grant (CSBG)				
	93.569	00F-2129	(284)	-
		01F-4029	(20,252)	-
		03F-4329	547,930	371,153
		04F-4454	264,695	108,507
			<u>792,089</u>	<u>479,660</u>
Passed Through the State of California				
Department of Aging:				
Medical Assistance Program (Medicaid)	93.778	MS-9899-01	(25)	-
		MS-0001-01	(115)	-
		MS-0102-01	(33,771)	(39,620)
		MS-0203-01	43,154	5,475
		MS-0304-01	1,554,942	318,795
			<u>1,564,185</u>	<u>284,650</u>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>17,563,740</b>	<b>5,658,181</b>

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, 2004

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Federal Grant Number	Expenditures	Amount Approved to Sub-Recipients
<b>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>				
Foster Grandparent Program	94.011	03SFPCA010	30,565	-
Senior Companion Program	94.016	03SCPCA007	<u>295,302</u>	-
<b>TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>			<u><b>325,867</b></u>	-
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Urban Area Security Initiative	97.008	None	<u>35,030</u>	-
National Urban Search and Rescue (US&R) Response System	97.025	EMP-2003-CA-0047	580,592	275,939
		EMW-2003-CA-0300	<u>56,878</u>	<u>4,420</u>
			<u>637,470</u>	<u>280,359</u>
Hazard mitigation grant	97.039	EMW-97-GR-0521	(165,064)	(169,944)
		OES 98-01-089	104,844	82,770
		EM0416	<u>30,199</u>	-
			<u>(30,021)</u>	<u>(87,174)</u>
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u><b>642,479</b></u>	<u><b>193,185</b></u>
<b>TOTAL FEDERAL AWARDS</b>			<u><b>\$ 56,213,960</b></u>	<u><b>\$ 20,710,599</b></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 Fiscal Year Ended June 30, 2004

**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, 2004, 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 – Discrete Component Units Federal Expenditures 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>
<b>Department of Defense</b>		
Oakland Base Reuse Authority	12.999	\$ 5,250,000
<b>Department of Transportation</b>		
Airport Improvement Program	20.106	7,158,931
Highway Planning & Construction	20.205	780,180
Port Security Grant	20.401	<u>2,976,199</u>
Total Department of Transportation		<u>10,915,310</u>
<b>Total Federal Expenditures</b>		<u><u>\$ 16,165,310</u></u>

**CITY OF OAKLAND**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004

**Note 4 –Discrete Component Units Federal Expenditures not included in the SEFA (Continued)**

The Oakland Base Reuse Authority (OBRA) federal expenditures are excluded from the SEFA because OBRA engaged other auditors to perform an audit in accordance with OMB Circular A-133. Expenditures for the programs of OBRA listed below are taken from the SEFA audited by other auditors. The programs of the OBRA are as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Economic Adjustment Assistance	11.307	\$ 91,884
Environmental Services Co-operative Agreement	12.999	<u>3,119,787</u>
<b>Total Federal Expenditures</b>		<b><u>\$ 3,211,671</u></b>

**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. The funds are returned to HUD upon repayment of the principal and interest. The following is a summary of the loan programs maintained by the City along with the outstanding loan receivable balances at June 30, 2004:

<u>Program Title</u>	<u>CFDA#</u>	<u>Amount Outstanding</u>	<u>PY loans w/ continuing compliance requirements</u>	<u>New Loans</u>
Economic Adjustment Assistance	11.307	\$ 171,546	\$ 38,957	\$ 132,589
Housing Development Grants	14.174*	16,909,947	16,909,947	-
Community Block Development Grants	14.218	25,673,195	25,012,396	660,799
Rental Housing Rehabilitation	14.230*	1,303,566	1,303,566	-
HOME Investment Partnerships Program	14.239	25,425,819	20,336,923	5,088,896
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	1,235,080	1,130,080	105,000
Community Block Development Grants Section 108 Loan Guarantees	14.248	10,460,969	10,289,596	171,373
Lead-Based Paint Hazard Control in Privately- Owned Housing	14.900	228,994	228,994	-
<b>Total</b>		<b><u>\$ 81,409,116</u></b>	<b><u>\$ 75,250,459</u></b>	<b><u>\$ 6,158,657</u></b>

\* - This federal program has been discontinued for future projects. However, there are still loans outstanding held by the City from projects entered into in prior years.

**CITY OF OAKLAND**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2004**

**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
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions 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
14.235	Supportive Housing Program
14.241	Housing Opportunities for Persons with Aids
17.258/259/260	Workforce Investment Act Cluster
20.205	Highway Planning and Construction
93.104	Community Mental Health Services for Children with Serious Emotional Disturbances
93.600	Headstart
97.025	National Urban Search & Rescue Response System

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,686,419
Auditee qualified as low-risk auditee?	No

**CITY OF OAKLAND**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Section II – Financial Statement Findings**

None

**Section III Federal Award Findings and Questioned Costs**

**Finding No. 2004-01                      Community Mental Health Services for Children with Serious Emotional Disturbances (93.104) - Subrecipient monitoring**

In accordance with 24 CFR 85.40 (a), *“Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”*

As part of this monitoring process, OMB A-133 requires grantees at the time of the award to identify to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements. During the performance of our testwork on subrecipient monitoring, we noted that the City did not identify to its main subrecipient the requirement to have a single audit if federal funding in excess of \$500,00 was received. In addition, we noted that there was no documentation on the development of any guidelines on, or indication of any performance of on-site monitoring in the current year.

**Questioned Costs:**

Undeterminable

**Recommendation:**

We recommend that the City update its documentation to include the required language identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and information on the requirement of the subrecipient to have a single audit if it receives federal funds in excess of \$500,000. We also recommend that the City devote sufficient resources to carry out on-site monitoring and maintain this documentation to ensure that its subrecipient is in compliance with applicable federal requirements.

**Management Response:**

The City of Oakland, Department of Human Services (DHS) shall amend the contract between the City of Oakland and the Native American Urban Trails (NAUT) to include the required language. Despite this oversight in the original contract, the NAUT did have an independent audit as required by OMB Circular A-133, for the year ended June 30, 2004, by Patel & Associates, Certified Public Accountant.

In response to monitoring concerns the DHS will develop written processes for review and will conduct on-site monitoring of the NAUT. The DHS, however, did conduct the following activities as part of its monitoring efforts in the current year:

- Reviewed Native American Urban Trails quarterly reports,
- Communicated regularly and conducted an in-person meetings with sub-grantee,
- Participated on the yearly advisory body, and
- Performed desk reviews of NAUT expenditure reports.

**CITY OF OAKLAND**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Finding No. 2004-02                      Housing Opportunities for Persons with AIDS (14.241) - Reporting**

In accordance with 24 CFR 574.520(b) *“A grantee shall submit to the federal Department of Housing and Urban Development (HUD) annually a report describing the use of the amounts received, including the number of individuals assisted, the types of assistance, and any other information that HUD may require. Annual reports are required until all grant funds are expended.”*

During the performance of our testwork over reporting, we noted that the City did not prepare or submit its annual progress report (HUD 40110) during the current year.

**Questioned Costs:**

Undeterminable

**Recommendation:**

We recommend the City comply with all federal programs reporting requirements by submitting required reports within the appropriate federal deadlines.

**Management Response:**

All HUD reporting requirement information, including IDIS reporting has been completed for the year ended June 30, 2004 on HOPWA activities.

Narratives and CAPER performance charts 1 and 2 were submitted earlier on with the intention of completing IDIS input and reporting during the required public review period for the City’s CAPER (prior to 90 day deadline). However, due to other projects that required attention, we inadvertently missed the deadline for submitting the IDIS information for HOPWA year ended June 30, 2004 activities.

**CITY OF OAKLAND**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Finding No. 2004-03 Highway Planning & Construction (CFDA #20.205) – Procurement and Suspension and Debarment**

In accordance with the OMB A-133 federal compliance requirements of procurement, suspension and debarment, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients).

During the performance of our testing of internal controls and compliance over procurement, suspension and debarment requirements, we reviewed four contracts and noted that for three of these contracts there was no requirement that the contractor certify that they were not suspended or debarred. In addition, we noted that there were no procedures to determine if a contractor was listed in the GSA's "List of Parties Excluded from Federal Procurement or Non Procurement Programs."

**Questioned Costs:**

Undeterminable

**Recommendation:**

We recommend the City include language in all contracts with federal funding requiring contractors certify that they are not suspended or debarred in compliance with the OMB A-133 federal compliance requirements for procurement, suspension and debarment. We also recommend that the City review the GSA's "List of Parties Excluded From Federal Procurement or Non Procurement Programs" to be updated on the suspended or debarred status of its contractors on a regular basis.

**Management Response:**

The Public Works Agency (PWA) agrees and has taken the following steps to ensure compliance with OMB Circular A-133:

- 1) All contractors will be required to file a "Declaration of Debarment" form for the primary contractors and subrecipients, when bidding for contracts funded by programs designated by OMB Circular A-133. This form will be filed within the contract file of the successful bidder.
- 2) Debarred contractors will not be able to participate in the bidding process

In order to be in compliance for year ended June 30, 2005, City of Oakland's Contract Administration will send Declaration of Debarment forms to all active year ended June 30, 2005 contractors. The contractor will be required to complete and return the Declaration of Debarment form.

**CITY OF OAKLAND**  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2004

**Reference Number:** 2003-01

**Federal Catalog Number:** 14.235 – Supportive Housing Program

**Audit Finding:** Subrecipient Monitoring: In accordance with 24 CFR 85.40 (a), “Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.” During the performance of our procedures over subrecipient monitoring on all subrecipients, for all four subrecipients selected for testing, no on-site programmatic monitoring were performed in the current year.

**Status of Corrective Action:** Corrected.

**Reference Number:** 2003-02

**Federal Catalog Number:** 93.600 – Headstart

**Audit Finding:** Earmarking – In accordance with 45 CFR 1304.4(b)(1) “At least 90 percent of the children who are enrolled in each Head Start Program must be from low-income families.” During the performance of our testwork, over earmarking, we noted that in the current year, only 87% of enrollees came from families whose income was below the federal poverty guidelines or who were receiving public assistance.

**Status of Corrective Action:** Corrected.

CITY OF OAKLAND  
 SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES  
 CSD Contract No. 03F-4329  
 For the Period January 1, 2003 to December 31, 2003

	<u>Jan. 1, 2003 through June 30, 2003</u>	<u>July 1, 2003 through Dec. 31, 2003</u>	<u>Total Audited Costs</u>	<u>Total Budget</u>
<b>Revenue</b>				
Grant Amount	\$ 290,269	\$ 481,443	\$ 771,712	\$ 771,712
Total Revenue	<u>\$ 290,269</u>	<u>\$ 481,443</u>	<u>\$ 771,712</u>	<u>\$ 771,712</u>
<b>Expenditures</b>				
Personnel Costs:				
Salaries and Wages	\$ 123,924	\$ 99,036	\$ 222,960	\$ 208,860
Fringe Benefits	36,515	29,143	65,658	79,106
Sub-total Personnel Costs	<u>160,439</u>	<u>128,179</u>	<u>288,618</u>	<u>287,966</u>
Non-Personnel Costs:				
Travel	7,207	4,904	12,111	17,803
Consumable Supplies	3,806	5,187	8,993	2,500
Equipment Lease/Purchase	-	-	-	1,000
Consultant Services	-	-	-	20,000
Sub-Contractors	2,088	371,153	373,241	374,806
Other Costs	50,242	38,507	88,749	67,637
Sub-total Non-Personnel Costs	<u>63,343</u>	<u>419,751</u>	<u>483,094</u>	<u>483,746</u>
Total Expenditures	<u>\$ 223,782</u>	<u>\$ 547,930</u>	<u>\$ 771,712</u>	<u>\$ 771,712</u>

CITY OF OAKLAND  
 SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES  
 CSD Contract No. 04F-4454  
 For the Period January 1, 2004 to June 30, 2004

	<u>Actual</u>	<u>Total Reported <sup>1</sup></u>	<u>Total Budget</u>
<b>Revenue</b>			
Grant Amount	\$ 264,695	\$ 230,567	\$ 685,069
<b>Total Revenue</b>	<u>\$ 264,695</u>	<u>\$ 230,567</u>	<u>\$ 685,069</u>
<b>Expenditures</b>			
Personnel Costs:			
Salaries and Wages	\$ 92,293	\$ 96,148	\$ 196,165
Fringe Benefits	30,541	29,445	67,996
<b>Sub-total Personnel Costs</b>	<u>122,834</u>	<u>125,593</u>	<u>264,161</u>
Non-Personnel Costs			
Travel	7,478	10,527	15,000
Consumable Supplies	1,884	1,505	3,000
Equipment Lease/Purchase	-	-	1,000
Consultant Services	-	-	15,000
Sub-Contractors	108,507	77,306	340,000
Other Costs	23,992	15,636	46,908
<b>Sub-total Non-Personnel Costs</b>	<u>141,861</u>	<u>104,974</u>	<u>420,908</u>
<b>Total Expenditures</b>	<u>\$ 264,695</u>	<u>\$ 230,567</u>	<u>\$ 685,069</u>

<sup>1</sup> - The reported column represents expenditures reported to the California State Department of Community Services and Development for the period January 1, 2004 to June 30, 2004. The difference between the actual and total reported columns represents program expenditures incurred that have not been reported

CITY OF OAKLAND  
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF  
 ALAMEDA COUNTY AWARDS  
 For the year ended June 30, 2004

ALAMEDA COUNTY AWARD/PROGRAM TITLE	CONTRACT NUMBER	EXHIBIT/PO NUMBER	EXPENDITURES
<b>DEPARTMENT OF ADULT &amp; AGING SERVICES</b>			
Information and Assistance	C-93-1058	SE03-101	\$ 375
	C-93-1058	SE04-087	<u>38,123</u>
			<u>38,498</u>
Linkages/Respite	C-93-1058	SE99-088	3,708
	C-93-1058	SE00-158	35,296
	C-93-1058	SE01-406	35,729
	C-93-1058	SE02-400	(1,648)
	C-93-1058	SE03-153	1,066
	C-93-1058	SE04-146	<u>229,217</u>
			<u>303,367</u>
Senior Companion Program	C-93-1058	SE00-350	650
	C-93-1058	SE04-233	<u>21,742</u>
			<u>22,392</u>
<b>TOTAL DEPARTMENT OF ADULT &amp; AGING SERVICES</b>			<u>364,256</u>
<b>HOUSING &amp; COMMUNITY DEVELOPMENT DEPARTMENT</b>			
Continuum of Care Council Activities	C2004-272	N/A	<u>35,965</u>
Winter Shelter Program	MOU	N/A	8,089
	C2004-423	N/A	<u>131,401</u>
			<u>139,490</u>
<b>TOTAL HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT</b>			<u>175,454</u>
<b>PUBLIC HEALTH DEPARTMENT</b>			
Tobacco Control Program	C2004-266	N/A	<u>37,000</u>
<b>TOTAL PUBLIC HEALTH DEPARTMENT</b>			<u>37,000</u>
<b>DEPARTMENT OF WORKFORCE &amp; BENEFITS ADMINISTRATION</b>			
Henry J. Robinson Multi-Service Center	C2002-552	N/A	<u>260,912</u>
<b>TOTAL DEPARTMENT OF WORKFORCE &amp; BENEFITS ADMINISTRATION</b>			<u>260,912</u>
<b>DEPARTMENT OF WORKFORCE &amp; RESOURCE DEVELOPMENT</b>			
CalWORKs Family Support - Model Transportation	C-93-1058	SE00-238	<u>3,060</u>
<b>TOTAL DEPARTMENT OF WORKFORCE &amp; RESOURCE DEVELOPMENT</b>			<u>3,060</u>
<b>TOTAL ALAMEDA COUNTY AWARDS</b>			<u>\$ 840,682</u>