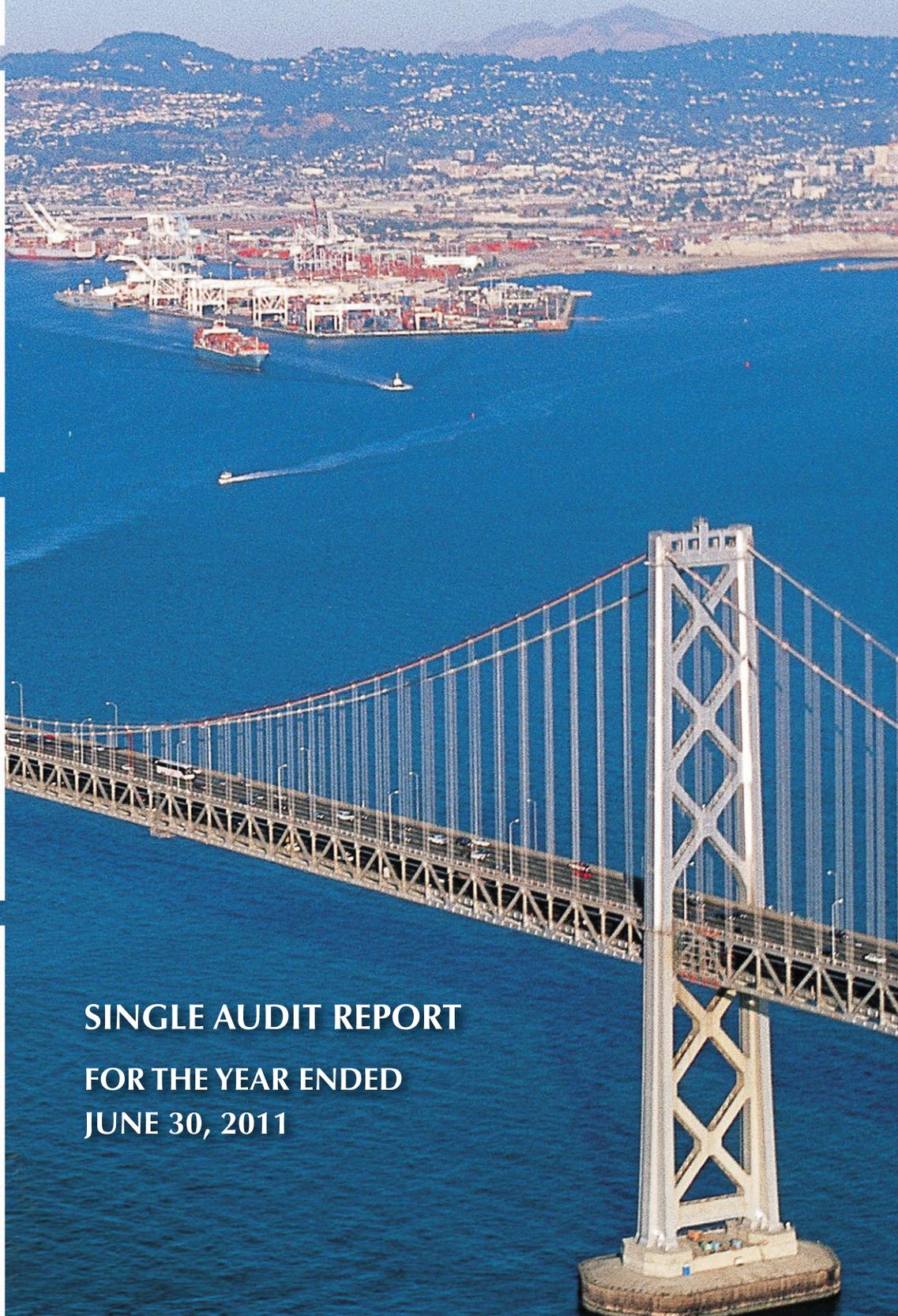




CITY OF OAKLAND, CALIFORNIA



**SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2011**

CITY OF OAKLAND

CALIFORNIA

SINGLE AUDIT REPORTS

FISCAL YEAR ENDED JUNE 30, 2011

PREPARED BY THE FINANCE AND MANAGEMENT AGENCY

JOSEPH T. YEW, JR., DIRECTOR

OSBORN K. SOLITEL, CONTROLLER

PRINTED ON RECYCLED PAPER

CITY OF OAKLAND

Single Audit Reports Year Ended June 30, 2011

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Single Audit Reports Year Ended June 30, 2011

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CITY OF OAKLAND SINGLE AUDIT REPORTS

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City Attorney's Office

Finance and Management Agency - Treasury Division

Community & Economic Development Agency

Risk Management

FINANCIAL SECTION

Independent Auditor's Report

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

We have audited the accompanying financial statements 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 of Oakland, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Municipal Employees Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS) which collectively represent 57%, 68%, and 25%, respectively of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information as of and for the year ended June 30, 2011. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 21 to the financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress, and the budgetary comparison schedule for the general fund as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, State of California Department of Community Service and Development supplemental schedules of revenues and expenditures and supplemental schedule of expenditures of Alameda County awards (collectively referred to as supplementary schedules) are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget (OMB) Circular A-133, the State of California Department of Community Service and Development, and the County of Alameda, respectively, and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Macias Gini & Connell LLP

Oakland, California
December 9, 2011, except for the Schedule of
Expenditures of Federal Awards, which is
dated March 28, 2012

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with the additional information contained in the City's financial statements and related notes and our letter of transmittal that precedes this section.

FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by \$738.3 million as of June 30, 2011, compared to \$689.3 million at June 30, 2010. This represents a net increase of \$49.0 million or 7.1 percent compared to the previous year. Assets increased by 1.1 percent or net of \$31.9 million, the net increase is primarily attributed to an increase in notes and loan receivables by \$53.6 million, increase in capital assets by \$35.8 million, \$11.0 million increase in business-type activities pooled cash and investments for sewer related activities, and an increase of \$11.1 million in grant receivables related to several "stimulus grants" the City received through the American Recovery and Reinvestment Act of 2009. The increases are off-set by the decrease of net pension assets in the amount of \$43.9 million to reflect annual pension cost, and an offset of a combined decrease of \$34.6 million in pooled and restricted cash and investments attributable to spending bond proceeds for capital improvement. Conversely, liabilities decreased by 0.8 percent or \$17.1 million compared to the prior fiscal year primarily as a result of debt payments and retirement of certain long-term debt.
- The City's governmental cumulative fund balances decreased by 1.2 percent or \$12.7 million to \$1,031.7 million compared to \$1,044.4 million for the prior fiscal year. This decrease is primarily attributed to a \$28.4 million or 2.7 percent increase in overall governmental expenditures for its operations and a \$6.3 million or 0.7 percent the decrease in overall governmental revenue.
- As of June 30, 2011, the City had total long-term obligations outstanding of \$1.99 billion compared to \$2.0 billion outstanding for the prior fiscal year for a decrease of 0.6 percent or \$11.7 million. Of this amount, \$349.4 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.64 billion is comprised of various long-term debt instruments including accruals of year-end estimates for other long-term liabilities.
- The City undesignated, uncommitted fund balance met the requirements of the City Council's 7.5% reserve policy based on the total General Purpose Fund expenditures for fiscal year 2011.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

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 four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements
- Required Supplemental Information

In addition, this report also contains other supplementary information.

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.

The government-wide financial statements include not only the City itself, but also the Port of Oakland (Port) as a discrete component unit. Financial information for the Port is reported separately from the financial information presented for the primary government. Further information about the Port can be obtained from the City's Finance and Management Agency – Controller's Office at 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, CA 94612-2093.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

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 funds balance sheet and the governmental funds 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 funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, federal and state grant special revenue fund, Oakland Redevelopment Agency (Agency) as a blended component unit of the City, and municipal capital improvement fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the nonmajor 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.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

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, central stores and purchasing. 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 and the Police and Fire Retirement System (PFRS) Fund are reported as pension trust funds. The private purpose trust fund along with the private pension trust fund 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.

Required Supplementary Information

The required supplementary information includes the budgetary schedule for the General Fund and schedules of funding progress for pension and other postemployment benefits that show the City's progress towards funding its obligation to provide future pension and other postemployment benefits for its active and retired employees.

Other Information

In addition, this report presents combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds and fiduciary funds are immediately following the required supplementary information along with budgetary comparison schedules.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. The City's total assets exceeded its liabilities as of June 30, 2011 by \$738.3 million compared to \$689.3 million as of June 30, 2010, an increase of \$49.0 million. The largest portion of the City's net assets, 88.5 percent, reflects its investment in capital assets of \$653.1 million for governmental and business-type activities net of related debt. Of the remaining balance, 51.8 percent reflects \$382.6 million in resources that are subject to external restrictions on how they may be used. The unrestricted net asset deficit of \$297.3 million is primarily attributed to a decrease of annual pension cost of \$43.9 million as of June 30, 2011 offset by an increase of 2.8 percent in revenue and a decrease of 6.7 percent in ongoing project expenditures related to governmental activities.

Net Assets
June 30, 2011 and 2010
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$1,713,236	\$1,721,741	\$ 44,464	\$ 39,826	\$1,757,700	\$1,761,567
Capital assets	987,411	956,574	165,363	160,407	1,152,774	1,116,981
TOTAL ASSETS	2,700,647	2,678,315	209,827	200,233	2,910,474	2,878,548
Liabilities:						
Long-term liabilities	1,932,357	1,941,296	55,549	58,327	1,987,906	1,999,623
Other liabilities	181,683	187,583	2,552	2,062	184,235	189,645
TOTAL LIABILITIES	2,114,040	2,128,879	58,101	60,389	2,172,141	2,189,268
Net assets:						
Invested in capital assets, net of related debt	538,815	478,689	114,297	113,718	653,112	592,407
Restricted	382,563	372,439	-	-	382,563	372,439
Unrestricted (deficit)	(334,771)	(301,692)	37,429	26,126	(297,342)	(275,566)
TOTAL NET ASSETS	\$ 586,607	\$ 549,436	\$ 151,726	\$ 139,844	\$ 738,333	\$ 689,280

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

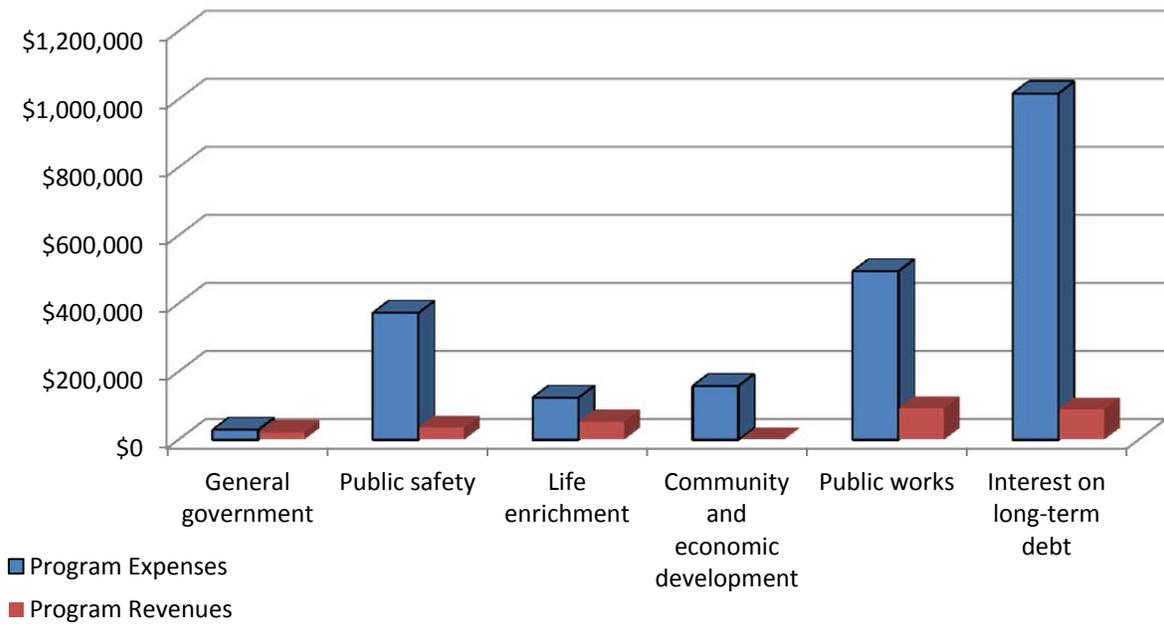
Governmental activities. The City's net assets in governmental activities increased by \$37.2 million for the year ended June 30, 2011. The key elements of this increase are listed below.

Changes in Net Assets
Years Ended June 30, 2011 and 2010
(In Thousands)

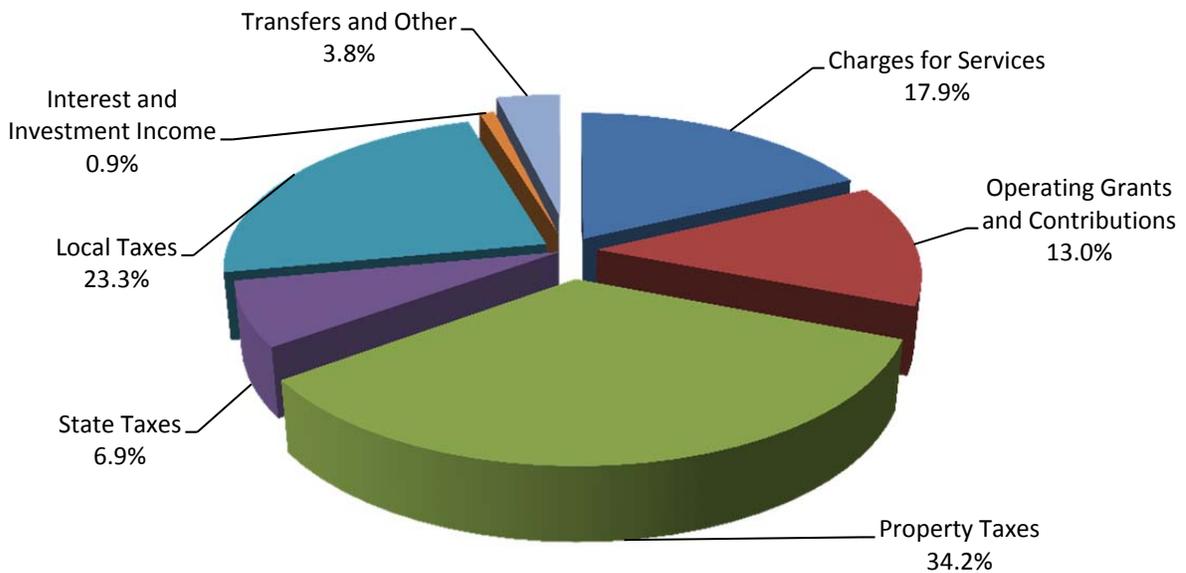
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 169,668	\$ 135,458	\$ 41,950	\$ 39,615	\$ 211,618	\$ 175,073
Operating grants and contributions	123,149	97,177	-	-	123,149	97,177
General revenues:						
Property taxes	324,516	346,859	-	-	324,516	346,859
State taxes:						
Sales and use taxes	51,910	45,503	-	-	51,910	45,503
Motor vehicles in-lieu tax	2,168	1,251	-	-	2,168	1,251
Gas tax	10,990	10,991	-	-	10,990	10,991
Local taxes:						
Business license	53,138	54,141	-	-	53,138	54,141
Utility consumption	53,440	51,107	-	-	53,440	51,107
Real estate transfer	31,608	36,971	-	-	31,608	36,971
Transient occupancy	12,484	10,085	-	-	12,484	10,085
Parking	13,460	13,885	-	-	13,460	13,885
Voter approved special tax	41,700	35,228	-	-	41,700	35,228
Franchise	14,854	14,655	-	-	14,854	14,655
Interest and investment income	8,592	10,894	119	113	8,711	11,007
Other	35,672	58,374	-	-	35,672	58,374
Total revenues	947,349	922,579	42,069	39,728	989,418	962,307
Expenses:						
General government	75,381	83,295	-	-	75,381	83,295
Public safety	372,587	411,333	-	-	372,587	411,333
Life enrichment	123,538	119,254	-	-	123,538	119,254
Community & economic development	158,209	222,226	-	-	158,209	222,226
Public works	88,321	70,757	-	-	88,321	70,757
Interest on long-term debt	93,618	73,735	-	-	93,618	73,735
Sewer	-	-	27,971	26,899	27,971	26,899
Parks and recreation	-	-	740	520	740	520
Total expenses	911,654	980,600	28,711	27,419	940,365	1,008,019
Change in net assets before transfers	35,695	(58,021)	13,358	12,309	49,053	(45,712)
Transfers	1,476	1,463	(1,476)	(1,463)	-	-
Change in net assets	37,171	(56,558)	11,882	10,846	49,053	(45,712)
Net assets at beginning of year	549,436	605,994	139,844	128,998	689,280	734,992
Net assets at end of year	\$ 586,607	\$ 549,436	\$ 151,726	\$ 139,844	\$ 738,333	\$ 689,280

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

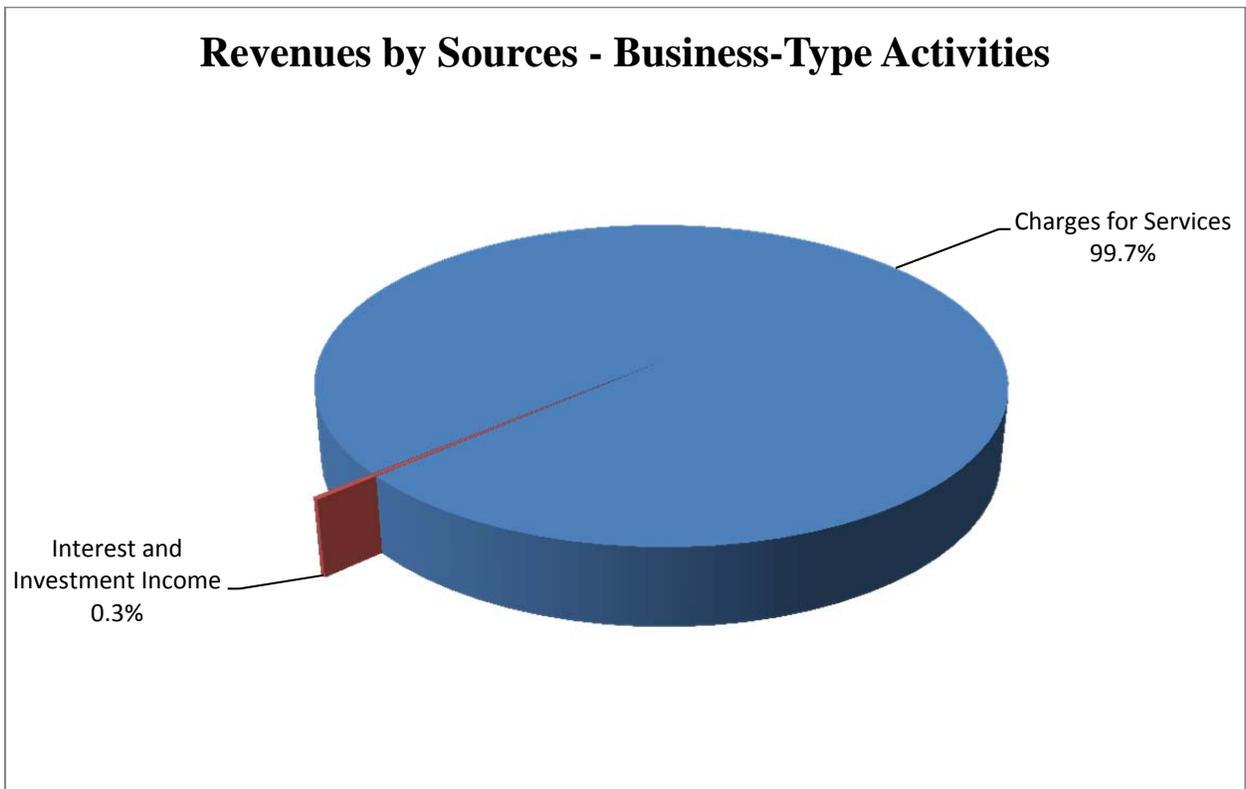
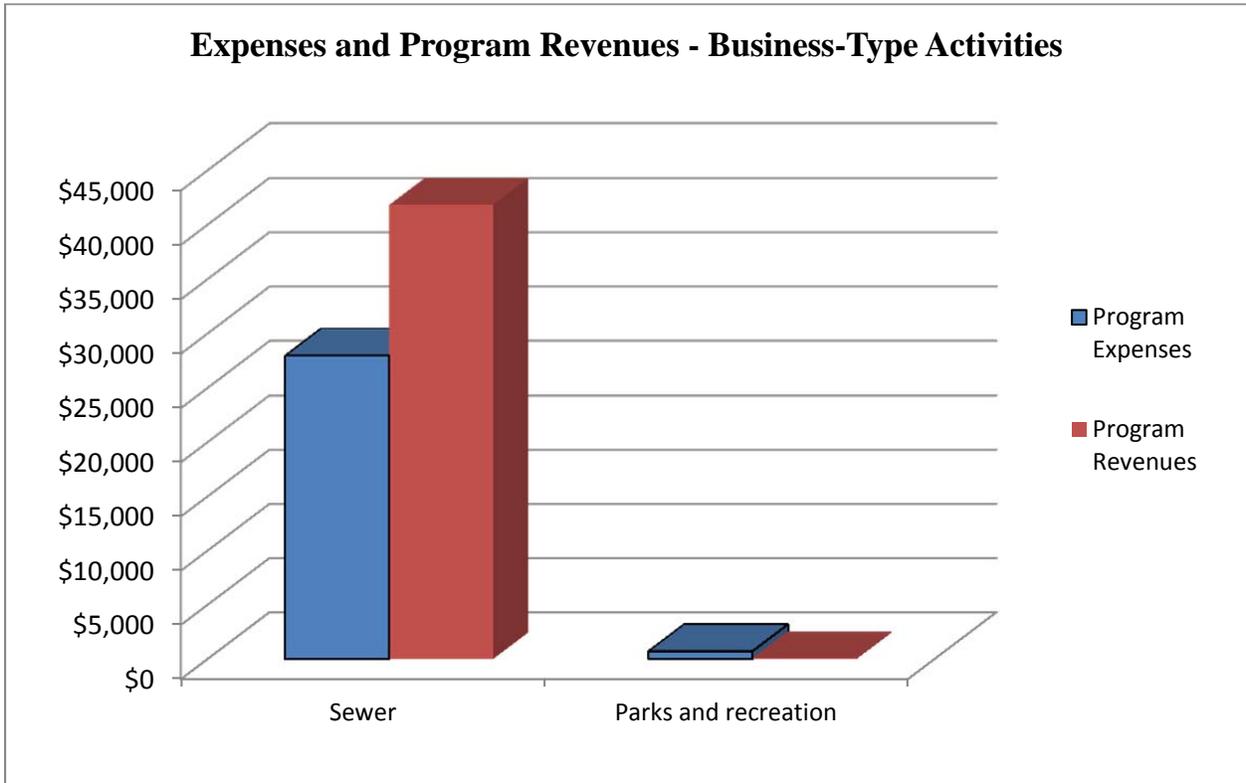
Expenses and Program Revenues - Governmental Activities



Revenues by Sources - Governmental Activities



CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011



CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

Governmental activities: Net assets for governmental activities increased by \$37.2 million or 6.8 percent during 2010-11 from \$549.5 million to \$587.2 million. Total revenue increased at rate of 2.7 percent compared to expenses decreased at a rate of 6.7 percent. During 2009-10, revenues decreased at a rate of 4.7 percent and expenses increased at rates of 1.6 percent, respectively.

Changes in net assets for governmental activities are attributed to the following significant elements:

- Contributing to the increase in total revenue; operating grants and contributions by \$26.0 million, and state taxes by \$7.3 million mainly due to short-term government and industry incentives on auto sales rebates as well as high per gallon price of gasoline. Local taxes also increase by \$4.6 million due to three (3) percent surcharge on the City's transient occupancy tax. The increase is offset by a decrease in property taxes \$22.3 million or 6.4 percent, this is mainly due to aggressive property revaluations by the County; Investment income also decreased by \$2.3 million or 21.1 percent due to earned interest yield reflects a lower interest rate environment experienced during the year.
- General government expenses decreased by \$7.9 million or 9.5 percent when compared to previous year primarily due to budgets cuts, layoffs and furlough days.
- Public safety expenses decreased by \$38.7 million or 9.4 percent when compared to the previous year due primarily to budget cuts, layoffs, and union contract concessions that include 4 percent cost-of-living increase deferred to FY 2013.
- Community and economic development expenses decreased by \$64.0 million or 28.8 percent is primarily attributed to the move of engineering and construction division to public works agency, layoffs, budget cuts and furlough days.
- Public work expenses increased by \$17.6 million or 24.8 percent is mainly attributed to move of the engineering and construction division from community and economic development agency to public works agency. The increase is offset by a decrease in expense due to budget cuts, layoffs and furlough days.
- Interest on long-term debt increased by \$20.0 million or 27.0 percent due to City debt payments and retirement of certain long-term debt.

Business-type activities: Business-type activities ended the fiscal year with a positive change in its net assets of \$11.9 million compared to \$10.8 million the previous fiscal year. The increase of \$1.1 million in net assets is attributable to \$2.5 million or 6.4 percent increase in sewer revenues offset by \$1.1 million or 4.0 percent increase in sewer project related expenses.

Financial Analysis of the Government's Funds

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

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2011, its unassigned fund balance is \$48.3 million or 21.5 percent of the \$224.8 million total General Fund balance. For the fiscal year ended June 30, 2011 and 2010, revenues for the General Fund by revenue source are distributed as follows:

	General Fund	
	2011	2010⁽¹⁾
Revenues:		
Taxes:		
Property taxes	\$ 189,237	\$ 194,591
State taxes:		
Sales and use taxes	41,235	35,877
Motor vehicles in-lieu tax	2,168	1,251
Local taxes:		
Business license	53,138	54,138
Utility consumption	53,440	51,107
Real estate transfer	31,608	36,971
Transient occupancy	9,634	8,578
Parking	8,513	7,523
Franchise	14,724	14,419
Licenses and permits	888	724
Fines and penalties	24,397	27,218
Interest and investment income	1,295	2,204
Charges for services	96,052	105,694
Federal & state grants and subventions	1,370	1,927
Annuity income	7,647	13,232
Other	10,661	8,912
Total revenues	\$ 546,007	\$ 564,366

⁽¹⁾ The June 30, 2010 balances were restated to reflect the impact of GASB Statement No. 54.

General Fund Revenues: Significant changes in revenues are as follows:

- *Property taxes* decreased by \$5.4 million or 2.8 percent due to the drop in property values for the City.
- *Real estate transfer* decreased by \$5.4 million or 14.5 percent mainly due to slowing economy and sluggish housing market and in fiscal year 2010, the City benefited from a one-time \$5 million real estate transfer property tax.
- *Fines and penalties* decreased by \$2.8 million or 10.4 percent mainly due to lower parking citation revenues and fewer real estate tax fines and penalties due to more efficient processes and improved compliance.
- *Charges for services* decreased by \$9.6 million or 9.1 percent mainly due to lower parking meters, towing and agency reimbursements.
- *Sales and use tax* increased by \$5.4 million primarily due to short-term government and industry incentives on auto sales rebates as well as high per gallon price of gasoline.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

For the fiscal years ended June 30, 2011 and 2010, expenditures for the General Fund by function are distributed as follows:

	General Fund	
	2011	2010 ⁽¹⁾
Expenditures:		
Current:		
Elected and Appointed Officials:		
Mayor	\$ 1,977	\$ 2,280
Council	3,870	4,574
City Administrator	9,150	9,008
City Attorney	12,079	11,909
City Auditor	1,456	1,417
City Clerk	2,986	2,687
Agencies/Departments:		
Human Resource Management	4,231	4,369
Information Technology	8,219	8,785
Financial Services	24,007	25,894
Contracting and Purchasing	2,082	2,100
Police Services	188,384	194,602
Fire Services	96,871	99,329
Life Enrichment:		
Parks and Recreation	15,948	15,130
Library	8,912	9,005
Cultural Arts and Museum	6,008	5,829
Aging & Health and Human Services	5,968	5,823
Community and Economic Development	17,266	21,401
Public Works	35,312	31,560
Others	2,329	5,786
Capital outlay	5,899	14,014
Debt Service		
Principal repayment	1,860	1,815
Bond issuance costs	-	511
Interest charges	633	2,507
Total expenditures	\$ 455,447	\$ 480,335

⁽¹⁾ The June 30, 2010 balances were restated to reflect the impact of GASB Statement No. 54.

General Fund Expenditures: Significant changes in expenditures are as follows:

- *Public safety* decreased by \$8.7 million or 3.0 percent due to budget cuts, layoffs, union contract concessions that include 4 percent cost-of-living increase deferred to FY 2013.
- *City agencies and departments* are reporting decreases in expenditures mainly due to budget cuts, layoffs, furlough days and other union contract concessions.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

Federal and State Grant Fund: The Federal and State Grant Fund had a fund balance of \$21.4 million as of June 30, 2011 that represents a slight increase of \$5.3 million or 32.6 percent over the prior fiscal year. The increase was primarily attributed to an increase of the federal and state grants by \$26.6 million over the previous year. The City received several “stimulus grants” through the American Recovery and Reinvestment Act of 2009. For example, the City was awarded \$19.7 million through the U.S. Department of Justice Community Oriented Policing Services Hiring Recovery Program (CHRP) to retain 41 officers’ positions.

Oakland Redevelopment Agency: The Oakland Redevelopment Agency had a fund balance of \$563.4 million as of June 30, 2011 that represents an increase of \$11.7 million or 2.1 percent from the prior fiscal year. The increase is primarily attributed to the issuance of \$7.4 million in tax allocation and \$47.0 million subordinated housing set-aside revenue bonds.

During fiscal year 2010-11, the Agency’s revenues decreased by \$2.7 million or 2.1 percent compared to the previous fiscal year. The decrease is mainly driven by a \$4.7 million or 4.1 percent decrease in tax increment revenue primarily due to lower assessment value on properties and a \$1.8 million or 59.6 percent decrease in investment income due to low interest rate environment offset by a \$4.1 million or 49.3 percent increase in charges for services from rents and reimbursement income.

The Agency’s expenditures also decreased by \$26.5 million or 13.7 percent. The decrease is driven primarily by lower state mandated SERAF payment and a \$3.9 million reduction in spending in urban redevelopment project area. Conversely, housing development spending increased by \$12.2 million or 40.6 percent mainly due to increase in lending activities.

Municipal Capital Improvement Fund: The Municipal Capital Improvement Fund had a fund balance of \$67.3 million as of June 30, 2011 that represents decrease of \$19.5 million or 22.5 percent over the prior fiscal year. In fiscal year 2010, the City issued \$67.6 million in new debt:

- General Obligation Bond (Series 2009B, Measure DD) for \$64.5 million to preserve and acquire open space, renovate parks, provide educational and recreation facilities for children, clean up Lake Merritt and restore Oakland’s creeks, waterfront and estuary; and
- Piedmont Pines Phase I 2010 Limited Obligation Improvement Bonds for \$3.1 million for under grounding of street lighting, electric power, telephone and other communication lines of special benefits to the property within the City’s Utility Underground Assessment District No. 2007-232.

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 \$114.3 million as of June 30, 2011, compared to \$113.7 million for the previous fiscal year. The \$0.6 million or 0.5 percent increase is related to proceeds spent from debt issued to finance sewer projects. During the fiscal year, the City capitalized \$5.0 million in sewer system completed projects, net of depreciation.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

General Fund Budgetary Highlights

During the fiscal year ended June 30, 2011, General Fund had a \$31.9 million increase in budgeted revenues between the original and final amended operating budget. The increase in revenue budget is primarily attributed to charges for services from the agency reimbursements. Actual budgetary basis revenues of \$549.2 million were \$23.8 million less than the final amended budget. The variance is due primarily to fines and penalties, charges for services and annuity income.

In addition, there was a \$73.2 million increase in appropriations between the original and final amended operating budget for the General Fund. The increase in appropriation is due primarily to the determination of actual project carryforwards for continuing appropriations for various multiyear projects, capital improvement projects, and other projects authorized by the City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Actual budgetary basis expenditures of \$455.4 million were \$60.9 million less than the amended budget. The net budget savings is attributed to (1) general budget cuts, (2) layoffs, and (3) furlough days.

Capital Assets

The City's capital assets, net of depreciation, totaled \$1.15 billion as of June 30, 2011 compared to \$1.12 billion as of June 30, 2010, a decrease of \$35.8 million or 3.2 percent. Governmental activities additions of \$82.3 million in capital assets included construction in progress and capitalization of infrastructure, facilities and improvements, and furniture, machinery and equipment which met the City's threshold for capitalization.

These additions were offset by retirements and depreciation, the net effect of which was an increase of \$30.8 million in additions against capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by \$5.0 million, net of retirements and depreciation. See Note (7) for more details in capital assets.

Construction Commitments

The City has committed to funding in the amount of \$153.7 million to a number of capital improvement projects for fiscal year 2012 through fiscal year 2013. This projects include building and facilities improvements; parks and open space; sewers and storm drains; streets and sidewalks construction; technology enhancements and traffic improvements. See note 18 for more details in construction commitments.

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75 percent of property valuation, net of exemptions subject to taxation) was \$1,104.5 million. The total amount of debt applicable to the debt limit was \$349.4 million. The resulting legal debt margin was \$755.1 million.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2011 were as follows:

Standard and Poor's Corporation (S&P)	AA-
Moody's Investors Services, Inc. (Moody's)	Aa2
Fitch, JBCA, Inc.	A+

The Agency's bond ratings at June 30, 2011 are as follows (in thousands):

	Moody's	S&P	Fitch
Tax allocation	Baa1/Baa2/A2	A+/A/A-	N/A
Housing set-aside revenue bonds	A2	A	A+

As of June 30, 2011, the City had total long-term obligations outstanding of \$2.0 billion compared to \$1.99 billion outstanding for the prior fiscal year, a decrease of 0.6 percent. Of this amount, \$349.4 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.64 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, 2011
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 349,431	\$ 366,248	\$ -	\$ -	\$ 349,431	\$ 366,248
Tax allocation, Housing and Other bonds	523,905	488,900	-	-	523,905	488,900
Certificate of participation	3,895	7,210	-	-	3,895	7,210
Lease revenue bonds	242,800	270,670	-	-	242,800	270,670
Pension obligation bonds	195,637	210,595	-	-	195,637	210,595
Special assessment debt with government commitments	7,963	8,298	-	-	7,963	8,298
Accreted interest on appreciation bonds	172,121	172,971	-	-	172,121	172,971
Sewer-bonds and notes payable	-	-	53,428	56,088	53,428	56,088
Less: deferred amounts						
Bond issuance premiums	22,203	26,846	2,121	2,239	24,324	29,085
Bond refunding loss	(23,481)	(26,396)	-	-	(23,481)	(26,396)
Total Bonds Payable	1,494,474	1,525,342	55,549	58,327	1,550,023	1,583,669
Notes & Leases payable	29,363	32,778	-	-	29,363	32,778
Other long-term liabilities	408,520	383,176	-	-	408,520	383,176
Total Outstanding Debt	<u>\$ 1,932,357</u>	<u>\$ 1,941,296</u>	<u>\$ 55,549</u>	<u>\$ 58,327</u>	<u>\$ 1,987,906</u>	<u>\$ 1,999,623</u>

The City's overall total long-term obligations decreased by \$11.7 million compared to fiscal year 2010. The net decrease is primarily attributable to City debt payments and retirement of certain long-term debt

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

Summary of New Debt:

Current Year Long-Term Debt Financing

Redevelopment Agency of the City of Oakland, Broadway/MacArthur/San Pablo Redevelopment Project Second Lien Tax Allocation Bonds, Series 2010-T, Federally Taxable Recovery Zone Economic: On November 2, 2010, the Redevelopment of the City of Oakland (the "Agency") issued \$7,390,000 of Broadway/MacArthur/San Pablo Redevelopment Project Second Lien Tax Allocation Bonds, Series 2010-T Federally Taxable Recovery Zone Economic Development Bonds (the "Series 2010-T Bonds"). The Bonds are taxable and treated as "recovery zone economic development bonds," a category of "Build America Bonds," under the American Recovery and Reinvestment Act of 2009 and Agency receives direct payment from the United States Treasury Department equal to forty-five percent (45%) of the interest payable on each interest payment date. The Agency expects to receive \$6.2 million or 45% interest subsidy from the federal government as part of the bond issue.

Master Lease – Parking Access and Revenue Control System: On December 23, 2010, the City of Oakland closed a lease transaction with Chase Equipment Finance, Inc. in the amount of \$2,500,000 for the purpose of financing the acquisition of the equipment, software, maintenance and services for the automation of City garages. The financing is done on a taxable basis with a final maturity of July 15, 2018; the interest rate on this lease transaction is 2.56%.

Redevelopment Agency of the City of Oakland, Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T: On March 3, 2011, the Agency issued \$46,980,000 of Subordinated Housing Set Aside Revenue Bonds Series 2011A-T (the "Series 2011A-T Bonds"). The Series 2011A-T Bonds are federally taxable with interest rates ranging from 3.25% to 9.25% and a final maturity of September 1, 2041.

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 and concessions, were factored into the City's budget formulation process as they relate to revenue forecasting, program planning, and resource allocation for fiscal years 2012-13.

The current unprecedented state of the economy has had direct and significant impacts on the City's declining revenue base. The fiscal issues addressed in the budget were deep and widespread, touching virtually every government service that Oakland provides. The City had to address a \$58 – 76 million annual General Purpose Fund shortfall in FY 2012-13 despite cutting more than \$170 million in shortfalls over the last few years. As a result, the policy and management decisions required by this budget were among the most difficult ever faced by this City. In closing the funding gap the City use a combination service reduction and union concessions, budget cuts,

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

hiring freeze or position eliminations, furlough days, restructure City departments, prioritize services and eliminate programs.

Sluggish growth is projected in fiscal years 2011-12 for the City's major sensitive revenues including property tax, sales tax, vehicle license fees, business license tax, real estate transfer tax, and parking tax, due to uncertainties brought about by the continuing housing recession, the increase in home foreclosures, and tightened lending policies. The remaining areas, while impacted by overall economic performance, are driven by other factors, for example, franchise fee is typically more heavily impacted by rate changes than economic growth.

The City of Oakland's unemployment rate decreased to 16.3 percent in June 2011 compared to an average unemployment rate of 17.2 percent for June 2010.

The Bay Area's consumer price index for all urban consumers in June 2011 was 233.646 compared to the U.S. city average consumer price index (CPI-U) for all urban consumers at 225.722 (Base period: 1982 - 84 = 100).

Estimated population for January 1, 2011 is 392,932 with an estimated total number of households of 148,875, an average household size of 2.63 persons, and a per capita personal income of \$28,311.

PERS pension rates, and health care costs have been factored into the City's Fiscal Years 2011-12 budget.

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Oakland intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

On July 26, 2011, City Ordinance No. 13084 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$39.4 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$10 million

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2011

will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation. Further information regarding Assembly Bill X1 26 and 27 is contained in Note 21 of the basic financial statements

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, Controller's Office, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093. This report is also available online at <http://www.oaklandnet.com>

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BASIC FINANCIAL STATEMENTS

City of Oakland
Statement of Net Assets
June 30, 2011
(In Thousands)

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Port of Oakland</u>
ASSETS				
Cash and investments	\$ 378,122	\$ 29,487	\$ 407,609	\$ 174,591
Receivables (net of allowance for uncollectible of \$14,041 for the City and \$3,640 for the Port):				
Accrued interest	765	-	765	10
Property taxes	18,352	-	18,352	-
Accounts receivable	48,284	9,481	57,765	26,308
Grants receivable	32,336	-	32,336	-
Due from Port	17,093	-	17,093	-
Inventories	610	-	610	-
Restricted assets:				
Cash and investments	502,440	4,959	507,399	89,576
Receivables	-	-	-	2,332
Property held for resale	179,240	-	179,240	-
Notes and loans receivable (net of allowance for uncollectible of \$50,462 for the City)	365,227	-	365,227	-
Other	117	-	117	53,506
Unamortized bond issuance costs	14,549	537	15,086	-
Net pension asset	156,101	-	156,101	-
Capital assets:				
Land and other assets not being depreciated	141,377	12,698	154,075	655,300
Facilities, infrastructures, and equipment, net of depreciation	846,034	152,665	998,699	1,561,500
TOTAL ASSETS	<u>2,700,647</u>	<u>209,827</u>	<u>2,910,474</u>	<u>2,563,123</u>
LIABILITIES				
Accounts payable and accrued liabilities	132,543	2,161	134,704	26,587
Accrued interest payable	21,136	121	21,257	11,651
Due to other governments	11,349	-	11,349	-
Due to primary government	-	-	-	17,093
Unearned revenue	8,233	263	8,496	116,287
Other	8,422	7	8,429	12,215
Non-current liabilities:				
Due within one year	195,456	2,277	197,733	63,612
Due in more than one year	1,736,901	53,272	1,790,173	1,389,678
TOTAL LIABILITIES	<u>2,114,040</u>	<u>58,101</u>	<u>2,172,141</u>	<u>1,637,123</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	538,815	114,297	653,112	865,602
Restricted net assets:				
Debt service	25,267	-	25,267	-
Pension	106,692	-	106,692	-
Urban redevelopment and housing	243,423	-	243,423	-
Other purposes	7,181	-	7,181	17,187
Unrestricted net assets (deficit)	(334,771)	37,429	(297,342)	43,211
TOTAL NET ASSETS	<u>\$ 586,607</u>	<u>\$ 151,726</u>	<u>\$ 738,333</u>	<u>\$ 926,000</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, 2011
(In Thousands)

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Unit Port of Oakland
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 75,381	\$ 20,360	\$ 1,231	\$ -	\$ (53,790)	\$ -	\$ (53,790)	
Public safety	372,587	13,573	22,167	-	(336,847)	-	(336,847)	
Life enrichment	123,538	8,483	44,334	-	(70,721)	-	(70,721)	
Community and economic development	158,209	42,418	50,491	-	(65,300)	-	(65,300)	
Public works	88,321	84,834	4,926	-	1,439	-	1,439	
Interest on long-term debt	93,618	-	-	-	(93,618)	-	(93,618)	
TOTAL GOVERNMENTAL ACTIVITIES	911,654	169,668	123,149	-	(618,837)	-	(618,837)	
Business-type activities:								
Sewer	27,971	41,832	-	-	-	13,861	13,861	
Parks and recreation	740	118	-	-	-	(622)	(622)	
TOTAL BUSINESS-TYPE ACTIVITIES	28,711	41,950	-	-	-	13,239	13,239	
TOTAL PRIMARY GOVERNMENT	\$ 940,365	\$ 211,618	\$ 123,149	\$ -	\$ (618,837)	\$ 13,239	\$ (605,598)	
Component unit:								
Port of Oakland	\$ 318,496	\$ 297,983	\$ -	\$ 27,343				\$ 6,830
General Revenues:								
Property Taxes					324,516	-	324,516	-
State Taxes:								
Sales and Use Taxes					51,910	-	51,910	-
Motor Vehicle In-Lieu Tax					2,168	-	2,168	-
Gas Tax					10,990	-	10,990	-
Local Taxes:								
Business License					53,138	-	53,138	-
Utility Consumption					53,440	-	53,440	-
Real Estate Transfer					31,608	-	31,608	-
Transient Occupancy					12,484	-	12,484	-
Parking					13,460	-	13,460	-
Voter Approved Special Tax					41,700	-	41,700	-
Franchise					14,854	-	14,854	-
Interest and Investment Income					8,592	119	8,711	2,876
Other					35,672	-	35,672	25,308
Transfers					1,476	(1,476)	-	-
TOTAL GENERAL REVENUES and TRANSFERS					656,008	(1,357)	654,651	28,184
Changes In Net Assets					37,171	11,882	49,053	35,014
Net Assets - Beginning					549,436	139,844	689,280	890,986
NET ASSETS - ENDING					\$ 586,607	\$ 151,726	\$ 738,333	\$ 926,000

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

CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2011
(In Thousands)

	<u>General</u>	<u>Federal/State Grant Fund</u>	<u>Oakland Redevelopment Agency</u>	<u>Municipal Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 135,066	\$ 94	\$ 201,679	\$ -	\$ 38,929	\$ 375,768
Receivables (net of allowance for uncollectibles of \$12,060):						
Accrued interest	172	-	549	-	47	768
Property taxes	9,719	-	-	-	8,633	18,352
Accounts receivable	33,972	61	449	-	13,712	48,194
Grants receivable	-	27,969	2,178	-	2,189	32,336
Due from component unit	17,093	-	-	-	-	17,093
Due from other funds	54,565	159	13,036	98	818	68,676
Notes and loans receivable (net of allowance for uncollectibles of \$50,462)	8,599	134,295	190,106	-	32,227	365,227
Restricted cash and investments	106,692	7,181	196,781	77,355	113,871	501,880
Property held for resale	-	-	179,240	-	-	179,240
Other	35	59	23	-	-	117
TOTAL ASSETS	\$ 365,913	\$ 169,818	\$ 784,041	\$ 77,453	\$ 210,426	\$ 1,607,651
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	\$ 111,058	\$ 8,719	\$ 3,709	\$ 2,156	\$ 5,531	\$ 131,173
Due to other funds	8,992	3,532	2,328	8,045	6,032	28,929
Due to other governments	3,220	-	8,067	-	62	11,349
Deferred revenue	16,187	134,891	205,309	-	39,682	396,069
Other	1,095	1,261	1,210	-	4,849	8,415
TOTAL LIABILITIES	140,552	148,403	220,623	10,201	56,156	575,935
Fund balances						
Restricted	106,692	21,415	245,955	67,252	146,502	587,816
Committed	3,890	-	130,300	-	8,878	143,068
Assigned	65,985	-	187,163	-	1,559	254,707
Unassigned	48,794	-	-	-	(2,669)	46,125
TOTAL FUND BALANCES	225,361	21,415	563,418	67,252	154,270	1,031,716
TOTAL LIABILITIES AND FUND BALANCES	\$ 365,913	\$ 169,818	\$ 784,041	\$ 77,453	\$ 210,426	\$ 1,607,651

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, 2011
(In Thousands)

Fund balances - total governmental funds	\$	1,031,716
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Amounts reported for governmental activities in the statement of net assets are different due to the following:

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

Primary government capital assets, net of depreciation	\$ 987,411	
Less: internal service funds' capital assets, net of depreciation	<u>(11,469)</u>	975,942

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.		14,549
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Net pension asset is recognized in the statement of net assets as an asset; however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds.		156,101
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Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.

Interest payable on long-term debt for primary government	\$ (21,136)	
Add: Interest payable on long-term debt for internal service funds	<u>48</u>	(21,088)

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.		387,836
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Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the governmental funds.

Long-term liabilities	\$ (1,932,357)	
Less: long-term liabilities for internal service funds	<u>3,692</u>	(1,928,665)

Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>(29,784)</u>
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Net assets of governmental activities	\$	<u><u>586,607</u></u>
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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
For the Year Ended June 30, 2011
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	\$ 189,237	\$ -	\$ 109,673	\$ -	\$ 27,666	\$ 326,576
State taxes:						
Sales and use tax	41,235	-	-	-	10,675	51,910
Motor vehicle in-lieu tax	2,168	-	-	-	-	2,168
Gas tax	-	-	-	-	10,990	10,990
Local taxes:						
Business license	53,138	-	-	-	-	53,138
Utility consumption	53,440	-	-	-	-	53,440
Real estate transfer	31,608	-	-	-	-	31,608
Transient occupancy	9,634	-	-	-	2,850	12,484
Parking	8,513	-	-	-	4,947	13,460
Voter approved special tax	-	6,177	-	-	35,523	41,700
Franchise	14,724	130	-	-	-	14,854
Licenses and permits	888	-	-	-	12,409	13,297
Fines and penalties	24,397	263	-	-	4,780	29,440
Interest and investment income	1,295	598	1,242	783	5,229	9,147
Charges for services	96,052	515	12,517	-	15,623	124,707
Federal and state grants and subventions	1,370	115,274	1,311	-	3,229	121,184
Annuity income	7,647	-	-	-	-	7,647
Other	10,661	3,836	1,681	1,458	7,007	24,643
TOTAL REVENUES	546,007	126,793	126,424	2,241	140,928	942,393
EXPENDITURES						
Current:						
Elected and Appointed Officials:						
Mayor	1,977	113	-	-	79	2,169
Council	3,870	-	-	-	-	3,870
City Administrator	9,150	412	-	-	1,142	10,704
City Attorney	12,079	65	-	-	411	12,555
City Auditor	1,456	-	-	-	41	1,497
City Clerk	2,986	-	-	-	-	2,986
Agencies/Departments:						
Human Resource Management	4,231	-	-	-	-	4,231
Information Technology	8,219	57	-	-	-	8,276
Financial Services	24,007	280	-	-	238	24,525
Contracting and Purchasing	2,082	-	-	-	-	2,082
Police Services	188,384	8,955	-	-	7,953	205,292
Fire Services	96,871	3,424	-	-	11,044	111,339
Life Enrichment:						
Parks and Recreation	15,948	66	-	63	4,837	20,914
Library	8,912	260	-	4	12,457	21,633
Cultural Arts and Museum	6,008	155	-	-	586	6,749
Aging & Health and Human Services	5,968	38,837	-	-	18,226	63,031
Community and Economic Development	17,266	31,539	96,958	440	29,547	175,750
Public Works	35,312	3,663	-	2,395	29,729	71,099
Other	2,329	-	22,608	680	1,445	27,062
Capital outlay	5,899	30,085	-	20,231	7,317	63,532
Debt service:						
Principal repayment	1,860	2,000	19,365	445	63,295	86,965
Bond issuance costs	-	-	828	-	-	828
Interest charges	633	403	27,272	-	61,206	89,514
TOTAL EXPENDITURES	455,447	120,314	167,031	24,258	249,553	1,016,603
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	90,560	6,479	(40,607)	(22,017)	(108,625)	(74,210)
OTHER FINANCING SOURCES (USES)						
Issuance of debt	-	-	54,370	-	-	54,370
Discount on issuance of bonds	-	-	(2,052)	-	-	(2,052)
Capital lease	-	-	-	2,500	-	2,500
Property sale proceeds	4,481	-	-	-	-	4,481
Insurance claims and settlements	538	-	-	-	10	548
Transfers in	2,278	-	-	-	101,508	103,786
Transfers out	(100,300)	(1,208)	-	-	(578)	(102,086)
TOTAL OTHER FINANCING SOURCES (USES)	(93,003)	(1,208)	52,318	2,500	100,940	61,547
NET CHANGE IN FUND BALANCES	(2,443)	5,271	11,711	(19,517)	(7,685)	(12,663)
Fund balances - beginning, as originally report	233,050	20,898	551,707	86,769	151,955	1,044,379
Adoption of GASB Statement No. 54	(5,246)	(4,754)	-	-	10,000	-
Fund balance - beginning as restated	227,804	16,144	551,707	86,769	161,955	1,044,379
FUND BALANCES - ENDING	\$ 225,361	\$ 21,415	\$ 563,418	\$ 67,252	\$ 154,270	\$ 1,031,716

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
For the Year Ended June 30, 2011
(In Thousands)

Net change in fund balances - total governmental funds \$ (12,663)

Amounts reported for governmental activities in the statement of activities are different due to the following:

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 outlays and other capital transactions exceeds depreciation expense in the current period.

Primary government:

Capital asset acquisition	\$ 81,874	
Depreciation	(48,035)	
Less: net changes of capital assets within internal service funds	<u>(3,002)</u>	30,837

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period.

Change in deferred revenue	\$ 17,832	
New notes and loans	<u>34,828</u>	52,660

Some expenses such as claims, workers' compensation, 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 governmental funds. (2,052)

Changes to the net pension asset, as reported in the statement of activities, do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. (43,902)

Bond issuance costs are expended in the governmental funds when paid, and are deferred and amortized over the life of the corresponding life of the bonds for purposes of the statement of net assets. This is the amount by which current year amortization expense exceeded bond issuance costs in the current period.

Amortization expenses	\$ (1,326)	
Cost of issuance of bonds	<u>828</u>	(498)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financing sources of the governmental funds. These transactions, however have no effect on net assets. This is the amount by which principal retirement exceeded bond proceeds in the current period.

Debt and capital lease principal payments	\$ 86,965	
Issuance of bonds and notes	(56,870)	
Premium and discounts on bonds	<u>2,052</u>	32,147

Amortization of bond premiums and discounts 2,591

Amortization of refunding loss (2,915)

Net change in accrued and accreted interest on bonds and notes payable (1,391)

Principal payments of Coliseum Authority pledge obligation 3,550

Net changes in mandated environmental remediation obligation 928

Net changes on postemployment benefits other than pension benefits (OPEB) (30,741)

Net changes on fair market value of interest swap agreements 2,971

The net income of activities of internal service funds is reported with governmental activities 5,649

Change in net assets of governmental activities \$ 37,171

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

CITY OF OAKLAND
Statement of Fund Net Assets
Proprietary Funds
June 30, 2011
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 28,158	\$ 1,329	\$ 29,487	\$ 2,354
Accounts receivables (net of uncollectibles of \$1,473 and \$282) for the enterprise funds and internal service funds, respectively)	9,479	2	9,481	87
Due from other funds	-	-	-	56
Inventories	-	-	-	610
Restricted cash and investments	4,483	476	4,959	560
Total Current Assets	42,120	1,807	43,927	3,667
Non-current Assets:				
Capital assets:				
Land and other assets not being depreciated	12,480	218	12,698	310
Facilities, infrastructure and equipment, net of depreciation	149,695	2,970	152,665	11,159
Total capital assets	162,175	3,188	165,363	11,469
Unamortized bond issuance costs	537	-	537	-
Total Non-current Assets	162,712	3,188	165,900	11,469
TOTAL ASSETS	204,832	4,995	209,827	15,136
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	2,161	-	2,161	1,370
Accrued interest payable	121	-	121	48
Due to other funds	-	-	-	39,803
Unearned revenue	263	-	263	-
Other liabilities	7	-	7	7
Bonds, notes payable, and capital leases	2,277	-	2,277	1,615
Total Current Liabilities	4,829	-	4,829	42,843
Non-current Liabilities:				
Bonds, notes payable, and capital leases	53,272	-	53,272	2,077
TOTAL LIABILITIES	58,101	-	58,101	44,920
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	111,109	3,188	114,297	8,391
Unrestricted (deficit)	35,622	1,807	37,429	(38,175)
TOTAL NET ASSETS (DEFICIT)	\$ 146,731	\$ 4,995	\$ 151,726	\$ (29,784)

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
For the Year Ended June 30, 2011
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	\$ -	\$ 117	\$ 117	\$ -
Sewer services	41,828	-	41,828	-
Charges for services	-	1	1	49,435
Other	4	-	4	63
TOTAL OPERATING REVENUES	41,832	118	41,950	49,498
OPERATING EXPENSES				
Personnel	10,927	76	11,003	18,235
Supplies	556	141	697	5,583
Depreciation and amortization	4,741	291	5,032	3,427
Contractual services and supplies	2,192	-	2,192	605
Repairs and maintenance	88	9	97	2,784
General and administrative	4,159	9	4,168	4,872
Rental	899	18	917	1,921
Other	1,781	196	1,977	6,786
TOTAL OPERATING EXPENSES	25,343	740	26,083	44,213
OPERATING INCOME (LOSS)	16,489	(622)	15,867	5,285
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment income (loss)	115	4	119	(107)
Interest expense	(2,628)	-	(2,628)	(201)
Federal and State grants	-	-	-	108
Other (settlements, rental), net	-	-	-	788
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,513)	4	(2,509)	588
INCOME (LOSS) BEFORE TRANSFERS	13,976	(618)	13,358	5,873
Transfers out	(1,476)	-	(1,476)	(224)
TOTAL TRANSFERS	(1,476)	-	(1,476)	(224)
Change in net assets (deficit)	12,500	(618)	11,882	5,649
Net Assets (deficit) - Beginning	134,231	5,613	139,844	(35,433)
NET ASSETS (DEFICIT) - ENDING	\$ 146,731	\$ 4,995	\$ 151,726	\$ (29,784)

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

CITY OF OAKLAND
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 40,982	\$ 1	\$ 40,983	\$ 49,688
Cash received from tenants for rents	-	117	117	-
Cash from other sources	4	-	4	63
Cash paid to employees	(10,927)	(76)	(11,003)	(18,235)
Cash paid to suppliers	(9,184)	(374)	(9,558)	(22,619)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	20,875	(332)	20,543	8,897
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from interfund loans	-	-	-	255
Repayment of interfund loans	-	-	-	(6,050)
Other (settlements, rental), net	-	-	-	896
Transfers out	(1,476)	-	(1,476)	(224)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(1,476)	-	(1,476)	(5,123)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(9,915)	(73)	(9,988)	(425)
Long-term debt:				
Repayment of long-term debt	(2,660)	-	(2,660)	(1,610)
Interest paid on long-term debt	(2,716)	-	(2,716)	(201)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(15,291)	(73)	(15,364)	(2,236)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	115	4	119	(107)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,223	(401)	3,822	1,431
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	28,418	2,206	30,624	1,483
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 32,641	\$ 1,805	\$ 34,446	\$ 2,914
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	16,489	(622)	15,867	5,285
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and amortization	4,741	291	5,032	3,427
Changes in assets and liabilities:				
Receivables	(846)	-	(846)	(49)
Inventories	-	-	-	292
Due from other funds	-	-	-	10
Accounts payable and accrued liabilities	489	(1)	488	(75)
Other liabilities	2	-	2	7
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 20,875	\$ (332)	\$ 20,543	\$ 8,897
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	\$ 28,158	\$ 1,329	\$ 29,487	\$ 2,354
Restricted cash and investments	4,483	476	4,959	560
TOTAL CASH AND CASH EQUIVALENTS	\$ 32,641	\$ 1,805	\$ 34,446	\$ 2,914
NON CASH ITEMS:				
Amortization of bond premiums	\$ (118)	\$ -	\$ (118)	\$ -
Amortization of bond cost of issuance	30	-	30	-
	\$ (88)	\$ -	\$ (88)	\$ -

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, 2011
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Funds
ASSETS		
Cash and investments	\$ 3,553	\$ 9,753
Receivables:		
Accrued interest and dividends	959	7
Accounts receivable	-	2
Investments and others	3,564	-
Restricted:		
Cash and investments:		
Short-term investments	16,910	-
Fixed income investments	81,523	-
Domestic equities and mutual funds	152,042	-
International equities and mutual funds	47,939	-
Real estate mortgage loans	38	-
Total restricted cash and investments	298,452	-
Securities lending collateral	11,536	-
TOTAL ASSETS	318,064	9,762
LIABILITIES		
Accounts payable and accrued liabilities	16,773	824
Securities lending liabilities	11,536	-
TOTAL LIABILITIES	28,309	824
NET ASSETS		
Net assets held in trust	\$ 289,755	\$ 8,938

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
For the Year Ended June 30, 2011
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Member	\$ 7	\$ -
Trust receipts	-	1,026
Investment income:		
Net appreciation in fair value of investments	59,512	-
Interest	1,628	24
Dividends	4,829	-
Securities lending	119	-
TOTAL INVESTMENT INCOME	66,088	24
Less investment expenses:		
Investment expenses	(1,322)	-
Borrowers rebates and other agent fees on securities lending transactions	(30)	-
Total investment expenses	(1,352)	-
NET INVESTMENT INCOME	64,736	24
Other income	69	3,816
TOTAL ADDITIONS	64,812	4,866
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	40,854	-
Disability	24,429	-
Death	2,078	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	67,361	-
Administrative expenses	1,111	154
Public works	-	59
Police services	-	283
Other	-	196
Capital outlay	-	3,449
TOTAL DEDUCTIONS	68,472	4,141
Change in net assets	(3,660)	725
Net assets - beginning	293,415	8,213
NET ASSETS - ENDING	\$ 289,755	\$ 8,938

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 the Basic Financial Statements
Year Ended June 30, 2011

(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.

Blended Component Units

The Redevelopment Agency of the City of Oakland (Agency) was established 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 Agency's Board of Directors. The Agency's funds are reported as a major governmental fund.

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. The Oakland City Council serves as the governing board for JPFA. 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 statement of net assets.

Discretely Presented Component Unit

The Port of Oakland (Port) is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport and the Port of Oakland Marine Terminal Facilities. Although the Port has a significant relationship with the City, it is fiscally independent and does not provide services solely to the City and, therefore, is presented discretely. All interfund transactions have been eliminated. The Port is governed by a seven-member Board of Port Commissioners (Board of Commissioners) 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Complete financial statements of the individual component units may be obtained from:
Finance and Management Agency, Controller's Office
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612-2093

(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 interfund 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 unit for which the Primary Government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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, charges for services, and interest and investment income 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. All other revenues are reported on a cash basis.

Property Taxes

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, 2011.

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 and certain state allocations used or expended for a specific purpose, activity or program.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

The **Municipal Capital Improvement Fund** accounts primarily for monies pertaining to the Oakland Museum of California and the Scotlan 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 fund.

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the purchases 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; acquisition of inventory provided to various City departments on a cost reimbursement basis; and procurement of materials, supplies, and services for City departments.

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 Funds** include: (a) the Private Purpose Trust Fund, which accounts for the operations of the Youth Opportunity Program and certain gifts that are not related to Agency projects or parks, recreation and cultural, activities and (b) The Private Pension Trust Fund, which accounts for the employee deferred compensation plan.

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

Proprietary funds distinguish operating revenues and expenses from 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, charges for facilities maintenance, 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) that have a remaining maturity at the time of purchase of one year or less, and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) 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.

Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges 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.

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 funds' investments in the City's cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions and borrowings occur between individual funds for goods provided or services rendered and funds that have overdrawn their share of pooled cash and interfund loans. In the fund financial statements, these receivables and payables are classified as “due from other funds” and “due to other funds”, respectively. In the government-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 Agreement

The City entered into an interest rate swap agreement to modify the interest rate on outstanding debt. Refer to Note 12 for additional information.

Interfund Transfers

In the fund financial statements, interfund 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 a 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 the Basic Financial Statements (continued)
Year Ended June 30, 2011

Inventories

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

Capital Assets

Capital assets, which include land, museum collections, intangibles, construction in progress, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), sewers and storm drains, and capital assets acquired prior to 1980, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund 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 value at the date of donation. Capital outlay is recorded as expenditures in the governmental funds and as assets in the government-wide and proprietary financial statements to the extent the City's capitalization threshold is met.

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

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

The City's depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	5-40 years
Furniture, machinery and equipment	2-20 years
Sewer and storm drains	50 years
Infrastructure	5-50 years

The Port's depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	5-50 years
Container cranes	25 years
Infrastructure	10-50 years
Other equipment	5-10 years

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. These properties are both residential and commercial. Costs of administering Agency projects are charged to capital outlay expenditures as incurred. A primary function of the redevelopment process is to prepare land for specific private development. For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use.

During the period it is held by the Agency, property held for resale may generate rental or operating income. This income is recognized as it is earned in the Agency's statement of activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting. The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development.

Net Pension Asset

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

Compensated Absences – Accrued Vacation, Sick Leave, and Compensatory Time

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

Retirement Plans

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS) (collectively, the Retirement Plans). Employer contributions and member contributions made by the employer to the Retirement 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 Retirement Plans. Refer to Note 16 for additional information.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Other Postemployment Benefits (OPEB)

The OPEB plan covers Police, Fire and Miscellaneous employees. City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. Retiree health benefits are described in the labor agreements between the City and Local Unions and in City resolutions. The demographic rates used for the California Public Employee Retirement System (PERS) were public safety employees retirements benefits under a 3% at 50 formula and miscellaneous employees retirement benefits under a 2.7% at 55 formula. At June 30, 2011, the City reported a net OPEB obligation of \$156,978,541. See Note 17 for additional information.

Pollution Remediation Obligations

Under the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the City recorded remediation liabilities related to its pollution remediation activities. See Note 12 for additional information.

Refunding of Debt

Gains or losses occurring from advance refunding 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

As prescribed by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balances for government funds are made up of the following:

- *Restricted Fund Balance*: includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. It also includes a legally enforceable requirement that the resources can only be used for specific purposes enumerated in the law.
- *Committed Fund Balance*: includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

- *Assigned Fund Balance:* comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the City Council or (b) a body (for example: a Finance and Management Committee) or official to which the City's Council has delegated the authority to assign amounts to be used for specific purposes. This category includes the City's encumbrances, project carry-forwards, and continuing appropriation.
- *Unassigned Fund Balance:* are amounts technically available for any purpose. It's the residual classification for the General Fund and includes all amounts not contained in the other classifications.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Fund balances for all the major and nonmajor governmental funds as of June 30, 2011, were distributed as follows:

	General	Federal/ State Grant Fund	Oakland Re- development Agency	Municipal Capital Improvement	Other Governmental Funds	Total
Restricted for:						
Capital projects	\$ -	\$ 21,415	\$ 119,676	\$ 67,252	\$ 25,084	\$ 233,427
Pension obligations	106,692	-	-	-	-	106,692
Property held for resale	-	-	68,012	-	-	68,012
Housing projects	-	-	48,940	-	-	48,940
Debt service	-	-	9,327	-	121,418	130,745
Subtotal	<u>106,692</u>	<u>21,415</u>	<u>245,955</u>	<u>67,252</u>	<u>146,502</u>	<u>587,816</u>
Committed for:						
Debt service	1,955	-	-	-	-	1,955
Rent Arbitration	1,935	-	-	-	-	1,935
Technology service fee	-	-	-	-	6,553	6,553
Library and museum trust	-	-	-	-	2,325	2,325
Property held for resale	-	-	130,300	-	-	130,300
Subtotal	<u>3,890</u>	<u>-</u>	<u>130,300</u>	<u>-</u>	<u>8,878</u>	<u>143,068</u>
Assigned for:						
Capital projects	65,985	-	120,980	-	1,559	188,524
Housing projects	-	-	64,183	-	-	64,183
Remediation	-	-	2,000	-	-	2,000
Subtotal	<u>65,985</u>	<u>-</u>	<u>187,163</u>	<u>-</u>	<u>1,559</u>	<u>254,707</u>
Unassigned	<u>48,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,669)</u>	<u>46,125</u>
Total	<u><u>\$ 225,361</u></u>	<u><u>\$ 21,415</u></u>	<u><u>\$ 563,418</u></u>	<u><u>\$ 67,252</u></u>	<u><u>\$ 154,270</u></u>	<u><u>\$ 1,031,716</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Adoption of New Pronouncement

Beginning fund balance as of June 30, 2010 for the general fund in the amount of \$5.2 million, \$4.8 million for the Federal/State Grant Fund, and \$10.0 million for other governmental funds have been restated as part of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* implementation.

Restricted Net Assets

Restricted net assets are those assets, net of their related liabilities that have constraints placed on their use by laws and regulations of other governments, creditors, grantors, or contributors and restrictions imposed by law through constitutional provisions or 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. At June 30, 2011, the government-wide statement of net assets reported restricted net assets of \$382.5 million in governmental activities, none of which was restricted by enabling legislation.

Effects of New Pronouncements

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. This statement addresses how to account for and report service concession agreements (SCAs). SCAs represent a type of public-private or public-public partnership. As used in the statement, a SCA is an agreement between a transferor (a government) and an operator (government or nongovernment) in which the following conditions are met:

- The transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and,
- The operator collects and is compensated by fees from third parties

This statement also provides authoritative guidance on whether the transferor or the operator should report the capital asset in its financial statement; when to recognize up-front payments from an operator as revenue; and how to record any obligations of the transferor to the operator. Application of this statement is effective for the City's fiscal year ending June 30, 2013.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and*

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Analysis—for State and Local Governments, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Application of this statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance found in the following pronouncements issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standard Board (FASB) Statements and Interpretations,
- Accounting Principals Board Opinions, and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

Application of this statement is effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and incorporates these financial measures into the definitions of the required components of the residual measure, which will be renamed as net positions, rather than net assets. Application of this statement is effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this statement are effective for the City's fiscal year ending June 30, 2013.

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 the Basic Financial Statements (continued)
Year Ended June 30, 2011

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

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

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

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

On March 17, 2011, the City Operating Fund or Investment Pool is rated 'AAA/V1' by Fitch Ratings, reflecting the credit quality of the portfolio assets and their low sensitivity to market risks. The fund's V1 volatility rating reflects low market risk and a capacity to return stable principal value to meet anticipated cash flow requirements of the City and the Port of Oakland, even in adverse interest rate environment.

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 the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

	Primary Government			Total	Component
	Governmental Activities	Business-type Activities	Fiduciary Funds		Unit
Cash and investments	\$ 378,122	\$ 29,487	\$ 13,306	\$ 420,915	\$ 174,591
Restricted cash and investments	502,440	4,959	298,452	805,851	89,576
Securities lending collateral	-	-	11,536	11,536	-
TOTAL	\$ 880,562	\$ 34,446	\$ 323,294	\$ 1,238,302	\$ 264,167
Deposits				\$ 24,018	\$ 2,292
Investments				1,214,284	261,875
TOTAL				\$ 1,238,302	\$ 264,167

Primary Government

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

At June 30, 2011, the carrying amount of the City's deposits was \$24.0 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$1.7 million was insured by the Federal Deposit Insurance Corporation (FDIC) and \$22.3 million was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Credit Risk: Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Under the City investment policy, short-term debt shall be rated at least A-1 by Standard and Poor's (S&P), P-1 by Moody's Investors Service or F-1 by Fitch Ratings. Long-term debt shall be rated at least A by Standard and Poor's, Moody's Investors Service or Fitch Ratings. Since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. As of June 30, 2011, approximately 72% of the pooled investments was invested in "AAA" quality securities.

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2011 (in thousands):

Pooled Investments

	Ratings as of June 30, 2011			
	Fair Value	AAA/Aaa	A1/P1/F1	Not Rated
U.S. Government Agency Securities	\$ 129,332	\$ 129,332	\$ -	\$ -
U.S. Government Agency Securities (Discount)	195,960	195,960	-	-
Money Market Mutual Funds	97,810	97,810	-	-
Local Agency Investment Fund (LAIF)	99,214	-	-	99,214
Negotiable Certificates of Deposit	21,008	-	21,008	-
Commercial Papers	44,947	-	44,947	-
Total Pooled Investments	\$ 588,271	\$ 423,102	\$ 65,955	\$ 99,214

Restricted Investments

	Ratings as of June 30, 2011				
	Fair Value	AAA/Aaa	A1/P1/F1	Bal	Not Rated
U.S. Government Agency Securities	\$ 23,009	\$ 23,009	\$ -	\$ -	\$ -
U.S. Government Agency Securities (Discount)	43,571	43,571	-	-	-
U.S. Treasury Securities (Discount)	2,000	2,000	-	-	-
Money Market Mutual Funds	242,501	242,501	-	-	-
Local Agency Investment Fund (LAIF)	3,148	-	-	-	3,148
Negotiable Certificates of Deposit	4,001	-	4,001	-	-
Commercial Papers	577	-	577	-	-
Corporate Bonds	2,595	-	-	2,595	-
Local Government Bonds	88,011	-	-	-	88,011
Annuity Contract	97,000	-	-	-	97,000
Total Restricted Investments	\$ 506,413	\$ 311,081	\$ 4,578	\$ 2,595	\$ 188,159

Concentration of Credit Risk: The City has an investment policy related to the City's cash and investment pool, which is subject to annual review. Under the City's Investment Policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund, and proceeds of or pledged revenues for any tax and revenue anticipation notes. Per the Investment Policy, investments should conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the policy.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Certain other investments are governed by bond covenants which do not restrict the amount of investment in any one issuer. Investments in one issuer that exceed 5% of the City's investment portfolio at June 30, 2011 are as follows (in thousands):

<u>Investment Type / Issuer</u>	<u>Amount</u>	<u>Percent of City's Investment Portfolio</u>
U.S. Government Agency Securities:		
Federal National Mortgage Association (Fannie Mae)	\$ 206,418	18.86%
Federal Home Loan Bank	72,306	6.61%
Federal Home Loan Mortgage Corporation (Freddie Mac)	69,995	6.39%
Local Government Bond:		
Oakland Joint Powers Financing Authority	88,011	8.04%
Annuity Contract:		
New York Life Insurance Company	97,000	8.86%

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

Pooled Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent (%) of Portfolio</u>
U.S. Government Agency Securities	\$ 129,332	21.99%
U.S. Government Agency Securities (Discount)	195,960	33.31%
Money Market Mutual Funds	97,810	16.63%
Local Agency Investment Fund (LAIF)	99,214	16.86%
Negotiable Certificates of Deposit	21,008	3.57%
Commercial Paper (Discount)	44,947	7.64%
Total Pooled Investments	\$ 588,271	100.00%

Restricted Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent (%) of Portfolio</u>
U.S. Government Agency Securities	\$ 23,009	4.55%
U.S. Government Agency Securities (Discount)	43,571	8.60%
U.S. Treasury Securities (Discount)	2,000	0.39%
Money Market Mutual Funds	242,501	47.89%
Local Agency Investment Fund (LAIF)	3,148	0.62%
Negotiable Certificates of Deposit	4,001	0.79%
Commercial Papers	577	0.11%
Corporate Bonds	2,595	0.51%
Local Government Bond	88,011	17.38%
Annuity Contracts	97,000	19.16%
Total Restricted Investments	\$ 506,413	100.00%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Interest Rate Risk: This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. The longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates.

As a means for limiting its exposure to changing interest rates, Section 53601 of the State of California Government Code and the City's Investment Policy limit certain investments to short-term maturities such as certificates of deposit and commercial paper, whose maturities are 360 days and 270 days, respectively. Also, Section 53601 of the State of California Government Code limits the maximum maturity of any investment to be no longer than 5 years unless authority for such investment is expressly granted in advance by the City Council or authorized by bond covenants. The City continues to purchase a combination of shorter- term and longer-term investments to minimize such risks.

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2011, the City had the following investments and original maturities (in thousands):

Pooled Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>			
		<u>Interest Rates (%)</u>	<u>12 Months or Less</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>
U.S. Government Agency Securities	\$ 129,332	0.18 - 2.26	\$ 20,285	\$ 69,917	\$ 39,130
U.S. Government Agency Securities (Discount)	195,960	0.02 - 0.13	195,960	-	-
Money Market Mutual Funds*	97,810	0.07 - 0.09	97,810	-	-
Local Agency Investment Fund (LAIF)*	99,214	0.45	99,214	-	-
Negotiable Certificates of Deposit	21,008	0.15 - 0.29	21,008	-	-
Commercial Paper (Discount)	44,947	0.03 - 0.50	44,947	-	-
Total Pooled Investments	\$ 588,271		\$ 479,224	\$ 69,917	\$ 39,130

* weighted average maturity used.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Restricted Investments

<u>Investment Type</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>				
		<u>Fair Value</u>	<u>12 Months or Less</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>5 Years or More</u>
U.S. Government Agency Securities	0.25 - 1.70	\$ 23,009	\$ 17,008	\$ 6,001	\$ -	\$ -
U.S. Government Agency Securities (Discount)	0.02 - 0.15	43,571	43,571	-	-	-
U.S. Treasuries (Discount)	0.01 - 0.09	2,000	2,000	-	-	-
Money Market Mutual Funds*	0.01 - 0.04	242,501	242,501	-	-	-
Local Agency Investment Fund*	0.45	3,148	3,148	-	-	-
Negotiable Certificates of Deposit	0.51	4,001	4,001	-	-	-
Commercial Papers	0.18	577	577	-	-	-
Corporate Bonds	9.01	2,595	-	-	-	2,595
Local Government Bond	4.86	88,011	6,843	14,815	15,429	50,924
Annuity Contracts	3.15	97,000	-	-	-	97,000
Total Restricted Investments		\$506,413	\$ 319,649	\$ 20,816	\$ 15,429	\$ 150,519

* weighted average maturity used.

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

Other Disclosures: As of June 30, 2011, the City's investment in LAIF is \$102.4 million (\$99.2 million in pooled investments and \$3.2 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$24 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$66.5 billion, 94.99% is invested in non-derivative financial products and 5.01% in structured notes and asset-backed securities. As of June 30, 2011, LAIF has an average life-month end of 237 days. The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory 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.

Investments – Retirement Plans

The Retirement Plans' 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 Retirement Plans' investment portfolios are managed by external investment managers. During the year ended June 30, 2011, the number of external investment managers was eleven for PFRS and one for OMERS.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Oakland Municipal Employees' Retirement System (OMERS)

Deposits in the City's Investment Pool

Cash and deposits consisted of cash in treasury held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. As of June 30, 2011, OMERS' share of the City's investment pool totaled \$135,348.

Investments

OMERS' investment policy authorizes investments in domestic common stocks and bonds. OMERS' investment policy states that the asset allocation of the investment portfolio target shall be 70% domestic equity and 30% domestic fixed income. As of June 30, 2011, OMERS' investment portfolio consists of shares of two investment funds (Funds). OMERS invests in the American Century Equity Fund and the HighMark Employee Benefit Flexible Bond Commingled Fund. Specific guidelines for the Funds are detailed in the prospectus or declaration of Trust, for each individual fund.

The following summarizes OMERS' investment portfolio as well as the interest rate and the weighted average maturities of the funds as of June 30, 2011 (in thousands):

Investments	Fair Value	Yield	Weighted Average Maturity
Short-Term Investments	\$ 47	-	*
Equity Investments			
American Century Equity Mutual Fund	3,256	-	*
Fixed Income Investments			
HighMark Employee Benefit Flexible Bond Commingled Fund	1,481	3.0%	4.6 Years
Total Equity & Fixed Income Investment	4,737		
Total Investments	<u>\$ 4,784</u>		

* Weighted average maturity is less than 0.1 year.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. OMERS' investment policy states that the fixed income portfolio shall not exceed 8% investment in below investment grade securities (rated Ba/BB) or below by at least one Nationally Recognized Statistical Rating Organization (NRSRO) at fair market. As of June 30, 2011, OMERS was invested in the HighMark Employee Benefit Flexible Bond Commingled Fund which has a credit quality rating of AA.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or counterparty to a transaction, OMERS may not be able to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

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

OMERS does not have any investments that are not registered in the name of OMERS and are either held by the counterparty or the counterparty's trust department or agent, but not in OMERS's name.

Derivatives: OMERS has no derivatives as of June 30, 2011.

Oakland Police and Fire Retirement System (PFRS)

Deposits in the City's Investment Pool

As of June 30, 2011, cash and cash deposits consisted of cash in treasury held in the City's cash and investment pool as well as cash deposits held in bank and with a custodian. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. As of June 30, 2011, PFRS' share of the City's investment pool totaled \$2,300,096.

PFRS has a money market account with Alta Alliance Bank in the amount of \$1,100,158 and a cash balance of \$17,421 in its international custodian accounts. Of the total cash and cash deposits not held in the City's investment pool, \$267,421 was FDIC insured and \$850,158 was collateralized with securities held by the pledging financial institution in PFRS' name, in accordance with Section 53652 of the California Government Code.

Investments

PFRS' investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income securities, instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, yankee bonds and non-U.S. issued fixed income securities denominated in foreign currencies. PFRS' investment portfolio is managed by external investment managers, except for the bond iShares which are managed internally. During the year ended June 30, 2011, the number of external investment managers was eleven.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The PFRS investments are also restricted by the City Charter. In November 2006, City voters passed Measure M to amend the City Charter to allow the PFRS Board to invest in non-dividend paying stocks and to change the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard as defined by the California Constitution.

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

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

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

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. PFRS' investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. The weighted average duration for PFRS fixed income investment portfolio excluding fixed short-term investments and securities lending investments was 4.95 years as of June 30, 2011.

As of June 30, 2011, PFRS had the following fixed income investments by category (in thousands):

Short-Term Investment Duration:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
U.S. Treasuries	\$ 5,329	0.71
Short-Term Investment Funds	11,534	n/a
Total Short-Term Investments	<u>\$ 16,863</u>	

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Long-Term Investment Duration:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
Government Bonds:		
U.S. Treasuries	\$ 14,477	4.15
U.S. Government Agency Securities	30,949	4.82
Total Government Bonds	45,426	
U.S. Corporate and Other Bonds		
Corporate Bonds	27,407	5.22
TIPS Bond Fund (iShares)	6,608	4.59
Other Government Bonds	2,082	9.71
Total U.S. Corporate and Other Bonds	36,097	
Total Fixed Income Investments	\$ 81,523	4.95
Securities Lending Collateral	\$ 11,536	0.003

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following tables provide information as of June 30, 2011 concerning credit risk of fixed income securities (in thousands):

<u>Investment Type</u>	<u>S&P/Moody's Rating</u>	<u>Fair Value</u>
U.S. Treasuries	AAA/Aaa	\$ 5,329
Short-Term Investment Funds	Not Rated	11,534
Total Short-Term Investments		\$ 16,863

The following tables provide information as of June 30, 2011 concerning credit risk of fixed income and long-term investment rating (in thousands):

<u>S & P/Moody's Rating</u>	<u>Fair Value</u>	<u>Percent of Total Fair Value</u>
AAA/Aaa	\$ 39,873	48.92%
AA /Aa	4,567	5.60%
A/A	8,057	9.88%
BBB/Baa	7,589	9.31%
BB/Ba	440	0.54%
B/B	597	0.73%
Not Rated	20,400	25.02%
Total Fixed Income Investments	\$ 81,523	100.0%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The following tables provide information as of June 30, 2011 concerning credit risk of securities lending collateral ratings (in thousands):

<u>S & P/Moody's Rating</u>	<u>Fair Value</u>
Not Rated	<u>\$ 11,536</u>

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2011, no investment in any single insurer exceeded 5% of PFRS' investments.

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

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

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

Derivatives: PFRS has no derivatives as of June 30, 2011.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Foreign Currency Risk: Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Currency hedging is allowed under the PFRS investment policy for defensive purposes only. The investment policy limits currency hedging to a maximum of 25% of the portfolio value. The following summarizes PFRS' investments denominated in foreign currencies as of June 30, 2011 (in thousands):

<u>Foreign Currency</u>	<u>Total</u>
Australian Dollar	\$ 1,681
Brazilian Real	998
Canadian Dollar	1,207
Danish Krone	672
Euro	8,230
Hong Kong Dollar	2,102
Indonesian Rupian	624
Japanese Yen	4,061
Malaysian Ringgit	379
Mexican Peso	425
Norwegian Kroner	447
Singapore Dollar	111
South Korean Won	856
Swedish Krona	1,010
Swiss Franc	2,968
Taiwan Dollar	231
United Kingdom Pound	4,447
Total Foreign Currency	<u>\$ 30,449</u>

Securities Lending Transactions

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

The Bank of New York Mellon administers the securities lending program. The administrator is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of the market value of loaned U.S. government securities, common stock and other equity securities, bonds, debentures, corporate debt securities, notes, and mortgages or other obligations. 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. PFRS does not match the maturities of investments made with cash collateral with the securities on loan.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

As of June 30, 2011, management believes that PFRS has minimized its credit risk exposure to borrowers because the amounts held by PFRS as collateral exceeded the securities loaned by PFRS. PFRS' contract with The Bank of New York Mellon requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities borrowed) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

The following table summarizes investments in securities lending transactions and collateral received as of June 30, 2011 (in thousands):

Securities Lending	
Investments and Collateral Received (At Fair Value)	
Securities on loan:	
U.S. Government and Agency Securities	\$ 57
U.S. Corporate Bonds	513
U.S. Equity	8,906
Non-U.S. Equity	1,730
Total Securities on Loan	\$ 11,206
Invested Cash Collateral Received:	
Money Market Mutual Funds	\$ 585
Repurchase Agreements	10,951
Total Invested Cash Collateral Received	\$ 11,536

Fair Value Highly Sensitive to Change in Interest Rates: The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. PFRS has invested in collateralized mortgage obligations (CMOs), which are mortgage-backed bonds that pay pass-through rates with varying maturities. The fair values of CMOs are considered sensitive to interest rate changes because they have embedded options, which are triggers related to quantities of delinquencies or defaults in the loans backing the mortgage pool. If a balance of delinquent loans reaches a certain threshold, interest and principal that would be used to pay junior bondholders is instead directed to pay off the principal balance of senior bondholders and shortening the life of the senior bonds. The following table shows PFRS' investments in CMOs as of June 30, 2011 (in thousands):

Securities Name	Weighted Average Coupon Rate	Weighted Average Maturity	Fair Value	Percent of Total Investment Fair Value
Commercial Mortgage Pass-Through	4.13%	12/13/2023	\$ 908	0.31%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Discretely Presented Component Unit – Port of Oakland

The Port's cash, investments and deposits consisted of the following at June 30, 2011 (in thousands):

Cash on hand	\$	9
Bank Deposits and Deposits in Escrow		2,283
Investments		<u>261,875</u>
Total Cash and Investments	\$	<u>264,167</u>

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

Investments

Under the City of Oakland Charter, all income and revenue from the operation of the Port is to be deposited in the City Treasury. Unused bonds proceeds are on deposit with a Trustee for both reserves and construction funds. The investment of funds held by a Trustee is governed by the Amended and Restated Master Trust Indenture, dated as of April 1, 2006 (the Restated Indenture). There were no investments pertaining to the Intermediate Lien Debt. Escrow funds are on deposit with an escrow agent. At June 30, 2011 the Port had the following investments (in thousands):

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Maturity</u>	
			<u>Less than 1 Year</u>	<u>1 - 5 Years</u>
U.S. Treasury Notes	\$ 61,898	AAA	\$ 61,898	\$ -
Government Securities Money				
Market Mutual Funds	10,541	AAA	10,541	-
City Investment Pool	189,436	AAA	150,236	39,200
Total Investments	<u>\$ 261,875</u>		<u>\$ 222,675</u>	<u>\$ 39,200</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. In order to manage interest rate risk, it is the Port's policy that most bond proceeds are invested in permitted investment provisions of the Port's Trust Indentures with a short-term maturity.

Credit Risk

Provisions of the Port's Trust Indenture prescribe restrictions on the types of permitted investments of the monies held by the trustee in the funds and accounts created under the trust indentures, including agreements or financial institutions that must meet certain ratings.

Concentration of Credit Risk

The Trust Indenture places no limit on the amount the Port may invest in any one issuer. There were no investments that exceeded 5% of the total invested funds.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the ability to recover the value of the investments or collateral securities in the possession of an outside party may be doubtful. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Port will not be able to recover the value of its investment or collateral securities that are in possession of another party. To protect against custodial credit risk, all securities owned by the Port are held in the name of the Port for safekeeping by a third party bank trust

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

department, acting as an agent for the Port under the terms of the Restated Trust Indenture. The carrying amount of Port deposits in escrow was \$2,283,000 at June 30, 2011. Bank balances and escrow deposits of \$250,000 at June 30, 2011 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name. The remaining balance of \$2,033,000 as of June 30, 2011, was exposed to custodial credit risk by not being insured or collateralized.

Cash and Investments with the City of Oakland

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

(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency are related to advances and interfund loans made by the City for projects, loans, and services. The receivable amounts of the Agency relate to project advances made by the Agency for the City. The internal service funds' borrowing will be repaid over a reasonable period of time as described in Note 20. The composition of interfund balances and transfers as of June 30, 2011, is as follows (in thousands):

Due From/Due To Other Funds

<u>Receivables</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Oakland Redevelopment Agency	\$ 1,197
	Other Governmental Funds	5,520
	Municipal Capital Improvement	8,045
	Internal Service Funds	39,803
	Subtotal General Fund	<u>54,565</u>
Federal/State Grant Fund	Oakland Redevelopment Agency	<u>159</u>
Oakland Redevelopment Agency	General Fund	8,992
	Federal/State Grant Fund	3,532
	Other Governmental Funds	512
	Subtotal Oakland Redevelopment Agency	<u>13,036</u>
Municipal Capital Improvement	Oakland Redevelopment Agency	<u>98</u>
Other Governmental Funds	Oakland Redevelopment Agency	<u>818</u>
	Subtotal Governmental Funds	<u>68,676</u>
Internal Service Funds	Oakland Redevelopment Agency	<u>56</u>
	Total	<u>\$ 68,732</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Interfund Transfers

TRANSFERS OUT	TRANSFERS IN		
	General Fund	Other Governmental Funds	Total Governmental
General Fund	\$ -	\$ 100,300	\$ 100,300
Federal/State Grant Fund	-	1,208	1,208
Other Governmental Funds	578	-	578
Sewer Service Fund	1,476	-	1,476
Internal Service Funds	224	-	224
Total	\$ 2,278	\$ 101,508	\$ 103,786

The \$100.3 million transferred from the General Fund consists of transfers made to provide funding for the following:

- \$11.5 million for the Kids' First Children's Program
- \$88.6 million for debt service payments
- \$0.2 million for City-owned parcels of land in the Wildfire Prevention Assessment District

The \$0.6 million transfer from Other Governmental Funds to General Fund is to provide funding for the following:

- \$0.2 million for City's claims and liability payments
- \$0.4 million for Motorola IPSS support and maintenance cost

The \$1.5 million transfer from the Sewer Service Fund to the General Fund is to provide funding for the following:

- \$0.6 million for City-wide lease payments
- \$0.9 million for City's claims and liability payments

The \$0.2 million transfer from the Internal Service Fund to the General Fund is to provide funds for City's claims and liability payments.

The \$1.2 million transfer from Federal/State Grant Funds to Other Governmental Funds is to set up Prop 42 fund within the State Gas Tax fund.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Interfund Loans

Certain interfund loans made from the General Fund to the Oakland Redevelopment 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 Agency, and will be recognized as other financing sources in the General Fund upon receipt. The table below shows the total amount of interfund loans due as of June 30, 2011 (in thousands).

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Oakland Center Project	\$ 13,270	\$ -	\$ 13,270	\$ -

On July 20, 2010, the City Council approved a resolution forgiving the remaining balance of interest and principal owed by the Oakland Redevelopment Agency under the 1966 Oak Center repayment contract.

(5) MEMORANDUMS OF UNDERSTANDING

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

Special Services

Payments for special services are treated as a cost of Port operations pursuant to the City Charter Section 717(3) Third Clause and have priority over certain other expenses of Port revenues. Special services totaled \$6,802,000 and are included in "Operating Expenses." At June 30, 2011, \$8,501,000 was accrued as a current liability by the Port and as a receivable by the City.

General Services and Lake Merritt

Payments for General Services from the City are payable only to the extent the Port determines annually that surplus monies are available under the Charter for such purposes. As of June 30, 2011, the Port accrued approximately \$4,792,000 of payments for General Services as a current liability and by the City as a receivable. Additionally, subject to certain conditions, the Port accrued approximately \$3,800,000 to reimburse the City for General Services for net City expenditures for Lake Merritt Tideland Trust properties in 2010. Subject to adequate documentation from the City, and subject to availability of surplus monies, the Port expects that it will continue to reimburse the City annually for General Services and Lake Merritt Tideland Trust services.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Lease with the Port

The Port has leased property to the City under a 66-year lease, which is expressed in terms of the Amended and Restated Lease between the Port and the City for the development and operation of the public golf course by the City. The lease commenced in 2003 when the Port delivered a completed 164.90 acres golf course to the City to replace the City's golf course that was destroyed when the Port used the site as a dredge disposal site. The golf course is leased to a third party and the minimum annual rental is \$269,760 payable in twelve installments of \$22,480 per month, which is then split 50/50 between the Port and the City.

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2011, 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</u>
Pass-through Loans	\$ 8,546	\$ 3,532	\$ -	\$ 512	\$ 12,590
HUD Loans	-	127,589	-	-	127,589
Economic Development					
Loans and Other	53	4,981	237,124	33,352	275,510
Less: Allowance for					
Uncollectable Accounts	-	(1,807)	(47,018)	(1,637)	(50,462)
Total Notes and Loans					
Receivable, Net	\$ 8,599	\$ 134,295	\$ 190,106	\$ 32,227	\$ 365,227

As of June 30, 2011, the City has a total of \$365.2 million net notes and loans receivable, which is not expected to be received in the next twelve months. All of the City's notes and loans receivables are offset with deferred revenue in the governmental funds as the collection of those notes and loans are not expected within the near future.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(7) CAPITAL ASSETS AND LEASES

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2011, is as follows (in thousands):

	Balance				Balance
	July 1, 2010	Additions	Deletions	Transfers	June 30, 2011
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 78,366	\$ 2,463	\$ -	\$ -	\$ 80,829
Intangibles (easements)	2,607	-	-	-	2,607
Museum collections	481	255	-	-	736
Construction in progress	58,458	70,954	-	(72,207)	57,205
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>139,912</u>	<u>73,672</u>	<u>-</u>	<u>(72,207)</u>	<u>141,377</u>
Capital assets, being depreciated:					
Facilities and improvements	763,888	575	-	41,355	805,818
Furniture, machinery and equipment	177,706	6,947	4,154	847	181,346
Infrastructure	545,811	1,105	-	30,005	576,921
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>1,487,405</u>	<u>8,627</u>	<u>4,154</u>	<u>72,207</u>	<u>1,564,085</u>
Less accumulated depreciation:					
Facilities and improvements	330,037	23,147	-	-	353,184
Furniture, machinery and equipment	146,103	8,818	4,154	-	150,767
Infrastructure	194,603	19,497	-	-	214,100
TOTAL ACCUMULATED DEPRECIATION	<u>670,743</u>	<u>51,462</u>	<u>4,154</u>	<u>-</u>	<u>718,051</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>816,662</u>	<u>(42,835)</u>	<u>-</u>	<u>72,207</u>	<u>846,034</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 956,574</u>	<u>\$ 30,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 987,411</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
BUSINESS-TYPE ACTIVITIES:					
Sewer Service Fund:					
Capital assets, not being depreciated:					
Land	\$ 4	\$ -	\$ -	\$ -	\$ 4
Construction in progress	5,959	9,794	-	(3,277)	12,476
Total capital assets, not being depreciated	<u>5,963</u>	<u>9,794</u>	<u>-</u>	<u>(3,277)</u>	<u>12,480</u>
Capital assets, being depreciated:					
Facilities and improvements	306	-	-	-	306
Furniture, machinery and equipment	920	121	-	-	1,041
Sewer and storm drains	232,957	-	-	3,277	236,234
Total capital assets, being depreciated	<u>234,183</u>	<u>121</u>	<u>-</u>	<u>3,277</u>	<u>237,581</u>
Less accumulated depreciation:					
Facilities and improvements	153	21	-	-	174
Furniture, machinery and equipment	761	28	-	-	789
Sewer and storm drains	82,231	4,692	-	-	86,923
Total accumulated depreciation	<u>83,145</u>	<u>4,741</u>	<u>-</u>	<u>-</u>	<u>87,886</u>
Total capital assets, being depreciated, net	<u>151,038</u>	<u>(4,620)</u>	<u>-</u>	<u>3,277</u>	<u>149,695</u>
SEWER SERVICE FUND					
CAPITAL ASSETS, NET	<u>\$ 157,001</u>	<u>\$ 5,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,175</u>
Parks and Recreation Fund:					
Capital assets, not being depreciated:					
Land	\$ 218	\$ -	\$ -	\$ -	\$ 218
Construction in progress	-	73	-	(73)	-
Total capital assets, not being depreciated	<u>218</u>	<u>73</u>	<u>-</u>	<u>(73)</u>	<u>218</u>
Capital assets, being depreciated:					
Facilities and improvements	4,318	-	-	73	4,391
Furniture, machinery and equipment	369	-	-	-	369
Infrastructure	85	-	-	-	85
Total capital assets, being depreciated	<u>4,772</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>4,845</u>
Less accumulated depreciation:					
Facilities and improvements	1,254	276	-	-	1,530
Furniture, machinery and equipment	316	9	-	-	325
Infrastructure	14	6	-	-	20
Total accumulated depreciation	<u>1,584</u>	<u>291</u>	<u>-</u>	<u>-</u>	<u>1,875</u>
Total capital assets, being depreciated, net	<u>3,188</u>	<u>(291)</u>	<u>-</u>	<u>73</u>	<u>2,970</u>
PARKS AND RECREATION FUND					
CAPITAL ASSETS, NET	<u>\$ 3,406</u>	<u>\$ (218)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,188</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 160,407</u>	<u>\$ 4,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,363</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

Governmental Activities:

General Government	\$ 2,853
Public Safety	4,862
Life Enrichment	12,047
Community and Economic Development	6,639
Public Works	21,634
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	<u>3,427</u>
Total	<u><u>\$ 51,462</u></u>

Business-Type Activities:

Sewer	\$ 4,741
Parks and Recreation	<u>291</u>
Total	<u><u>\$ 5,032</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Discretely Presented Component Unit – Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2011, is as follows (in thousands):

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets, not being depreciated:					
Land	\$ 520,182	\$ 336	\$ (388)	\$ -	\$ 520,130
Intangibles (noise easements and air rights)	12,555	87	-	-	12,642
Construction in progress	114,847	49,464	16	(41,799)	122,528
Total capital assets, not being depreciated	<u>647,584</u>	<u>49,887</u>	<u>(372)</u>	<u>(41,799)</u>	<u>655,300</u>
Capital assets, being depreciated:					
Building and improvements	845,335	4,372	-	1,677	851,384
Container cranes	153,775	-	-	-	153,775
Systems and structures	1,545,442	463	-	29,053	1,574,958
Intangibles (software)	-	-	-	11,069	11,069
Other equipment	75,660	296	(1,214)	-	74,742
Total capital assets, being depreciated	<u>2,620,212</u>	<u>5,131</u>	<u>(1,214)</u>	<u>41,799</u>	<u>2,665,928</u>
Less accumulated depreciation:					
Building and improvements	406,914	34,476	-	-	441,390
Container cranes	72,967	5,428	-	-	78,395
Systems and structures	485,834	52,880	-	-	538,714
Intangibles (software)	-	553	-	-	553
Other equipment	40,918	5,479	1,021	-	45,376
Total accumulated	<u>1,006,633</u>	<u>98,816</u>	<u>1,021</u>	<u>-</u>	<u>1,104,428</u>
Total capital assets, being depreciated, net	<u>1,613,579</u>	<u>93,685</u>	<u>(193)</u>	<u>41,799</u>	<u>1,561,500</u>
CAPITAL ASSETS, NET	<u><u>\$ 2,261,163</u></u>	<u><u>\$ (43,798)</u></u>	<u><u>\$ (565)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,216,800</u></u>

Capital Leases

The capital assets leased to others at June 30, 2011, consist of the following (in thousands):

Land	\$ 441,073
Container cranes	153,775
Building and other facilities	<u>1,103,271</u>
Subtotal	1,698,119
Less accumulated depreciation	<u>(488,438)</u>
Capital assets on lease, net	<u><u>\$ 1,209,681</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Operating Leases

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

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

A summary of revenues from long-term leases for the year ended June 30, 2011, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	\$ 157,036
Contingent rentals in excess of minimums	22,290
Secondary use of facilities leased under preferential assignments	<u>295</u>
Total	<u>\$ 179,621</u>

The Port and Ports America Outer Harbor Terminal, LLC, a private company, entered into a long-term concession and lease agreement on January 1, 2010 for the operation of berths 20-24 for 50 years. A \$60 million upfront fee was paid to the Port with offsets of approximately \$7 million for contractual obligations. The unamortized net upfront fee of approximately \$52 million at June 30, 2011, is classified as short-term and long-term deferred revenues of \$1.0 million and \$51 million, respectively. One of the Port's goals for the concession and lease agreement for berths 20-24 was, among other things, to maintain the continuous use and occupancy of berths 20-24 by a rent-paying tenant and maximize the annual revenue guarantee over the life of the concession, while also transferring the risk and responsibility for the berths to the concessionaire to the greatest extent commercially reasonable to do so. In furtherance of these goals, the concession and lease agreement provides that the concessionaire is responsible for any redevelopment of the berths. Except for certain emissions reductions measures which the concessionaire is obligated to implement, the improvements to be made by the concessionaire are at the discretion of the concessionaire, subject to market conditions and the concessionaire's ability to compete for and handle cargo under the then existing condition of the facilities at Berths 20-24.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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):

Year	Rental Revenues
2012	\$ 169,100
2013	173,375
2014	162,044
2015	161,280
2016	159,797
2016 - 2021	394,797
2022 - 2026	294,262
2027 - 2031	274,973
2032 - 2036	235,581
2037 - 2041	243,774
2042 - 2046	263,975
Thereafter	869,097
Total	<u>\$ 3,402,055</u>

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

Year	Rental Revenues
2012	\$ 367
2013	378
2014	390
2015	401
2016	413
2016 - 2021	2,260
2022 - 2026	2,620
2027 - 2031	3,037
2032 - 2036	3,521
2037 - 2041	4,082
2042 - 2046	4,732
Thereafter	8,971
Total	<u>\$ 31,172</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(8) PROPERTY HELD FOR RESALE

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Property held for resale	\$ 163,919	\$ 15,321	\$ -	\$ 179,240

The increases in Property Held for Resale represent the acquisition of the Fruitvale Bart Parking Lot from Bay Area Rapid Transit District for \$6.0 million, properties located at 66th avenue from Cruise America Inc. for a total of \$5.8 million and properties totaling \$2.5 million for the Coliseum Transit Village project within the Coliseum Project Area. The Agency also purchased properties located at Foothill Boulevard for \$1.0 million for its Central City East Project Area. The Agency purchased two properties from the City of Oakland at 615 High Street and 695 Hegenberger Road with a carrying value of a dollar each.

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2011, for the City's individual major funds, nonmajor governmental funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Accrued Payroll/ Employee Benefits	Total
Governmental Activities:			
General Fund	\$ 26,058	\$ 85,000	\$ 111,058
Federal/State Grant Fund	8,719	-	8,719
Oakland Redevelopment Agency	3,709	-	3,709
Municipal Capital Improvement Fund	2,156	-	2,156
Other governmental funds	5,531	-	5,531
Subtotal	46,173	85,000	131,173
Internal service funds	1,370	-	1,370
TOTAL	\$ 47,543	\$ 85,000	\$ 132,543
Business-type Activities:			
Sewer Service Fund	2,161	-	2,161
TOTAL	\$ 2,161	\$ -	\$ 2,161

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2011, are as follows (in thousands):

Pension Trust Funds:

Accounts payable	\$ 37
Investments payable	10,823
Accrued investment management fees	396
Member benefits payable	5,517
Total	16,773

Private Purpose Trust Fund

Accounts payable and accrued liabilities	824
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TOTAL	\$ 17,597
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(10) DEFERRED REVENUE

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

At June 30, 2011, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	Unavailable	Unearned	Total
Governmental Activities:			
General Fund	\$ 7,954	\$ 8,233	\$ 16,187
Federal/State Grant Fund	134,891	-	134,891
Oakland Redevelopment Agency	205,309	-	205,309
Other Governmental Funds	39,682	-	39,682
TOTAL GOVERNMENTAL FUNDS	\$ 387,836	\$ 8,233	\$ 396,069
Business-type activities:			
Sewer Service	\$ -	\$ 263	\$ 263

(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 2.000%. Principal and interest were paid on June 30, 2011.

The short-term debt activity for the year ended June 30, 2011, is as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
2010 - 2011 Tax & Revenue Anticipation Notes	\$ -	\$ 100,000	\$ (100,000)	\$ -

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(12) LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations as of June 30, 2011 (in thousands):

Governmental Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
General obligation bonds (A)	2039	3.00 - 6.25%	\$ 349,431
Tax allocation, housing, and other bonds (B)	2042	2.50 - 9.25%	523,905
Certificates of participation (C)	2012	5.00%	3,895
Lease revenue bonds (C)	2027	2.55 - 5.50%	242,800
Pension obligation bonds (D)	2023	6.09 - 6.89%	195,637
Accreted interest (C) and (D)			172,121
City guaranteed special assessment district bonds (D)	2039	2.00 - 6.70%	7,963
Notes payable (C) and (E)	2017	1.70 - 8.27%	12,295
Capital leases (C) and (E)	2022	2.56 - 6.10%	17,068
Accrued vacation and sick leave (F)			38,542
Self-insurance liability - workers' compensation (C)			82,045
Self-insurance liability - general liability (C)			36,687
Estimated environmental cost (B) and (C)			5,706
Pledge obligation for Coliseum Authority debt (C)			72,450
Net OPEB obligation (C)			156,978
Interest rate swap agreement (C)			16,112
Total			1,933,635
Less Deferred Amounts:			
Bond issuance premiums			22,203
Bond refunding loss			(23,481)
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM OBLIGATIONS, NET			\$ 1,932,357

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
- (F) Revenues recorded in the funds that are responsible for the payroll costs.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Business-Type Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund - Notes payable	2014	3.00 - 3.50%	\$ 848
Sewer fund - Bonds	2029	3.00 - 5.25%	52,580
Unamortized Bond Premium			2,121
TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM OBLIGATIONS			<u>\$ 55,549</u>

Component Unit - Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Senior and intermediate lien bonds	2033	3.13 - 5.88%	\$ 1,314,080
Notes and loans	2030	0.12 - 5.00%	93,030
Less Deferred Amounts:			
Unamortized bond discounts and premiums, net			12,684
Deferred loss on refunding			(16,938)
Total bonds, notes, and loans payable			<u>1,402,856</u>
Self-insurance liability - workers' compensation			6,900
Self-insurance liability - general liability			3,918
Accrued vacation, sick leave and compensatory time			6,595
Environmental remediation and other liabilities			22,560
Net OPEB obligation			10,461
Total other long-term obligation			<u>50,434</u>
TOTAL COMPONENT UNIT LONG-TERM OBLIGATIONS, NET			<u>\$ 1,453,290</u>

Revenues Pledged for the Repayment of Debt Service

Tax Allocation Bonds

The Tax Allocation Bonds (TAB), which are comprised of Series 1992, Series 2003, Series 2005, Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, Series 2006C TE/T, and Series 2010T are all secured primarily by a pledge of tax increment revenues, consisting of a portion of all taxes levied upon all taxable properties within each of the redevelopment project areas, and are equally and ratably secured on a parity with each TAB series. The total projected tax increment revenue through the period of the bonds is approximately \$3,041,759,743. These revenues have been pledged until the year 2040, the final maturity date of the bonds. Debt service payments for these TABs is payable semi-annually on March 1 and September 1. The total principal and interest remaining on these TABs is \$639,155,455 which is 21.0 percent of the total projected tax increment revenues. The pledged tax increment revenue recognized during the year ended June 30, 2011 was \$74,067,000, of which \$39,066,114 was used to pay debt service.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Housing Bonds

The Housing Set-Aside TAB, which are comprised of Series 2006A, Series 2006A-T and Series 2011T, are equally and ratably secured by the pledge and lien of the 20% tax increment revenue set-aside and voluntary 5 percent for the low and moderate income housing fund. The total projected 20 percent set-aside and 5 percent voluntary revenue through the period of the bonds is approximately \$801,163,498 and \$200,290,875, respectively. These revenues have been pledged until the year 2042 the final maturity date of the bonds. Debt service payment for these TABs is payable semi-annually on February 1 and August 1. The total principal and interest remaining on these Housing TABs is \$263,256,251, which is 26.3 percent of the total projected set-aside and voluntary tax increment revenues. The pledged 20 percent set-aside and 5 percent voluntary tax increment revenue recognized for the year ended June 30, 2011, was \$35,606,000, of which \$7,501,417 was used to pay debt service.

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, 2011, the City's debt limit (3.75% of valuation subject to taxation) was \$1,104,508,857. The total amount of debt applicable to the debt limit was \$349,430,620. The resulting legal debt margin was \$755,078,237.

Interest Rate Swap

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

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

On June 21, 2005, all of the outstanding 1998 Lease Revenue Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B (“Series 2005 A & B Bonds”). \$143,093,669 was deposited with the trustee to defease the 1998 Lease Revenue Bonds. However, the Swap associated with the 1998 Lease Revenue Bonds still remains in effect. This is now a stand-alone swap with no association to any bond.

The amortization schedule is as follows as of June 30, 2011:

Calculation period (July 31)	Notional Amount	Fixed Rate To Counterparty	65% of LIBOR¹	Net Rate
2011	\$ 76,800,000	5.6775%	0.2266% ²	5.4509%
2012	68,900,000	5.6775%	0.2266% ²	5.4509%
2013	61,200,000	5.6775%	0.2266% ²	5.4509%
2014	53,700,000	5.6775%	0.2266% ²	5.4509%
2015	46,400,000	5.6775%	0.2266% ²	5.4509%
2016	39,300,000	5.6775%	0.2266% ²	5.4509%
2017	32,500,000	5.6775%	0.2266% ²	5.4509%
2018	25,800,000	5.6775%	0.2266% ²	5.4509%
2019	19,300,000	5.6775%	0.2266% ²	5.4509%
2020	12,800,000	5.6775%	0.2266% ²	5.4509%
2021	6,400,000	5.6775%	0.2266% ²	5.4509%

¹ Rate is as of 1-month LIBOR on June 30, 2011

² Rates are projections, LIBOR rate fluctuates daily

Terms: The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2011 of \$76,800,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The City’s payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Fair Value: Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of \$16,112,193 as of June 30, 2011. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

Credit Risk: The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated Aa1 by Moody's Investors Service, and AAA by Standard and Poor's as of June 30, 2011. 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.

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 the City fails to perform under the terms of the contract. The counterparty also may terminate the Swap if the City's ratings fall below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. 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 the Basic Financial Statements (continued)
Year Ended June 30, 2011

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2011, are as follows (in thousands):

Governmental Activities

	Balance at July 1, 2010	Additional obligations, interest accretion and net increases (decreases)	Current maturities, retirements and net decreases (increases)	Balance at June 30, 2011	Amounts due within one year
Bonds Payable:					
General obligation bonds	\$ 366,248	\$ -	\$ 16,817	\$ 349,431	\$ 17,678
Tax allocation, housing and other bonds	488,900	54,370	19,365	523,905	20,365
Certificates of participation	7,210	-	3,315	3,895	3,895
Lease revenue bonds	270,670	-	27,870	242,800	32,270
Pension obligation bonds	210,595	-	14,958	195,637	20,860
City guaranteed special assessment district bonds	8,298	-	335	7,963	298
Accreted interest on appreciation bonds	172,971	23,171	24,021	172,121	24,021
Less deferred amounts:					
Bond issuance premiums	26,846	(2,052)	2,591	22,203	2,504
Bond refunding loss	(26,396)	-	(2,915)	(23,481)	(1,725)
TOTAL	1,525,342	75,489	106,357	1,494,474	120,166
Notes Payable and Capital Leases:					
Notes payable	14,295	-	2,000	12,295	2,155
Capital Leases	18,483	2,500	3,915	17,068	3,570
TOTAL	32,778	2,500	5,915	29,363	5,725
Other Long-Term Liabilities:					
Accrued vacation and sick leave	39,460	51,618	52,536	38,542	27,818
Pledge obligation for Coliseum Authority debt	76,000	-	3,550	72,450	3,750
Estimated environmental cost	6,634	-	928	5,706	3,103
Self -insurance liability - workers' compensation	75,695	29,508	23,158	82,045	20,119
Self -insurance liability - general liability	40,067	20,575	23,955	36,687	14,775
Net OPEB obligation	126,237	46,451	15,710	156,978	-
Interest rate swap agreement	19,083	-	2,971	16,112	-
TOTAL	383,176	148,152	122,808	408,520	69,565
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM OBLIGATIONS	\$ 1,941,296	\$ 226,141	\$ 235,080	\$ 1,932,357	\$ 195,456

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Internal service funds predominantly serve 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, 2011, \$3,692,413, of capital leases and notes payable related to the internal service funds are included in the above amounts. Compensated absences are financed by individual funds that are responsible for the charges.

Business-Type Activities

	Balance at July 1, 2010	Current maturities, retirements and net decreases	Balance at June 30, 2011	Amounts due within one year
Sewer fund - Notes payable	\$ 1,708	\$ 860	\$ 848	\$ 274
Sewer fund - Bonds	54,380	1,800	52,580	1,885
Unamortized bond premium	2,239	118	2,121	118
Total	\$ 58,327	\$ 2,778	\$ 55,549	\$ 2,277

Component Unit - Port of Oakland

	Balance at July 1, 2010	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2011	Amounts due within one year
Senior and intermediate lien bonds	\$ 1,350,390	\$ -	\$ 36,310	\$ 1,314,080	\$ 46,045
Notes and loans	95,392	63,398	65,760	93,030	211
Less deferred amounts:					
Unamortized bond discount and premium, net	16,341	(11)	3,646	12,684	3,587
Deferred loss on refunding	(19,253)	-	(2,315)	(16,938)	(2,319)
TOTAL	1,442,870	63,387	103,401	1,402,856	47,524
Self-insurance liability - workers' compensation	6,900	863	863	6,900	6,900
Self-insurance liability - general liability	3,079	4,983	4,144	3,918	-
Accrued vacation, sick leave, and compensatory time	5,610	1,136	151	6,595	3,973
Environmental remediation and other liabilities	22,141	6,255	5,836	22,560	5,215
Net OPEB obligation	10,389	11,193	11,121	10,461	-
TOTAL	41,219	23,567	21,252	43,534	9,188
TOTAL COMPONENT UNIT LONG-TERM OBLIGATIONS	\$ 1,490,989	\$ 87,817	\$ 125,516	\$ 1,453,290	\$ 63,612

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Repayment Schedule

The annual repayment schedules for all long-term debt as of June 30, 2011, are as follows (in thousands):

Year Ending June 30	Governmental Activities ¹					
	General Obligation Bonds		Tax Allocation, Housing and Other Bonds		Certificate of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012.....	\$ 17,678	\$ 17,459	\$ 20,365	\$ 30,363	\$ 3,895	\$ 195
2013.....	18,571	16,633	22,545	29,313	-	-
2014.....	19,534	15,758	24,870	28,053	-	-
2015.....	20,574	14,814	19,865	26,651	-	-
2016.....	19,520	13,838	27,140	25,334	-	-
2017-2021.....	109,145	54,101	163,300	99,311	-	-
2022-2026.....	54,889	30,941	77,825	59,811	-	-
2027-2031.....	44,660	19,922	54,080	43,688	-	-
2032-2036.....	32,590	8,479	69,505	26,672	-	-
2037-2041.....	12,270	1,565	39,035	9,126	-	-
2042.....	-	-	5,375	248	-	-
Total	\$ 349,431	\$ 193,510	\$ 523,905	\$ 378,570	\$ 3,895	\$ 195

Year Ending June 30	Special Assessment District Bonds					
	Lease Revenue Bonds		Pension Obligation Bonds		District Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012.....	\$ 32,270	\$ 11,095	\$ 20,860	\$ 17,515	\$ 298	\$ 431
2013.....	33,680	9,728	19,923	19,632	315	416
2014.....	35,295	8,155	18,881	21,884	330	400
2015.....	31,600	6,465	18,079	23,931	355	383
2016.....	18,845	5,290	17,210	26,075	355	365
2017-2021.....	44,145	16,248	74,840	161,810	2,100	1,510
2022-2026.....	38,125	7,166	25,844	78,907	2,110	891
2027-2031.....	8,840	221	-	-	560	563
2032-2036.....	-	-	-	-	755	367
2037-2041.....	-	-	-	-	785	102
Total	\$ 242,800	\$ 64,368	\$ 195,637	\$ 349,754	\$ 7,963	\$ 5,428

Year Ending June 30	Notes Payable		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2012.....	\$ 2,155	\$ 333	\$ 3,570	\$ 733	\$ 101,091
2013.....	2,325	278	2,270	586	99,629	76,586
2014.....	2,485	216	2,372	483	103,767	74,949
2015.....	2,180	157	2,104	376	94,757	72,777
2016.....	1,090	121	1,824	286	85,984	71,309
2017-2021.....	2,060	53	4,463	555	400,053	333,588
2022-2026.....	-	-	465	12	199,258	177,728
2027-2031.....	-	-	-	-	108,140	64,394
2032-2036.....	-	-	-	-	102,850	35,518
2037-2041.....	-	-	-	-	52,090	10,793
2042.....	-	-	-	-	5,375	248
Total	\$ 12,295	\$ 1,158	\$ 17,068	\$ 3,031	\$ 1,352,994	\$ 996,014

¹ The specific year for payment of other long-term liabilities is not practicable to determine.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Year Ending June 30	Business-Type Activities					
	Sewer Revenue Bonds		Sewer Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012.....	\$ 1,885	\$ 2,595	\$ 274	\$ 25	\$ 2,159	\$ 2,620
2013.....	1,985	2,499	283	17	2,268	2,516
2014.....	2,090	2,395	291	9	2,381	2,404
2015.....	2,175	2,306	-	-	2,175	2,306
2016.....	2,285	2,197	-	-	2,285	2,197
2017-2021.....	13,180	9,232	-	-	13,180	9,232
2022-2026.....	16,770	5,650	-	-	16,770	5,650
2027-2029.....	12,210	1,241	-	-	12,210	1,241
Total	\$ 52,580	\$ 28,115	\$ 848	\$ 51	\$ 53,428	\$ 28,166

Discretely Presented Component Unit – Port of Oakland

The Port's required annual debt service payment for the outstanding long-term debt, not including Commercial Paper Notes, as of June 30, 2011, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2012	\$ 46,243 ⁽¹⁾	\$ 67,264	\$ 113,507
2013	73,437	64,895	138,332
2014	115,515	62,346	177,861
2015	52,921	59,734	112,655
2016	50,222	57,179	107,401
2017 - 2021	297,587	241,345	538,932
2022 - 2026	333,604	161,730	495,334
2027 - 2031	363,816	65,517	429,333
2032 - 2033	73,765	3,734	77,499
TOTAL	\$ 1,407,110	\$ 783,744	\$ 2,190,854

⁽¹⁾ Commercial Paper has been classified as long-term debt because the Port has the intent and ability to continue to refinance this debt. Although the Port intends to refinance the Commercial Paper debt in the future, for purposes of this schedule, Commercial Paper debt is amortized over the time period 2013-2017 pursuant to the terms of the Commercial Paper Reimbursement Agreements.

In January 2010, the Port defeased \$44,505,000 of Series L Bonds with maturity dates from 2020 to 2032 and \$3,950,000 of Series N Bonds with maturity dates of 2010 and 2022 with proceeds from monies received from the Concession and Lease Agreement with Ports America Outer Harbor Terminal LLC. Funds were deposited in escrow with the trustee, US Bank, and invested in United States Treasury Securities - State and Local Government Series (SLGS) in amounts sufficient to pay the principal and interest until November 1, 2012, on which date the outstanding defeased Series L Bonds and Series N Bonds are to be called for redemption. As of June 30, 2011, the trustee held \$46,415,000 in the escrow account (along with interest earned in the escrow) to pay the remaining principal and interest on the defeased Series L Bonds and Series N Bonds until the call date of November 1, 2012. The Port incurred a defeasance loss of \$4,158,000, of which \$3,965,000 for Series L and \$193,000 for Series N.

The Port did not capitalize any interest in fiscal year 2011.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Current Year Long-Term Debt Financings

Redevelopment Agency of the City of Oakland
Broadway/MacArthur/San Pablo Redevelopment Project
Second Lien Tax Allocation Bonds, Series 2010-T
Federally Taxable Recovery Zone Economic

On November 2, 2010, the Agency issued \$7,390,000 of Broadway/MacArthur/San Pablo Redevelopment Project Second Lien Tax Allocation Bonds, Series 2010-T Federally Taxable Recovery Zone Economic Development Bonds (the “Series 2010-T Bonds”). The Bonds were issued to finance certain redevelopment activities within or to the benefit of the project area. The Bonds are taxable and treated as “recovery zone economic development bonds,” a category of “Build America Bonds,” under the American Recovery and Reinvestment Act of 2009 and the Agency receives direct payment from the United States Treasury Department equal to forty-five percent (45%) of the interest payable on each interest payment date. The final maturity date is September 1, 2040. The interest rates of these bonds range from 7.20% to 7.40%.

The Series 2010-T Bonds are limited obligations of the Agency payable solely from and secured solely by a pledge of second lien tax revenues, consisting primarily of tax increment derived from property, in the Broadway/MacArthur/San Pablo Redevelopment Project Area. The Agency expects to receive \$6.2 million or 45% interest subsidy from the federal government as part of the bond issue.

Master Lease – Parking Access and Revenue Control System

On December 23, 2010, the City of Oakland closed a lease transaction with Chase Equipment Finance, Inc. in the amount of \$2,500,000 for the purpose of financing the acquisition of the equipment, software, maintenance and services for the automation of City garages. The financing is done on a taxable basis with a final maturity of July 15, 2018. The interest rate on this lease transaction is 2.56%.

Redevelopment Agency of the City of Oakland
Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T

On March 3, 2011, the Agency issued \$46,980,000 of Subordinated Housing Set Aside Revenue Bonds Series 2011A-T (the “Series 2011A-T Bonds”). The Bonds were issued to finance low and moderate income housing activities within the Agency’s project areas. The Series 2011A-T Bonds are federally taxable with interest rates ranging from 3.25% to 9.25% and a final maturity of September 1, 2041.

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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 is therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2011, the amount of defeased debt outstanding amounted to \$38.8 million.

Authorized and Unissued Debt

The City has \$62.3 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 conduit debt issued and outstanding at June 30, 2011 (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2011</u>
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	\$ 19,800	07/01/33	\$ 15,805
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc)	5,800	07/01/33	5,200
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
TOTAL	<u>\$ 185,600</u>		<u>\$ 181,005</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(13) GENERAL FUND BALANCE RESERVE POLICY

The City Council approved the original City Reserve Policy on March 22, 1994. Creation of the policy was to help pay any unanticipated expenditures and pay for claims arising from the City's insurance program. In May 2010, the City adopted a revised reserve policy equal to seven and one-half percent (7.5%) for unassigned fund balance of the general purpose fund appropriation for each fiscal year.

The reserved policy established criteria for the use of general purpose fund reserve, the use of excess Real Estate Transfer Tax (RETT) revenue, and use of one-time revenues, and to minimize draw-downs from the general purpose fund reserve by previous approved projects and encumbrances.

The policy also established a baseline for the Real Estate Transfer Tax at \$40 million (an amount collected in a normal year), with any amount over the baseline used as follows:

- Replenishment of the General Purpose Fund (GPF) reserves until such reserves reach 10 percent of current year budgeted GPF appropriations; and the remainder.
- 50 percent to repay negative Internal Service Funds.
- 30 percent set aside the Police and Fire Retirement System (PFRS) liability until this obligation is met.
- 10 percent to establish an Other Postemployment Benefits (OPEB) trust; and
- 10 percent to replenish the Capital Improvement Reserve Fund until such baseline reaches \$10 million.

The policy also requires the City to conform to the following regarding the use of one-time discretionary revenues:

- 50 percent to repay negative Internal Service Fund balances and,
- 50 percent to repay negatives in all other funds, unless legally restricted to other purposes.

As of June 30, 2011, \$5.8 million of the reserves is in assigned fund balance and \$25.7 million is in unassigned fund balances.

(14) SELF-INSURANCE

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; employee's injuries; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents. For the past three years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.

The City is self-insured for its general liability, malpractice liability, public official's errors and omissions, products and completed operations, employment practices liability, and auto liability up to \$4,000,000 retention level and up to \$750,000 retention level for workers' compensation and has excess insurance with the California State Association of Counties – Excess Insurance Authority as described in the Insurance Coverage section.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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.

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 \$82,044,864 in claims liabilities as of June 30, 2011, approximately \$20,118,617 is estimated to be due within one year.

Changes in workers' compensation claims liabilities for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Self -insurance liability -		
workers' compensation, beginning of year	\$ 75,695	\$ 77,973
Current year claims and changes in estimates	29,508	33,445
Claims payments	(23,158)	(35,723)
Self -insurance liability -		
workers' compensation, end of year	\$ 82,045	\$ 75,695

The 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.

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2011, the amount of liability determined to be probable of occurrence is approximately \$36,687,103. Of this amount, claims and litigation approximating \$14,775,498 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 and the City Attorney's Office for the City, none of these claims are expected to have a significant impact on the financial position or changes in financial position of the City and the Agency. The City has not accumulated or segregated assets or set aside fund balances for the payment of estimated claims and judgments.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Changes in general claims liabilities for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Self -insurance liability - general liability, beginning of year	\$ 40,067	\$ 49,237
Current year claims and changes in estimates	20,575	8,323
Claims payments	(23,955)	(17,493)
Self -insurance liability - general liability, end of year	<u>\$ 36,687</u>	<u>\$ 40,067</u>

The 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.

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. Effective July 1, 2009, the self-insured retention levels and purchased insurance per occurrence are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance Retention</u>	<u>Insurance Authority/Purchase Insurance</u>
General Liability	up to \$4,000,000	\$4,000,000 to \$29,000,000 per occurrence
Automobile Liability	up to \$4,000,000	\$4,000,000 to \$29,000,000 per occurrence
Public Officials Errors and Omissions	up to \$4,000,000	\$4,000,000 to \$29,000,000 per occurrence/annual aggregate
Products and Completed Operations	up to \$4,000,000	\$4,000,000 to \$29,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to \$4,000,000	\$4,000,000 to \$29,000,000 per occurrence/annual aggregate
Workers' Compensation	up to \$750,000	\$750,000 to \$100,000,000 per occurrence/annual aggregate

Discretely Presented Component Unit – Port of Oakland

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of \$750,000 per accident. The Port carries commercial insurance for claims in excess of \$750,000 per accident. There were no workers' compensation claims paid in fiscal years 2011, 2010, and 2009 above the \$750,000 per accident limit.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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. The claims payments and liabilities include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported. These losses are based on an actuarial valuation performed as of June 30, 2011. Estimated reserves can be defined as “actuarial central estimates” which represent the expected range of reasonably possible outcomes. The probability level refers to the probability that actual future payments will not exceed the indicated reserve amount.

Total reserve is equal to case reserves plus incurred but not reported (IBNR) reserves. Case reserves are established by individual claims adjusters. The IBNR reserves are estimated by the actuary and include reserves for late reported claims as well as developments on known claims. The reserve amount is net of excess insurance on an expected value, undiscounted basis. The loss reserve amount represents an estimated reserve amount required to satisfy the Port’s retained liability without a contingency provision for unanticipated development. Changes in the reported liability resulted from the following (in thousands):

	2011	2010
Self -insurance liability -		
workers' compensation, beginning of year	\$ 6,900	\$ 6,137
Current year claims and changes in estimates	863	1,699
Claims payments	(863)	(936)
Self -insurance liability -		
workers' compensation, end of year	\$ 6,900	\$ 6,900

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the Airport, coverage is provided in excess of \$200,000 in the aggregate up to a maximum of \$200,000,000 per occurrence. For the harbor area and the Port’s real estate holdings, coverage is provided in excess of \$1,000,000 per occurrence up to an aggregate amount of \$150,000,000 per occurrence. Additionally, the Port maintains a Public Officials Errors & Omissions and Employment Practices policy. The policy limits are \$25,000,000 with a \$500,000 per claim deductible. Defense costs are in addition to the policy limits, but are included in the deductible. The Port is uninsured for losses in excess of these amounts. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable.

As of June 30, 2011, the Port was a defendant in various lawsuits arising in the normal course of business, including constructing public improvements or construction related claims for unspecified amounts. The ultimate disposition of these suits and claims is not known. The Port’s insurance may cover a portion of any losses. For additional information, contact the Port of Oakland, 530 Water Street, Oakland, California 94607.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Changes in the reported liabilities, which is included as part of long-term obligations is as follows:

	<u>2011</u>	<u>2010</u>
Self -insurance liability - general liability, beginning of year	\$ 3,079	\$ 2,571
Current year claims and changes in estimates	4,983	3,282
Claims payments	(4,144)	(2,774)
Self -insurance liability - general liability, end of year	<u>\$ 3,918</u>	<u>\$ 3,079</u>

(15) JOINT VENTURE

Oakland-Alameda County Coliseum

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

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

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

The Stadium Bonds are limited obligations of the Authority payable solely from revenues of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. The source of the Authority's revenues relating to football games consists primarily of a portion of club dues, concessions, and parking payments. In the event that such football revenues and other revenues received in connection with the Stadium are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

respective General Funds. The City and the County each have covenanted to appropriate \$11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to \$22 million annually in the event of default by the County.

On August 2, 1996, the Authority issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors (the Warriors) to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreements) between the Warriors, the City, the County, Coliseum Inc., and the Authority.

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

The 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 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 the Oakland Coliseum Joint Venture. The Operating Agreement between the Authority and Coliseum Inc. expired, by its terms, on July 31, 2006. The Authority entered into a Termination Agreement whereby, in return for certain consideration, the Authority agreed to perform the duties of Coliseum, Inc. on and after August 1, 2006. The Authority's Management Agreement with Oakland Coliseum Joint Venture expires in June 2012.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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

For the Period Ending June 30,	Stadium Bonds		Arena Bonds	
	Principal	Interest ⁽¹⁾	Principal	Interest ⁽²⁾
2012	\$ 7,500	\$ 94	\$ 4,050	\$ 3,650
2013	7,900	89	4,400	3,510
2014	8,300	84	4,750	3,355
2015	8,700	79	5,150	3,187
2016	9,000	73	5,400	3,005
2017-2021	52,000	272	33,200	11,900
2022-2026	51,500	86	43,245	5,060
Total	<u>\$ 144,900</u>	<u>\$ 777</u>	<u>\$ 100,195</u>	<u>\$ 33,667</u>

⁽¹⁾ The Stadium Bonds include Lease Revenue Bonds Series C1 and C2, which bear weekly interest rates of 0.08% and 0.05%, respectively, at June 30, 2011.

⁽²⁾ The Arena Bonds include Lease Revenue Bonds Series A-1 with a variable rate that resets in separate Commercial Paper Segment (46 and 77 days as of June 30, 2011) and Series A-2 with a weekly interest rate of 0.2% and 6.8%, respectively, at June 30, 2011.

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, 2011, the City made contributions of \$10,034,000 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 \$20,500,000 appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$9,977,950 for the 2011-12 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's deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$72,450,000. 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.

(16) RETIREMENT PLANS

The City has four defined benefit retirement plans: Oakland 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

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 Retirement 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 Retirement Plans.

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multiple employer
Reporting entity	City	City	State
Most recent actuarial study	July 1, 2010	July 1, 2010	June 30, 2010

Police and Fire Retirement System (PFRS)

PFRS provides death, disability, and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will 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, 2010 stand alone financial statements are available by contacting the City Administrator’s Office, One Frank Ogawa Plaza, Oakland, CA 94612.

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City’s consulting actuary. During the year ended June 30, 2011, these contributions ranged from 5.47% to 6.05%. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from PFRS upon termination of employment with the City.

The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do so, the City makes contributions at rates established by consulting actuaries based upon plan valuations using various assumptions as to salary progression, inflation, and rate of return on investments. The City’s contributions are based on a level percentage of all uniformed employees’ compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefits. The City issued pension obligation bonds in February 1997 to fund PFRS through 2011. Bond proceeds in the amount of \$417,173,300

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

were contributed in fiscal year 1997 and, as a result, no employer contributions are contractually required through fiscal year 2011. In fiscal year 2005, the City made an advance contribution of \$17,709,888 to PFRS.

The City's annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for the fiscal year ended June 30, 2011, were as follows:

Annual Required Contribution (ARC)	\$ (41,400,000)
Interest on pension asset	16,000,218
Adjustment to the annual required contribution	<u>(18,501,677)</u>
Annual Pension Cost	(43,901,459)
Pension contribution	-
Pension assets, beginning of year	<u>200,002,721</u>
Pension assets, end of year	<u><u>\$ 156,101,262</u></u>

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2011 and each of the two preceding years:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset
2009	\$ 31,487,398	0%	\$ 243,793,694
2010	43,790,973	0%	200,002,721
2011	43,901,459	0%	156,101,262

Actuarial Assumptions and Funded Status

Information regarding the funded status of the plan as of the most recent valuation date is shown below (in millions).

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
7/1/2010	\$ 792.2	\$ 297.8	\$ 494.4	37.6%	\$ 0.1	494400%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Multiyear trend actuarial information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented in the Required Supplementary Information (RSI) immediately following the notes to the basic financial statements.

A summary of the actuarial methods and significant assumptions used to calculate the funded status of the valuation date and the annual required contribution for fiscal year ended June 30, 2011 are as follows:

Description	Method/Assumption	Method/Assumption
Valuation Date	July 1, 2010 ¹	July 1, 2009 ²
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Investment Rate of Return	7.00%	7.50%
Inflation Rate, U.S.	3.25%	3.25%
Inflation Rate, Bay Area	3.50%	3.50%
Long-term General Pay Increases	4.50%	4.50%
Long-term Postretirement Benefit Increases	4.50%	4.50%
Amortization Method	Level Dollar	Level Dollar
Amortization Period	26 years closed as of July 1, 2010	27 years closed as of July 1, 2009
Actuarial Value of Assets	Expected actuarial value plus 20% of the difference from market value, with 110% and 90% market value corridor.	Expected actuarial value plus 20% of the difference from market value, with 110% and 90% market value corridor.

¹ The July 1, 2010 valuation was used to determine the funded status

² The July 1, 2009 valuation was used to determine the annual required contribution for fiscal year 2011

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Oakland Municipal Employees Retirement System (OMERS)

OMERS provides death, 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, 2011 standalone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, CA 94612.

All active non-uniformed City employees hired prior to September 1970 have transferred to PERS as of July 1, 2004. Accordingly, OMERS did not receive any employee contributions during the year ended June 30, 2011, and will not receive any employee contributions in the future. Because of the OMERS' current funded status, the City is currently not required to make contributions to OMERS. 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.

Actuarial Assumptions and Funded Status

Information regarding the funded status of OMERS as of the most recent valuation date is shown below (in thousands).

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
7/1/2010	\$ 5,471	\$ 4,728	\$ 743	86.4%	\$ -	n/a

Multiyear trend actuarial information about whether the actuarial value of Plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented in the Required Supplementary Information (RSI) immediately following the notes to the financial statements.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

A summary of the actuarial methods and significant assumptions used to calculate the funded status as of the valuations date and the annual required contribution for fiscal year ended June 30, 2011 are as follows:

Description	Method/Assumption	Method/Assumption
Valuation Date	July 1, 2010 ¹	July 1, 2007 ²
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market Value	Market Value
Investment Rate of Return	6.50%	8.00%
Inflation Rate	3.25%	3.25%
Cost-of-living Adjustments	3.00%	3.00%
Amortization Method	Closed Level Dollar	N/A ³
Amortization Period	6 Years	N/A ³

¹ The July 1, 2010 valuation was used to determine the funded status

² The July 1, 2009 valuation was used to determine the annual required contribution for fiscal year 2011

³ Not applicable because OMERS is in a surplus position

California Public Employees Retirement Systems (PERS)

Plan Description

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Funding Policy

Participants are required to contribute 8% for non-safety employees, 9% for police, and 13% for fire 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 19.885% for non-safety employees and 28.092% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2010-11, the City's annual pension costs of \$51.1 million for the Safety Plan and \$33.1 million for the Miscellaneous Plan were equal to the City's required and actual contributions. The required contributions were determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial values of plan assets were 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). The plans' unfunded actuarial accrued liability is amortized as a level percentage of projected payroll over a closed 20-year period.

Three-year trend information for the Safety and Miscellaneous Plans are as follows (in million):

Safety Plan			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 52.7	100%	\$ -
2010	54.2	100%	-
2011	51.1	100%	-

Miscellaneous Plan			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 45.5	100%	\$ -
2010	40.1	100%	-
2011	33.1	100%	-

Funded Status and Funding Progress for Retirement Plans

Safety Plan

As of June 30, 2010, the most recent actuarial valuation date, the Public Safety plan was 75.3% funded. The actuarial accrued liability for benefits was \$1,262,845,446, and the actuarial value of Plan assets was \$951,508,815 resulting in an unfunded actuarial accrued liability (UAAL) of \$311,336,631. The annual covered payroll was \$145,619,032, and the ratio of the UAAL to the annual covered payroll was 213.8%.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

A summary of the actuarial methods and significant assumptions used to calculate the funded status of the plan and the annual required contribution for the fiscal year ended June 30, 2011 are as follows:

Description	Method/Assumption	Method/Assumption
Valuation Date	June 30, 2010 ¹	June 30, 2008 ²
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	31 years closed as of the Valuation Date	32 years closed as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market	15 Years Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 13.15% depending on Age, service, and type of employment	3.25% to 13.15% depending on Age, service, and type of employment
Inflation	3.00%	3.00%
Payroll Growth	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

¹ The June 30, 2010 valuation was used to determine the funded status

² The June 30, 2008 valuation was used to determine contribution requirements for fiscal year 2011

Miscellaneous Plan

As of June 30, 2010, the most recent actuarial valuation date, the Miscellaneous Plan was 81.8% funded. The actuarial accrued liability for benefits was \$1,914,725,522, and the actuarial value of plan assets was \$1,565,521,601, resulting in an unfunded actuarial accrued liability (UAAL) of \$349,203,921. The annual covered payroll was \$195,788,222, and the ratio of the UAAL to the annual covered payroll was 178.4%. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry in PERS. Subsequent plan amendments are amortized as a level of payroll over a closed 20-year period.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

A summary of the actuarial methods and significant assumptions used to calculate the funded status of the plan and the annual required contribution for the fiscal year ended June 30, 2011 are as follows:

Description	Method/Assumption	Method/Assumption
Valuation Date	June 30, 2010 ¹	June 30, 2008 ²
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	18 years closed as of the Valuation Date	19 years closed as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market	15 Years Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%	3.00%
Payroll Growth	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

¹ The June 30, 2010 valuation was used to determine the funded status

² The June 30, 2008 valuation was used to determine contribution requirements for 2011

The schedules of funding progress for the Public Safety and Miscellaneous Plans are presented as RSI following the notes to the financial statements, and present multiyear trend information about whether the actuarial valuation of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(17) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Primary Government

Plan Description

The City has three programs in place to partially pay health insurance premiums for certain classes of retirees from City employment. City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. The retiree health benefits are described in the labor agreements between the City and Local Unions and in City resolutions. The demographic rates used for the California Public Employee Retirement System (PERS) were public safety employees retirements benefits under a 3% @ 50 formula and miscellaneous employees retirement benefits under a 2.7% @ 55 formula.

The City's agent multi-employer defined benefit retiree health plan (Retiree Health Plan) allows eligible retirees and their dependents to receive employer-paid medical insurance benefits through PERS. The medical insurance reimbursement is not to exceed the Kaiser-HMO family plan rate. The Retiree Health Plan also includes dental and vision benefits and reimbursement of Medicare part B monthly insurance premium. The Retiree Health Plan does not issue a separate financial report.

Funding Policy

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. The City paid \$15,709,758 for retirees under this program for the year ended June 30, 2011.

Annual OPEB Cost and Net OPEB Obligation

The City's annual postemployment benefit cost and net OPEB obligation for the Retiree Health Plan as of and for the fiscal year ended June 30, 2011 using a 4.00% interest rate scenario, were as follows (in thousands):

Annual Required Contribution (ARC)	\$ 46,657
Interest on net OPEB obligation	5,050
Adjustment to ARC	<u>(5,256)</u>
Annual OPEB cost	46,451
Employer Contribution	<u>(15,710)</u>
Increase in net OPEB obligation	30,741
Net OPEB obligation, beginning of year	<u>126,237</u>
Net OPEB obligation, end of year	<u><u>\$ 156,978</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The City's annual OPEB cost, the percentage of annual OPEB cost contributed during the fiscal year, and the net OPEB obligation at the end of the year for the City's single employer Retiree Health Plan were as follows (in thousands).

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 54,564	23%	\$ 85,758
2010	54,495	26%	126,237
2011	46,451	34%	156,978

OPEB Funded Status and Funding Progress

As summarized in the table below, as of July 1, 2010, the most recent actuarial valuation date, the City's Retiree Health Plan was zero percent funded on an actuarial basis for other postemployment benefits (OPEB). Changes to the UAAL for the OPEB Plan was primarily the result of the actuarial value of assets being zero and unfavorable investment returns during the last two years. The City is on a pay-as-you-go funding with no money set aside for future liabilities. The specific funded status for the OPEB plan is summarized in the table below, as of the July 1, 2010 (in thousands):

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
7/1/2010	\$ 520,882	\$ -	\$ 520,882	0.0%	\$ 310,155	168%

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Basic Financial Statements, presents information about whether the actuarial value of plan assets increased or decreased in relation to the actuarial accrued liability for benefits. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Actuarial Methods and Assumptions for OPEB Plan

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The more significant actuarial methods and assumptions used in the calculations of the annual OPEB cost and the annual required contribution for the fiscal year ended June 30, 2011 and the funded status as of July 1, 2010 are as follows:

<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation Date	July 1, 2010 ¹	July 1, 2008 ²
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	30 years open as of the Valuation Date	30 years open as of the Valuation Date
Asset Valuation Method	5 Years Smoothed Market	5 Years Smoothed Market
Actuarial Assumptions:		
Discount Rate ³	4.00%	4.00%
Projected Salary Increases	2.5% per year growth	2.5% per year growth
Inflation	3.00%	3.00%
Demographic Rate	Retirement benefit at 3% 50 formula for Safety employees and at 2.7% @ 55 formula for Miscellaneous employees.	Retirement benefit at 3% 50 formula for Safety employees and at 2.7% @ 55 formula for Miscellaneous employees.
Health Care Cost Trends Rate	7% for fiscal year 2011, graded down to 5.00% for fiscal year 2015 and beyond. The trend rate is determined by the Plan sponsor based on historical data and anticipated experience under the Plan.	8% for fiscal year 2009, graded down to 5.00% for fiscal year 2015 and beyond. The trend rate is determined by the Plan sponsor based on historical data and anticipated experience under the Plan.

¹ The July 1, 2010 valuation was used to determine the funded status.

² The July 1, 2008 valuation was used to determine contribution requirements for fiscal year 2011.

³ The City does not pre-fund the ARC, and therefore the discount rate is based on the expected return on the City's general assets.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Discretely Presented Component Unit – Port of Oakland

Plan Description

The Port contributes to the California Employer's Retiree Benefit Trust (CERBT), a single-employer defined benefit postemployment healthcare plan administered by PERS. The CERBT is an Internal Revenue Code (IRC) Section 115 Trust and an investment vehicle that can be used by all California public employers to prefund future retiree health and Other Postemployment Benefit (OPEB) costs.

The Port's Retiree Health Plan allows eligible retirees and their dependents to receive employer paid medical insurance benefits through PERS. The medical insurance reimbursement is not to exceed the Kaiser-HMO family plan rate. The Retiree Health Plan also includes dental and vision benefits and reimbursement of Medicare part B monthly insurance premium. The Retiree Health plan does not issue a separate financial report.

Funding Policy

Benefit provisions are established and may be amended through negotiations between the Port and the various bargaining units during each bargaining period. The Port contributes on a pay-as-you-go basis.

As of June 30, 2011, there were approximately 544 employees who had retired from the Port and were in the Port's retiree benefit plan. During the fiscal year ended June 30, 2011, the Port made payments of \$5,947,000 on behalf of OPEB eligible retirees to third parties outside of CERBT. For fiscal year 2011, the CERBT had net investment earnings of \$2,800,000.

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other postemployment benefit (OPEB) cost is equal to (a) the annual required contribution (ARC) plus (b) one year's interest on the beginning balance of the net OPEB obligation, and minus (c) an adjustment of the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over an open period of thirty years.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The following table shows the components of the Port's annual OPEB cost for the year, the amount contributed to the Plan, and changes in the Port's net OPEB obligation to the Plan as of June 30, 2011 (in thousands):

Annual Required Contribution (ARC)	\$	10,994
Interest on net OPEB obligation		791
Adjustment to ARC		(592)
Annual OPEB cost		11,193
Employer Contribution		(11,121)
Increase in net OPEB obligation		72
Net OPEB obligation, beginning of year		10,389
Net OPEB obligation, end of year	\$	10,461

The Port's annual OPEB cost and net OPEB obligation are as follows (in thousands):

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 10,019	123%	\$ 5,443
2010	10,019	51%	10,389
2011	11,193	99%	10,461

Funded Status and Funding Progress

The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over 30 years. The table below indicates the funded status of the Plan as of June 30, 2011, the most recent actuarial valuation date (in thousands):

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
6/30/2011	\$ 128,906	\$ 19,145	\$ 109,761	14.9%	\$ 44,627	246%

GASB Statement No. 45 requires that the interest rate used to discount future benefits payments back to the present be based on the expected rate of return on any investments set aside to pay for these benefits. As of the June 30, 2011 actuarial valuation, the Port intended to fully fund its OPEB liabilities by contributing the actuarially determined ARC amount to the CERBT trust. The ARC amount was calculated using a discount rate of 7.61 percent which was based upon PERS' expected return on assets held in the Port's OPEB Trust.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

For the year ended June 30, 2011, the Port funded its annual OPEB cost at 99.36 percent. In recognition that a lower discount rate should be considered, the Port's Actuarial Service provided a second alternative valuation as of June 30, 2011, which recommended a lower discount rate of 4.25 percent in the event that the Port chose not to make any future contributions to the OPEB Trust, but would instead adopt a pay-as-you-go funding policy, keeping all other assumptions constant. The Port's UAAL, as of the June 30, 2011 actuarial valuation would increase by approximately \$79.2 million and its ARC would increase by \$4.4 million

Eligible Retirees Defined

Employees must have attained the age of fifty or over at the time of retirement, have five or more years of PERS service, and must be eligible to receive PERS retirement benefits in order to be classified as an eligible retiree.

Actuarial Methods and Assumptions

The actuarial cost method used for determining the benefit obligations of the Port is the Entry Age Normal Cost Method and amortized over an open period of 30 years. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used included a discount rate of 7.61 percent, and an annual health cost trend rate of 4.5 percent in health premiums. Annual salary increases were assumed at 3.25 percent. The demographic assumptions regarding turnover and retirement are based on statistics from reports for PERS under a "2.7 percent at 55" benefit schedule.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The schedule presented as Required Supplementary Information following the notes to basic the financial statements, presents multiyear trend information. The Schedule of Funding Progress – Port of Oakland Postemployment Benefits presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

The City has committed to funding in the amount of \$153.7 million to a number of capital improvement projects for fiscal year 2012 through fiscal year 2013. As of June 30, 2011, the City had construction commitments for the acquisition and construction of assets as follows (in thousands):

Building, facilities and infrastructure	\$ 20,371
Parks and open space	25,847
Sewers and storm drains	19,243
Streets and sidewalks	61,427
Technology enhancements	542
Traffic improvements	26,247
Total	<u>\$ 153,677</u>

Other Commitments and Contingencies

As of June 30, 2011, the Agency has entered into contractual commitments of approximately \$54.2 million for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2011, the Agency was committed to fund \$75.7 million in loans. These commitments were made to facilitate the construction of low and moderate income housing within the City.

Wood Street Affordable Housing Project Environmental Remediation

The Wood Street Affordable Housing Project analytical results show concentrations of arsenic, lead, total petroleum hydrocarbons as diesel and polycyclic aromatic hydrocarbons in site soils and or ground water sample. As of June 30, 2011, environmental remediation clean up activities has not been completed yet. The Agency has set-aside \$300 thousand in escrow to cover the remaining environmental obligations.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Oakland Army Base Environmental Remediation

Land held by the Oakland Army Base project area may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Agency and the Port are responsible for the first \$13.0 million of environmental remediation costs; including environmental remediation insurance. The Agency has received a federal grant of \$13 million to pay for the above-mentioned environmental remediation costs including a \$3.5 million insurance premium. As of June 30, 2011 the Agency has spent approximately \$13.0 million on this project. \$10.9 million has been reimbursed by the U.S. Department of the Army (Army). The Agency is working with the Army on the remaining balance of \$2.1 million.

The next \$11.0 million of environmental remediation costs are to be shared equally by the Agency and the Port. As a result, the Agency reports its share of \$5.5 million remediation obligation on the Oakland Army Base project. 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. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21 million that are not covered by insurance.

Agency management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values.

Discretely Presented Component Unit – Port of Oakland

The \$594.5 million 5-Year Capital Needs Assessment includes projects in the Aviation, Maritime, Commercial Real Estate and Support Divisions. The most significant Aviation projects are the Terminal 1 renovation and retrofit; BART – Oakland Airport Connector; perimeter dike improvement; pavement rehabilitation; and the runway safety area. The most significant Maritime projects are the Shore Power program; maritime security initiatives; Berths 60-63 wharf replacement; site preparation and redevelopment activities at the former Oakland Army Base; and dredging related activities. The most significant projects in the Commercial Real Estate and Support Divisions include Jack London Square improvements and capital equipment purchases.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

As of June 30, 2011, the Port had construction commitments for the acquisition and construction of assets as follows (in thousands):

Aviation	\$ 26,642
Maritime	23,233
Commercial real estate	<u>14</u>
Total	<u>\$ 49,889</u>

The most significant projects for which the Port has contractual commitments for construction are airport terminal renovation projects of \$2.6 million, runways and east apron reconstruction of \$8.3 million, modernization of maritime wharves and terminals projects of \$6.9 million, yard and gate improvement projects of \$2.3 million and safety projects of \$5.9 million.

Power Purchases

The Port purchases electrical power for resale and self-consumption at the Airport, and at Port Maritime facilities located at the former Navy Fleet and Industrial Supply Center Oakland and the former Oakland Army Base. After power requirements are determined, the Port commits and enters into purchase contracts, in advance, with power providers. The price is fixed at the time the Port enters into the contract. At June 30, 2011, the total purchase commitment was approximately \$5.5 million for 99,556 megawatt-hours.

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.

The Port anticipates spending approximately \$2.4 million annually for environmental compliance and remediation obligations. Environmental monitoring costs relating to legal mandates such as regulatory agency orders, court orders or other affirmative legal obligations are included in the anticipated spending.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

A summary of the environmental liability accounts, included within the financial statements at June 30, 2011, is as follows (in thousands):

<u>Obligating Event</u>	<u>Liability</u>	<u>Estimated Recovery</u>
Pollution poses an imminent danger to the public or environment	\$ 218	\$ -
Identified as responsible to clean up pollution	17,533	619
Named in a lawsuit to compel to clean up	39	-
Begins or legally obligates to clean up or post-clean up activities	2,920	60
Total by Obligating Event	<u>\$ 20,710</u>	<u>\$ 679</u>

The environmental liability accounts in the summary tables are listed by the initial obligating event. Due to new information, the obligating event may change from the initial obligating event. Obligating events include without limitations: 1) the Port is named, or evidence indicates that it will be named, by a regulator such as the Department of Toxic Substances Control or the Regional Water Quality Control Board, as a responsible party or potentially responsible party for remediation; and 2) the Port has commenced, or has legally obligated itself to commence, clean-up activities or monitoring or operation and maintenance of the remediation effort (e.g., by undertaking a soil and groundwater pre-development investigation).

(19) TRANSACTIONS WITH THE FOX OAKLAND THEATER, INC. (“FOT”) DEVELOPMENT

FOT is a Internal Revenue Code section 501(C)(3) organization set up by and for the benefit of the Agency and the City set up to renovate the Fox Theater. The Agency transferred the Fox Theater property to FOT in August 2006 through a long-term lease and a Disposition and Development Agreement (“DDA”) which included a \$25.5 million loan. The Fox Theater property was held by the Agency as property held for resale. During 2008, the property was transferred to FOT as a long-term capital lease which was valued at \$6.5 million in the lease and DDA. All FOT board members are City employees and FOT has no staff. FOT set up a for profit entity, Fox Theater Manager, Inc (“FT Manager”), and then two LLCs managed by FT Manager, Fox Theater Landlord LLC and Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is secured by a pledge and assignment of borrowers ninety nine and nine-tenths percent (99.9%) interests in the Community Development Entities (CDEs) loans entered into between FOT and Fox Oakland Investment Fund (FOIF). In fiscal year 2009-10, the Agency loaned an additional of \$2.0 million to FOT and \$1.4 million to Fox Theater Master Tenant LLC to complete the project. The \$1.4 million Fox Theater Master Tenant LLC loan has a 15-year term.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

The outstanding principal balance of the FOT loan shall accrue interest at the rate of 2.5 percent, commencing on the date of disbursement and compounded annually, which will only be payable to the extent of borrower's net cash flow from operations. The loan terminates at the end of ten years unless the borrower defaults on the agreement in which case the lender declares an acceleration of the maturity.

(20) DEFICIT FUND BALANCES/NET ASSETS AND EXPENDITURES OVER BUDGET

As of June 30, 2011, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue:	
Landscape and Lighting Assessment District.....	\$ (2,517)
Capital Projects Fund:	
Emergency Services.....	\$ (152)

The Landscape and Lighting Assessment District and Emergency Services funds deficit will be cleared by future revenues.

Internal Service Funds:	
Equipment.....	\$ (804)
Facilities.....	(25,678)
Reproduction.....	(426)
Central Stores.....	(4,290)
Purchasing.....	(711)

The City's facilities, equipment, central stores, and funds deficits are expected to be funded through increased user charges in future years. During the 2009-11 Budget, the City revised the repayment plan for the internal service funds to eliminate the funds net assets deficit by 2019. In addition, the City adopted a financial policy that requires half of one-time revenues to be used to eliminate negative internal service fund balances and half be used to pay off other negative funds balances.

As of June 30, 2011, the following funds reported expenditures in excess of budgets (in thousands):

Debt Service Fund:	
Other Assessment Bonds.....	\$ (91)
Capital Projects Fund:	
Parks and Recreation.....	\$ (66)

The excess of expenditures over budget in the Other Assessment Bonds Fund is primarily attributed to administrative and commission costs associated with property tax collection and levy and the excess of expenditures over budget for Parks and Recreation Fund is the unrealized loss in investments.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

(21) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 8, 2011, the City closed the 2011-2012 Tax and Revenue Anticipation Notes (the "Notes") in the principal amount of \$81,200,000 with a maturity date of March 30, 2012 and June 29, 2012. The Notes are tax-exempt with an interest rate of 2.0% on both maturities to yield at 0.31% for March 30, 2012 and 0.38% for June 29, 2012 maturity. The Notes were issued to finance General Fund expenditures, including but not limited to, current expenses, capital expenditures and the discharge of other obligations of the City.

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.” A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (“EOPS”) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On July 26, 2011, City Ordinance No. 13084 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$39.4 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$10 million will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. Assembly Bill X1 27 allows a one-year reprieve on the Agency’s obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2011

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

**City of Oakland v. Oakland Police and Fire Retirement System, et al.,
Alameda County Superior Court case number RG 11580626**

In June 2011, the City filed a petition for writ of mandate and complaint for declaratory relief against Oakland PFRS seeking, in the alternative, (1) a writ of mandate to compel changes in benefit payments made by PFRS to retired police officers and police widows; (2) a judicial declaration that the City's position regarding the calculation of benefit payments made by PFRS to retired police officers and police widows is correct, that retired police officers and police widows are being overpaid for their retirement benefits, that these payments should be corrected prospectively and that such overpayments should be recovered from the retired police officers and widows. PFRS filed an answer to the City's action on August 1, 2011 that denied the City's allegations and raised certain affirmative defenses in response. A hearing on the merits of the City's action is presently scheduled for January 18, 2012.

**(22) EVENT SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S
REPORT (UNAUDITED)**

Pursuant to legislation enacted in the summer of 2011 (Assembly Bill X1 26) and upheld by the California Supreme Court on December 29, 2011, in a case captioned California Redevelopment Association v. Matosantos (S194861), redevelopment agencies in California were terminated as of February 1, 2012. The City of Oakland has elected to be appointed as the successor agency for purposes of winding down the affairs of the Oakland Redevelopment Agency. The financial statements do not include any adjustments as a result of the dissolution of the Oakland Redevelopment Agency.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Year Ended June 30, 2011

PERS ACTUARIAL VALUATIONS
SCHEDULES OF FUNDING PROGRESS

The schedules of funding progress below show the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to covered payroll. The required contributions were determined as part of the actuarial valuation using the entry age normal actuarial cost method.

Public Safety Retirement Plan (Police and Fire)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded)		Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			AAL (UAAL) (a-b)	Funded Ratio (b)/(a)		
7/1/2008	\$ 1,084,370,034	\$ 829,712,579	\$ 254,657,455	76.5%	\$ 138,606,908	183.7%
7/1/2009	1,194,359,091	888,250,432	306,108,659	74.4%	150,306,150	203.7%
7/1/2010	1,262,845,446	951,508,815	311,336,631	75.3%	145,619,032	213.8%

Miscellaneous Retirement Plan

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded)		Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			AAL (UAAL) (a-b)	Funded Ratio (b)/(a)		
7/1/2008	\$ 1,727,976,732	\$ 1,445,373,281	\$ 282,603,451	83.6%	\$ 237,455,347	119.0%
7/1/2009	1,876,286,272	1,505,314,108	370,972,164	80.2%	224,759,546	165.1%
7/1/2010	1,914,725,522	1,565,521,601	349,203,921	81.8%	195,788,222	178.4%

City Other PostEmployment Benefits (OPEB)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded)		Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			AAL (UAAL) (a-b)	Funded Ratio (b)/(a)		
7/1/2008	\$ 591,575,250	\$ -	\$ 591,575,250	0.0%	\$ 304,875,561	194.0%
7/1/2010	520,882,498	-	520,882,498	0.0%	310,154,816	167.9%

Port of Oakland PostEmployment Benefits (OPEB)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded)		Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			AAL (UAAL) (a-b)	Funded Ratio (b)/(a)		
1/1/2009	\$ 100,412,000	\$ -	\$ 100,412,000	0.0%	\$ 48,400,000	207%
1/1/2011	131,327,000	13,373,000.00	117,954,000	10.2%	45,079,000	262%
6/30/2011	128,906,000	19,145,000.00	109,761,000	14.9%	44,627,000	246%

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Year Ended June 30, 2011

PFRS AND OMERS ACTUARIAL VALUATIONS
SCHEDULES OF FUNDING PROGRESS

Oakland Police and Fire Retirement System - Pension

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			(Overfunded) AAL (UAAL) (a-b)			
7/1/2007 *	\$ 888,100,000	\$ 566,000,000	\$ 322,100,000	63.7%	\$ 400,000	80525%
7/1/2009 *	782,500,000	347,200,000	435,300,000	44.4%	100,000	435300%
7/1/2010 *	792,200,000	297,800,000	494,400,000	37.6%	100,000	494400%

* Factors influencing the decline in funded ratio in FY 2008-09 include investment performance, the contribution holiday associated with the Pension Obligation Bonds (POB) issuance, and the strengthening of discount rate and post-retirement mortality assumptions.

Oakland Municipal Employees' Retirement System - Pension

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
			(Overfunded) AAL (UAAL) (a-b)			
7/1/2007 **	\$ 7,516,000	\$ 9,371,000	\$ (1,855,000)	124.7%	\$ -	N/A
7/1/2009 **	5,499,000	4,981,000	518,000	90.6%	-	N/A
7/1/2010 **	5,471,000	4,728,000	743,000	86.4%	-	N/A

** The decline in the funded ratio was primarily due to explicit recognition of future administrative expenses in the Plan's actuarial accrued liability, investment performance in FY 2008-09, and strengthening of the interest and mortality assumptions. The entry age normal cost method was used for disclosure and annual required contribution rates starting with the July 1, 2009 valuation.

CITY OF OAKLAND
Budgetary Comparison Schedule - General Fund (unaudited)
For the Year Ended June 30, 2011
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 184,295	\$ 184,295	\$ 189,237	\$ 4,942
State taxes:				
Sales and use tax	36,142	36,143	41,235	5,092
Motor vehicle in-lieu tax	1,111	1,111	2,168	1,057
Local taxes:				
Business license	50,813	50,813	53,138	2,325
Utility consumption	50,800	50,800	53,440	2,640
Real estate transfer	33,490	33,490	31,608	(1,882)
Transient occupancy	8,786	8,786	9,634	848
Parking	7,519	7,519	8,513	994
Franchise	15,365	15,365	14,724	(641)
Licenses and permits	1,362	694	888	194
Fines and penalties	31,736	31,976	24,397	(7,579)
Interest and investment income	1,640	1,640	847	(793)
Charges for services	90,183	122,002	99,717	(22,285)
Federal and state grants and subventions	1,652	1,658	1,370	(288)
Annuity income	11,700	11,700	7,647	(4,053)
Other	14,575	15,064	10,661	(4,403)
TOTAL REVENUES	<u>541,169</u>	<u>573,056</u>	<u>549,224</u>	<u>(23,832)</u>
EXPENDITURES				
Current:				
Elected and Appointed Officials:				
Mayor	1,766	1,806	1,977	(171)
Council	3,553	3,798	3,870	(72)
City Administrator	9,116	9,259	9,150	109
City Attorney	11,598	11,595	12,079	(484)
City Auditor	1,034	1,297	1,456	(159)
City Clerk	3,182	4,179	2,986	1,193
Agencies/Departments:				
Human Resource Management	3,887	3,917	4,231	(314)
Information Technology	8,017	8,028	8,219	(191)
Financial Services	23,394	23,797	24,007	(210)
Contracting and Purchasing	1,929	1,950	2,082	(132)
Police Services	175,175	176,521	188,384	(11,863)
Fire Services	102,426	99,078	96,871	2,207
Life Enrichment:				
Parks and Recreation	14,531	15,832	15,948	(116)
Library	9,202	9,407	8,912	495
Cultural Arts and Museum	5,775	5,775	6,008	(233)
Aging & Health and Human Services	8,229	6,692	5,968	724
Community and Economic Development	17,163	30,563	17,266	13,297
Public Works	32,923	39,564	35,312	4,252
Other	7,104	9,996	2,329	7,667
Capital outlay	736	50,617	5,899	44,718
Debt service:				
Principal repayment	1,698	1,984	1,860	124
Interest charges	689	719	633	86
TOTAL EXPENDITURES	<u>443,127</u>	<u>516,374</u>	<u>455,447</u>	<u>60,927</u>
EXCESS OF REVENUES OVER EXPENDITURES	98,042	56,682	93,777	37,095
OTHER FINANCING SOURCES (USES)				
Property sale proceeds	3,000	3,007	4,481	1,474
Insurance claims and settlements	-	65	538	473
Transfers in	34,498	35,444	2,278	(33,166)
Transfers out	(119,299)	(132,882)	(100,300)	32,582
TOTAL OTHER FINANCING USES, NET	<u>(81,801)</u>	<u>(94,366)</u>	<u>(93,003)</u>	<u>1,363</u>
NET CHANGE IN FUND BALANCE	16,241	(37,684)	774	38,458
Fund balances - beginning	238,067	238,067	238,067	-
Adoption of GASB Statement No. 54	-	-	(5,246)	(5,246)
Fund balance - beginning as restated	238,067	238,067	232,821	(5,246)
FUND BALANCES - ENDING	<u>\$ 254,308</u>	<u>\$ 200,383</u>	<u>\$ 233,595</u>	<u>\$ 33,212</u>

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

CITY OF OAKLAND
Notes to Required Supplementary Information (unaudited) (continued)
June 30, 2011

(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 2009, the City Council approved the City's two-year budget for fiscal years 2010 and 2011. 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 2010-11 budget. Certain projects are appropriated on a multiyear 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 and 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 (unaudited) (continued)
June 30, 2011

Budgetary Basis of Accounting

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

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multiyear basis. The amounts of the projects and programs budgeted on a multiyear 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/State Grants
- Oakland Redevelopment Agency
- Municipal Capital Improvement

Nonmajor Funds

- Special Revenue Funds
 - ORA Projects
 - Parks, 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 multiyear basis.

(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.

CITY OF OAKLAND
Notes to Required Supplementary Information (unaudited) (continued)
June 30, 2011

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, 2011, was \$448,154.

On June 30, 2010, the City entered into a sublease agreement with the Oakland Redevelopment Agency (“Agency”) whereby the City received advance payment of \$4 million for a twelve year lease agreement. The advance to the City was recorded as revenue in fiscal year 2011 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and being recognized over the 12-year life of the sublease agreement. Amortization for the year ended June 30, 2011, was \$335,478.

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

	General Fund
Net change in fund balance - GAAP basis	\$ (2,443)
Advance from Scotlan Convention Center sublease	4,000
Amortization of Scotlan sublease agreement	(335)
Amortization of debt service deposit agreement	(448)
Net change in fund balance - Budgetary basis	\$ 774

The General Fund’s fund balance on a GAAP Basis is reconciled to a Budgetary Basis as of June 30, 2011, which is as follows (in thousands):

	General Fund
Fund balance as of June 30, 2011 - GAAP basis	\$ 225,361
Advance from Scotlan Convention Center sublease	3,665
Unamortized debt service deposit agreement	4,569
Fund balance as of June 30, 2011 - Budgetary basis	\$ 233,595

FEDERAL AWARDS PROGRAMS

**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***

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

We have audited the financial statements 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 of Oakland, California (City) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. Our report includes a reference to other auditors. Our report also contained explanatory paragraphs describing the City’s adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and legislation regarding the dissolution of redevelopment agencies in the State of California. 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. Other auditors audited the financial statements of the Oakland Municipal Employees Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS) which collectively represent 57%, 68% and 25%, respectively of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information as of and for the year ended June 30, 2011, as described in our report on the City’s financial statements. The financial statements of OMERS and PFRS were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 9, 2011.

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

Macias Gini & Connell LLP

Oakland, California
December 9, 2011

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and
On Internal Control over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), which expended \$27,393,034 in federal awards, and which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit of compliance, described below, did not include the operations of the Port because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 and 2011-2 to be material weaknesses.

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

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

Macias Gini & Counsel LLP

Oakland, California
March 28, 2012

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the State of California,				
Department of Education				
ARRA-Child and Adult Care Food Program	10.558	04008-CACFP-01-GM-CS	\$ 34,998	\$ -
Child and Adult Care Food Program	10.558	04008-CACFP-01-GM-CS	550,896	-
Subtotal Child and Adult Care Food Program			<u>585,894</u>	<u>-</u>
Summer Food Service Program for Children	10.559	E116-01	273,233	32,323
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>859,127</u>	<u>32,323</u>
U.S. DEPARTMENT OF COMMERCE				
Direct Program				
Economic Adjustment Assistance	11.307	07-39-02873	40,000	-
Economic Adjustment Assistance	11.307	07-79-04941	5,625	-
Subtotal Economic Adjustment Assistance			<u>45,625</u>	<u>-</u>
Pass through City and County of San Francisco				
Public Safety and Interoperable Communications	11.555	PSIC-006-0071	933,850	-
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>979,475</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0013	10,232,384	4,396,629
Community Development Block Grants/Entitlement Grants	14.218	B-08-MN-06-0005	2,162,119	8,825
ARRA-Community Development Block Grant ARRA				
Entitlement Grants (CDBG-R)(Recovery Act Funded)	14.253	B-09-MY-06-0013	421,251	98,044
Subtotal CDBG - Entitlement Grants Cluster			<u>12,815,754</u>	<u>4,503,498</u>
Emergency Shelter Grants Program	14.231	S05-MC-06-0013	6,168	4,846
Emergency Shelter Grants Program	14.231	S06-MC-06-0013	58,052	57,161
Emergency Shelter Grants Program	14.231	S07-MC-06-0013	43,836	43,836
Emergency Shelter Grants Program	14.231	S08-MC-06-0013	94,506	88,467
Emergency Shelter Grants Program	14.231	S09-MC-06-0013	281,073	266,515
Subtotal Emergency Shelter Grants Program			<u>483,635</u>	<u>460,825</u>
Supportive Housing Program	14.235	CA0106B9T020801	80,827	67,070
Supportive Housing Program	14.235	CA0103B9T020801	106,802	106,767
Supportive Housing Program	14.235	CA0103B9T020802	144,080	139,720
Supportive Housing Program	14.235	CA0096B9T020802	1,202,720	1,163,314
Supportive Housing Program	14.235	CA0106B9T020802	663,452	632,851
Supportive Housing Program	14.235	CA0093B9T020802	213,897	210,983
Supportive Housing Program	14.235	CA0093B9T021003	40,574	40,188
Supportive Housing Program	14.235	CA0096B9T021003	416,576	416,428
Subtotal Supportive Housing Program			<u>2,868,928</u>	<u>2,777,321</u>
Home Investment Partnerships Program	14.239	M10-MC060208	10,885,752	-
Home Investment Partnerships Program	14.239	Prior Year Loans (Note 5)	59,058,221	-
Subtotal Home Investment Partnerships Program			<u>69,943,973</u>	<u>-</u>
Housing Opportunities for Persons with AIDS	14.241	CA-H05-F001	10,317	10,317
Housing Opportunities for Persons with AIDS	14.241	CA-H06-F001	2,614	2,614
Housing Opportunities for Persons with AIDS	14.241	CA-H07-F001	832,819	832,819
Housing Opportunities for Persons with AIDS	14.241	CA-H08-F001	530,368	530,368
Housing Opportunities for Persons with AIDS	14.241	CA-H09-F001	311,979	311,979
Subtotal Housing Opportunities for Persons with AIDS			<u>1,688,097</u>	<u>1,688,097</u>
Community Development Block Grants/Brownfields				
Economic Development Initiative	14.246	E-95-EZ-06-0001	472,547	26,000
Community Development Block Grants - Section 108				
Loan Guarantees	14.248	B94-MC-06-0013-A	2,686,858	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-06-SP-CA-0098	74,537	74,537
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-08-SP-CA-0547	250,000	250,000
Subtotal Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants			<u>324,537</u>	<u>324,537</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)				
ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257	S09-MY-06-0013	\$ 1,645,355	\$ 1,623,615
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			92,929,684	11,403,893
U.S. DEPARTMENT OF JUSTICE				
Direct Programs				
Services for Trafficking Victims	16.320	2005-VT-BX0009	11,824	-
Services for Trafficking Victims	16.320	2010-VT-BX-0026	64,869	-
Subtotal Services for Trafficking Victims			<u>76,693</u>	<u>-</u>
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-CZ-BX-0066	132,400	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-CZ-BX-0050	120,595	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-PB-FX-K011	296,812	-
Subtotal Juvenile Justice and Delinquency Prevention - Allocation to States			<u>549,807</u>	<u>-</u>
Title V - Delinquency Prevention Program	16.548	97-MU-FX-K008	1,354	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2007-DN-BX-K019	188,273	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2008-DN-BX-K172	204,470	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2010-CD-BX-0060	114,503	-
Subtotal National Institute of Justice Research, Evaluation, and Development Project Grants			<u>507,246</u>	<u>-</u>
Federal Surplus Property Transfer Program	16.578	CA0010900	197,100	-
Community Capacity Development Office	16.595	2007-WS-Q7-0057	45	-
Community Capacity Development Office	16.595	2009-WS-Q7-0057	142,951	-
Subtotal Community Capacity Development Office			<u>142,996</u>	<u>-</u>
Bulletproof Vest Partnership Program	16.607	Agreement	7,125	-
ARRA-Public Safety Partnership and Community Policing Grants	16.710	2009RJWX0009	4,927,501	-
Public Safety Partnership and Community Policing Grants	16.710	2007-CK-WX-0028	849,102	-
Public Safety Partnership and Community Policing Grants	16.710	2008-CK-WX-0633	26,591	-
Public Safety Partnership and Community Policing Grants	16.710	2009CK-WX-0560	217,948	-
Public Safety Partnership and Community Policing Grants	16.710	2009CD-WX-0635	174,455	-
Subtotal Public Safety Partnership and Community Policing Grants			<u>6,195,597</u>	<u>-</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	2009-CD-BX-0067	98,500	-
Forensic Casework DNA Backlog Reduction Program	16.743	2008-DN-BX-K045	1,737	-
Forensic Casework DNA Backlog Reduction Program	16.743	2009-DB-BX-K112	78,836	-
Forensic Casework DNA Backlog Reduction Program	16.743	2010-DN-BX-K068	17,496	-
Forensic Casework DNA Backlog Reduction Program	16.743	2010-DN-BX-K182	34,055	-
Subtotal Forensic Casework DNA Backlog Reduction Program			<u>132,124</u>	<u>-</u>
Edward Byrne Memorial Competitive Grant Program	16.751	2009-DJ-BX-0128	415,916	-
Edward Byrne Memorial Competitive Grant Program	16.751	2010-DJ-BX-0128	114,563	-
Subtotal Edward Byrne Memorial Competitive Grant Program			<u>530,479</u>	<u>-</u>
Subtotal direct programs			<u>8,439,021</u>	<u>-</u>
Pass through County of Alameda				
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B90733	1,211,365	-
TOTAL U.S. DEPARTMENT OF JUSTICE			9,650,386	-

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF LABOR				
Pass through Senior Service America, Inc				
Senior Community Service Employment Program	17.235	SCSEP-233	\$ 1,268,104	\$ -
Senior Community Service Employment Program	17.235	CAA-DII-SN233	1,298,885	-
Subtotal Senior Community Service Employment Program			<u>2,566,989</u>	<u>-</u>
Pass through State of California, Employment Development Department				
WIA Cluster				
ARRA-WIA Adult Program	17.258	AA-17110-08-55-A-6	1,708,489	1,367,911
WIA Adult Program	17.258	K074157	909,633	62,069
WIA Adult Program	17.258	K178676	886,041	787,619
Subtotal WIA Adult Program			<u>3,504,163</u>	<u>2,217,599</u>
ARRA-WIA Youth Activities	17.259	AA-17110-08-55-A-6	288,574	288,574
WIA Youth Activities	17.259	K074157	247,730	247,730
WIA Youth Activities	17.259	K178676	580,511	580,511
WIA Youth Activities	17.259	K074157	20,750	20,750
Subtotal WIA Youth Activities			<u>1,137,565</u>	<u>1,137,565</u>
ARRA-WIA Dislocated Workers	17.260	AA-17110-08-55-A-6	1,044,629	1,044,629
ARRA-WIA Dislocated Workers	17.260	K074157	902,855	902,855
WIA Dislocated Workers	17.260	K074157	537,574	537,574
Subtotal WIA Dislocated Workers			<u>2,485,058</u>	<u>2,485,058</u>
WIA Dislocated Worker Formula Grants	17.278	K178676	491,532	491,532
Subtotal WIA Cluster			<u>7,618,318</u>	<u>6,331,754</u>
WIA Pilots, Demonstrations, and Research Projects	17.261	R970553	15,668	15,542
WIA Pilots, Demonstrations, and Research Projects	17.261	EA-20459-10-60-A-6	78,984	78,984
Subtotal WIA Pilots, Demonstrations, and Research Projects			<u>94,652</u>	<u>94,526</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>10,279,959</u>	<u>6,426,280</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Pass through State of California, Department of Transportation				
Highway Planning and Construction Cluster				
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (098)	586,363	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (099)	1,274,943	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (101)	354,330	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (104)	990,581	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (100)	1,288,811	-
Highway Planning and Construction	20.205	SR2SL - 5012-102	61,248	-
Highway Planning and Construction	20.205	BRLS - 5012-085	6,881,944	-
Highway Planning and Construction	20.205	STPL - 5012 (037)	260,700	-
Highway Planning and Construction	20.205	STPL 5012 (090)	79,358	-
Highway Planning and Construction	20.205	46Y (001)	20,359	-
Highway Planning and Construction	20.205	BPMP-5012(083)	521,009	-
Highway Planning and Construction	20.205	STPLZ-5012 (084)	496,759	-
Highway Planning and Construction	20.205	STPL - 5012(089)	11,842	-
Highway Planning and Construction	20.205	STPLZ -5012 (025)	1,648	-
Highway Planning and Construction	20.205	STPLZ -5012 (027)	48,347	-
Highway Planning and Construction	20.205	STPLZ -5012 (028)	174,881	-
Subtotal Highway Planning and Construction Cluster			<u>13,053,123</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>13,053,123</u>	<u>-</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Pass through State of California, Water Resources Control Board				
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	C06-6443-110	\$ 143,755	\$ -
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	C06-6199-110	163,616	-
Subtotal ARRA-Capitalization Grants for Clean Water State Revolving Funds			<u>307,371</u>	<u>-</u>
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements	66.818	2B-OOT18101-O	168,031	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96990101-0	55,389	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00T29101-0	43,791	-
Subtotal Brownfields Assessment and Cleanup Cooperative Agreements			<u>267,211</u>	<u>-</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>574,582</u>	<u>-</u>
U.S. DEPARTMENT OF ENERGY				
Direct Programs				
ARRA-Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000870	602,237	-
Pass through State of California, Department of Community Services and Development				
ARRA-Weatherization Assistance for Low-Income Persons	81.042	09C-1852	229,207	170,603
TOTAL U.S. DEPARTMENT OF ENERGY			<u>831,444</u>	<u>170,603</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Medical Reserve Corps Small Grant Program	93.008	MRC091176	1,899	-
Head Start Cluster				
Head Start	93.600	09CH9006/35	876	-
Head Start	93.600	09CH9006/37	222	-
Head Start	93.600	09CH9006/38	188,169	-
Head Start	93.600	09CH9006/39	2,059,039	427,927
Head Start	93.600	09CH9006/40	13,530,453	2,153,303
Head Start	93.600	09CH9006/39	362,620	362,382
Head Start	93.600	09CH9006/40	2,186,076	2,112,742
ARRA-ARRA - Head Start	93.708	09SE9006/01	487,937	88,580
ARRA-ARRA - Early Head Start	93.709	09SA9006/02	979,510	73,450
ARRA-ARRA - Early Head Start	93.709	09SA9006/02	2,416,199	86,450
Subtotal Head Start Cluster			<u>22,211,101</u>	<u>5,304,834</u>
Assets for Independence Demonstration Program	93.602	90E10470/01	11,043	-
Subtotal direct programs			<u>22,224,043</u>	<u>5,304,834</u>
Pass through State of California, Department of Community Services and Development				
CSBG Cluster				
Community Services Block Grant	93.569	10F-4003	415,191	3,900
Community Services Block Grant	93.569	11F-4203	331,078	154,306
ARRA-Community Services Block Grant	93.710	09F-5103	735,490	601,932
Subtotal CSBG Cluster			<u>1,481,759</u>	<u>760,138</u>
Pass through State of California, Department of Aging				
Medical Assistance Program	93.778	MS-0910-01	2,986	-
Medical Assistance Program	93.778	MS-1011-01	1,580,550	-
Subtotal Medical Assistance Program			<u>1,583,536</u>	<u>-</u>
Subtotal pass-through programs			<u>3,065,295</u>	<u>760,138</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>25,289,338</u>	<u>6,064,972</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Direct Program				
Foster Grandparent Program	94.011	09SFPCA010	\$ 42,421	\$ -
Foster Grandparent Program	94.011	09SCPCA010	299,090	-
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>341,511</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
National Urban Search and Rescue Response System	97.025	EMW-2008-CA-0510	12,003	-
National Urban Search and Rescue Response System	97.025	2009-SR-24-K005	101,466	-
National Urban Search and Rescue Response System	97.025	2010-SR-24-K046	816,185	-
Subtotal National Urban Search and Rescue Response System			<u>929,654</u>	<u>-</u>
Hazard Mitigation Grant	97.039	EMW-97-GR-0521	39,383	-
Assistance to Firefighters Grant	97.044	EMW-2007-FP-01889	10,211	-
Assistance to Firefighters Grant	97.044	EMW-2009-FO-10080	294,803	-
Assistance to Firefighters Grant	97.044	Agreement	272,000	-
Subtotal Assistance to Firefighters Grant			<u>577,014</u>	<u>-</u>
Port Security Grant Program	97.056	Agreement	504,900	-
Metropolitan Medical Response System	97.071	233-03-0095	1,596	-
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2009-FH-01272	482,780	-
Regional Catastrophic Preparedness Grant Program	97.111	Agreement	157,438	-
Subtotal direct programs			<u>2,692,765</u>	<u>-</u>
Pass through City and County of San Francisco				
Homeland Security Grant Program	97.067	2008 UASI	579,079	-
Homeland Security Grant Program	97.067	2009 SUASI	2,011,100	-
Pass through County of San Mateo				
Homeland Security Grant Program	97.067	2009 NCRIC	130,126	-
Subtotal Homeland Security Grant Program			<u>2,720,305</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>5,413,070</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$160,201,699</u>	<u>\$ 24,098,071</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

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, 2011, 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 Federal/State Grant special revenue fund.

Note 4 – Federal Expenditures of the Port of Oakland

The Port of Oakland’s (Port) federal expenditures are excluded from the SEFA because such expenditures are reported separately. Federal expenditures for the Port’s programs are taken from the separately issued single audit report for the year ended June 30, 2011. The federal programs of the Port are as follows:

Federal Grantor / Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION		
Airport Improvement Program	20.106	\$ 14,520,097
ARRA-Airport Improvement Program	20.106	9,052,120
Subtotal Airport Improvement Program		<u>23,572,217</u>
Discretionary Grants for Capital Investments - TIGER Grants	20.932	<u>1,107,944</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>24,680,161</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Port Security Grant Program	97.056	<u>2,712,873</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>2,712,873</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$27,393,034</u></u>

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2011

Note 5 – Loans Outstanding

The City participates in certain federal award programs that sponsor revolving loan 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 the programs upon repayment of the principal and interest. The federal government has imposed certain significant continuing compliance requirements with respect to the loans rendered under the Home Investment Partnerships Program (CFDA number 14.239). The following is a summary of the changes in outstanding loans receivable used to determine the value at June 30, 2011:

Balance, Gross July 1, 2010	Increases	Decreases	Balance, Gross June 30, 2011	Allowance for Doubtful Accounts	Balance, Net June 30, 2011
\$ 56,698,425	\$ 12,686,279	\$ (200,233)	\$ 69,184,471	\$ (163,610)	\$ 69,020,861

In accordance with Subpart B, Section 205 of the U.S. Office of Management and Budget Circular A-133, the City has reported in the SEFA the value of new loans made during the year along with the outstanding balance of loans from previous years that have significant continuing compliance requirements as of June 30, 2011.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
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:

Program Title	CFDA Number
• Public Safety and Interoperable Communications	11.555
• Home Investment Partnerships Program	14.239
• ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257
• Public Safety Partnership and Community Policing Grants	16.710
• Workforce Investment Act Cluster	17.258, 17.259, 17.260, 17.278
• Highway Planning and Construction Program	20.205
• Homeland Security Grant Program	97.067

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2011

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2011-01 Davis-Bacon Act Requirements

Federal Program Title: Home Investment Partnerships Program
Federal Catalog Number(s): 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): M10-MC060208

Federal Program Title: Highway Planning and Construction Program
Federal Catalog Number(s): 20.205
Federal Agency: U.S. Department of Transportation
Pass-Through Entity: State of California, Department of Transportation
Federal Award Number(s): All. See SEFA for listing of grant numbers.

Criteria:

The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). The City is responsible for enforcing the compliance of contractors and subcontractors with Davis-Bacon Act requirements. In the event that the contractor does not provide the required certified payrolls by the due date, the City should initiate timely corrective actions to ensure compliance, such as sending timely follow-up requests to the contractor and withholding payment until the certified payrolls are received.

Condition:

During our review of the City's compliance with the Davis-Bacon Act for the Home Investment Partnerships Program administered by the Community and Economic Development Agency (CEDA), we selected 40 certified payrolls for testing. Our testing found that in 30 of the 40 samples, CEDA did not collect the required certified payrolls before disbursing federal awards to the contractors.

For the Highway Planning and Construction Program administered by the Public Works Department, we selected 25 certified payrolls for testing. Our testing found that 4 of the certified payrolls were collected after payments were made to the contractor.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2011-01 (continued)

Cause:

The Office of the City Administrator, Contracts and Compliance Division, is tasked with monitoring contract compliance, including the collection of certified payrolls from contractors. Although contractors are required to submit certified payrolls weekly, they did not consistently comply with the required timeframe. The City's current practice allows progress payments to be made to the contractors by the administering departments, but withholds the final retention until all required documents are received at the end of the project.

Effect:

The City did not consistently verify the laborers and mechanics employed by the contractors and subcontractors were paid prevailing wage rates before releasing payment to the contractor. While it typically withholds 10% of progress payments as retention to be released upon project completion and final acceptance, there is a risk that federal funds may be paid to contractors who do not comply with the Davis-Bacon Act requirements.

Questioned Costs:

For both programs, no questioned costs were noted. The City subsequently collected the certified payrolls and determined prevailing wage rates were paid.

Recommendation:

We recommend the City evaluate its procedures and controls over the monitoring of certified payroll submission to ensure certified payrolls are collected and reviewed to determine whether prevailing wage rates are paid before releasing payment to the contractors. Procedures should indicate follow up actions to be taken when the contractor does not comply with contract provisions.

Management Response and Corrective Action:

The City agrees with the recommendation. The Office of the City Administrator, Contracts and Compliance Division will formalize internal control policies and procedures over signing off invoices after certified payroll are received or withholding payment until the certified payrolls are received. Contracts and Compliance staff will coordinate with project management staff in affected departments to ensure awareness of the policies and procedures and set-up guidelines for follow-up actions to be taken when contractors do not comply with contract provision

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2011-02 Performance Report Requirement

Federal Program Title: Home Investment Partnerships Program
Federal Catalog Number(s): 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): M10-MC060208

Criteria:

In accordance with the compliance requirement of the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the primary grant recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. The purpose of Form HUD 60002 is to report annual accomplishments regarding employment and other economic opportunities provided to low- and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968. This report is required to be submitted annually by January 10 or with the submission of an annual performance report by direct grant recipients only.

Condition:

During our audit of the Home Investment Partnerships Program administered by the Community and Economic Development Agency (CEDA), we noted that the City did not submit the required HUD 60002 reports for the period July 1, 2010 to June 30, 2011.

Cause:

While the City does track such information, it did not complete the Form HUD 60002 for submission to the U.S. Department of Housing and Urban Development (HUD).

Effect:

Continued non-compliance with this requirement may result in increased oversight by HUD and may also lead to a reduction or discontinuance of federal assistance under these programs in future grant periods.

Questioned Costs:

None noted.

Recommendation:

We recommend that the City contact HUD for guidance about past due reports. Going forward, the City should establish procedures to submit the required form within the prescribed timeframe.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2011-02 (continued)

Management Response and Corrective Action:

The City agrees with the recommendation. The Community and Economic Development Agency (CEDA) (now the Housing and Community Development Department) is working with the Office of the City Administrator, Contract and Compliance Division to incorporate questions on the local hiring form which will provide information required to complete the HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. The Housing and Community Development Department will contact HUD to obtain guidance on the proper procedure to submit the past due reports.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None reported.

SUPPLEMENTARY SCHEDULES

CITY OF OAKLAND
Supplemental Schedule of Revenue and Expenditures

State of California Department of Community Service and Development (CSD)
Community Service Block Grant (CSBG) – CFDA No. 93.569
Contract No. 10F-4003, Project No. G358410/20
For the Period January 1, 2010 to June 30, 2011

	Jan. 1, 2010 through June 30, 2010	July 1, 2010 through Dec. 31, 2010	Jan. 1, 2011 through June 30, 2011	Total Actual	Total Reported ¹	Total Budget
Revenue:						
Grant Amount	\$ 254,502	\$ 255,024	\$ 208,927	\$ 718,453	\$ 718,453	\$ 718,453
Total Revenue	<u>\$ 254,502</u>	<u>\$ 255,024</u>	<u>\$ 208,927</u>	<u>\$ 718,453</u>	<u>\$ 718,453</u>	<u>\$ 718,453</u>
Expenditures:						
Personnel Costs:						
Salaries and Wages	\$ 89,811	\$ 91,501	\$ 2,976	\$ 184,288	\$ 179,705	\$ 172,449
Fringe Benefits	51,394	66,764	(11,594)	106,564	103,881	106,851
Subtotal Personnel Costs	<u>141,205</u>	<u>158,265</u>	<u>(8,618)</u>	<u>290,852</u>	<u>283,586</u>	<u>279,300</u>
Non-Personnel Costs:						
Travel	5,302	(1,844)	13,467	16,925	12,320	15,000
Consumable Supplies	4,002	340	3,177	7,519	3,989	3,500
Sub-Contractors	125,162	143,329	86,831	355,323	385,380	389,000
Other Costs	27,590	(9,098)	29,342	47,834	33,178	31,653
Subtotal Non-Personnel Costs	<u>162,057</u>	<u>132,727</u>	<u>132,817</u>	<u>427,602</u>	<u>434,867</u>	<u>439,153</u>
Total Expenditures	<u>\$ 303,262</u>	<u>\$ 290,992</u>	<u>\$ 124,199</u>	<u>\$ 718,453</u>	<u>\$ 718,453</u>	<u>\$ 718,453</u>

¹ The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2010 to June 30, 2011.

CITY OF OAKLAND
Supplemental Schedule of Revenue and Expenditures

State of California Department of Community Service and Development (CSD)
Community Service Block Grant (CSBG) – CFDA No. 93.569
Contract No. 11F-4203, Project No. G421610/20
For the Period January 1, 2011 to June 30, 2011

	Total <u>Actual</u>	Total <u>Reported</u> ¹	Total <u>Budget</u>
Revenue:			
Grant Amount	\$ 403,776	\$ 305,934	\$ 718,453
Interest Income	-	-	-
Total Revenue	<u>\$ 403,776</u>	<u>\$ 305,934</u>	<u>\$ 718,453</u>
Expenditures:			
Personnel Costs:			
Salaries and Wages	\$ 96,847	\$ 96,847	\$ 187,786
Fringe Benefits	<u>56,583</u>	<u>56,583</u>	<u>110,410</u>
Subtotal Personnel Costs	<u>153,430</u>	<u>153,430</u>	<u>298,196</u>
Non-Personnel Costs:			
Travel	1,522	3,968	12,750
Consumable Supplies	2,160	1,266	4,170
Equipment Lease/Purchase	-	-	-
Consultant Services	-	-	-
Sub-Contractors	156,556	144,560	345,940
Other Costs	<u>17,410</u>	<u>2,710</u>	<u>57,397</u>
Subtotal Non-Personnel Costs	<u>177,648</u>	<u>152,504</u>	<u>420,257</u>
Total Expenditures	<u>\$ 331,078</u>	<u>\$ 305,934</u>	<u>\$ 718,453</u>

¹ The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2011 to June 30, 2011.

CITY OF OAKLAND
Supplemental Schedule of Revenue and Expenditures

State of California Department of Community Service and Development (CSD)
ARRA – Community Service Block Grant (CSBG-ARRA) – CFDA No. 93.710
Contract No. 09F-5103, Project No. G358430/40
For the Period January 1, 2010 to June 30, 2011

	Jan. 1, 2010 through June 30, 2010	July 1, 2010 through Dec. 31, 2010	Jan. 1, 2011 through June 30, 2011	Total Actual	Total Reported ¹	Total Budget
Revenue:						
Grant Amount	\$ 460,238	\$ 396,837	\$ 355,621	\$ 1,212,696	\$ 1,212,696	\$ 1,212,696
Total Revenue	<u>\$ 460,238</u>	<u>\$ 396,837</u>	<u>\$ 355,621</u>	<u>\$ 1,212,696</u>	<u>\$ 1,212,696</u>	<u>\$ 1,212,696</u>
Expenditures:						
Personnel Costs:						
Salaries and Wages	\$ 10,531	\$ 7,922	\$ (142)	\$ 18,311	\$ 10,440	\$ 34,974
Fringe Benefits	6,049	4,651	(84)	10,616	6,072	20,086
Subtotal Personnel Costs	<u>16,580</u>	<u>12,573</u>	<u>(226)</u>	<u>28,927</u>	<u>16,512</u>	<u>55,060</u>
Non-Personnel Costs:						
Travel	-	19,722	-	19,722	28,753	10,000
Consumable Supplies	88	8,153	2,823	11,064	4,861	62,485
Sub-Contractors	425,899	633,449	35,000	1,094,348	1,059,348	1,082,000
Other Costs	34,640	24,041	(46)	58,635	103,222	3,151
Subtotal Non-Personnel Costs	<u>460,627</u>	<u>685,365</u>	<u>37,777</u>	<u>1,183,769</u>	<u>1,196,184</u>	<u>1,157,636</u>
Total Expenditures	<u>\$ 477,207</u>	<u>\$ 697,938</u>	<u>\$ 37,551</u>	<u>\$ 1,212,696</u>	<u>\$ 1,212,696</u>	<u>\$ 1,212,696</u>

¹ The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2010 to June 30, 2011.

CITY OF OAKLAND
Supplemental Schedule of Expenditures of
Alameda County Awards
Year Ended June 30, 2011

<u>Alameda County Award/Program Title</u>	<u>Contract Number</u>	<u>Exhibit/PO Number</u>	<u>Expenditures</u>
Department of Adult and Aging Services			
Information and Assistance (Outreach)	SOCSA-900163	4710	\$ 1,319
Information and Assistance (Outreach)	SOCSA-900163	5869	<u>42,144</u>
Total Department of Adult and Aging Services			<u>43,463</u>
Housing and Community Development Department			
Temporary Winter Shelter Program	OABTWS	C-2335	<u>14,000</u>
Total Housing and Community Development Department			<u>14,000</u>
Health Care Services Agency			
Target Case Management	MOU		54,620
Target Case Management	MOU		<u>234,295</u>
Total Health Care Services Agency			<u>288,915</u>
Department of Workforce and Benefits Administration			
Henry J. Robinson Multi-Service Center	SOCSA-900163	C-5445	217,311
Winter Relief and Shelter Services	SOCSA-7418	C-5910	<u>125,000</u>
Total Department of Workforce and Benefits Administration			<u>342,311</u>
Total Alameda County Awards			<u><u>\$ 688,689</u></u>

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